NA PARTNERSTVÍ ZÁLEŽÍ

Annual Report 2013

Komerční banka, a.s.

Survey of Results 2009–2013

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2013	2012[1]	2011	2010	2009
Financial results					
Net banking income	**30,894**	32,664	32,764	32,386	32,195
of which Net interest income	**21,207**	21,969	22,190	21,431	21,242
of which Net fees and commissions	**7,077**	6,971	7,305	7,725	7,839
Total operating costs	**(13,148)**	(13,485)	(13,489)	(12,666)	(13,521)
Attributable net profit	**12,528**	13,954	9,475	13,330	11,007
Net profit per share (CZK)[2]	**331.68**	369.44	249.97	351.20	289.99
Balance sheet					
Total assets	**863,980**	786,836	754,810	698,014	695,075
Loans to customers, net	**473,089**	451,547	434,386	384,593	372,303
Amounts due to customers	**649,158**	579,067	560,701	538,051	551,809
Total shareholders' equity	**96,538**	100,538	81,850	76,078	68,792
Ratios (%)[3]					
Return on average equity (ROAE)[4]	**13.09**	15.77	12.31	18.73	17.01
Return on average assets (ROAA)[5]	**1.52**	1.81	1.30	1.91	1.58
Net interest margin	**2.80**	3.13	3.30	3.30	3.29
Cost/income ratio	**42.56**	41.28	41.17	39.11	42.00
Capital					
Capital adequacy (%)	**15.81**	14.66	14.61	15.27	14.08
Tier 1 ratio (%)	**15.81**	14.66	13.44	13.95	12.72
Tier 1	**61,722**	56,295	52,692	49,363	44,677
Tier 2	**0**	0	6,000	6,000	6,000
Total regulatory capital	**59,087**	53,684	55,581	52,405	47,913
Total capital requirements	**29,904**	29,289	30,442	27,459	27,226
Other data					
Number of employees, average	**8,604**	8,758	8,774	8,619	8,815

Credit ratings (as at 31 March 2014)[6]	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A2
Fitch	F1	A-

1) After reclassification
2) Net profit attributable to shareholders/average number of outstanding shares
3) According to the Komerční banka methodology
4) Net profit attributable to shareholders/average shareholders' equity excl. minority interest
5) Net profit attributable to shareholders/average assets
6) KB was assigned a credit rating by rating agencies registered under the Regulation of the European Parliament and Council Regulation (EC) No. 1060/2009

Unconsolidated data (CZK million)	2013	2012[1]	2011	2010	2009
Financial results					
Net banking income	**28,952**	28,100	28,113	28,255	28,795
of which Net interest income	**18,923**	17,794	17,976	17,610	17,609
of which Net fees and commissions	**6,672**	6,990	7,104	7,429	7,548
Total operating costs	**(11,790)**	(12,008)	(12,011)	(11,427)	(12,064)
Net profit	**13,123**	12,249	7,951	12,035	10,369
Balance sheet					
Total assets	**773,892**	689,457	660,279	607,106	605,087
Loans to customers, net	**423,295**	396,189	372,688	334,834	321,734
Amounts due to customers	**552,253**	485,969	469,799	441,285	456,758
Total shareholders' equity	**83,702**	89,544	72,468	69,014	62,690
Ratios (%)[2]					
Return on average equity (ROAE)[3]	**15.33**	15.31	11.24	18.28	17.04
Return on average assets (ROAA)[4]	**1.79**	1.82	1.25	1.99	1.71
Net interest margin	**2.63**	3.02	3.08	3.12	3.14
Cost/income ratio	**40.72**	42.73	42.72	40.44	41.90
Capital					
Capital adequacy (%)	**16.01**	15.32	15.75	16.67	15.69
Tier 1 ratio (%)	**16.01**	15.32	14.38	15.19	14.17
Tier 1	**54,944**	51,228	49,321	48,162	44,259
Tier 2	**0**	0	6,000	6,000	6,000
Total regulatory capital	**52,902**	49,102	52,492	51,243	47,473
Total capital requirements	**26,436**	25,648	26,655	24,594	24,201
Other data[5]					
Number of employees, average	**7,669**	7,808	7,811	7,819	7,958
Number of points of sale	**398**	399	397	395	398
Number of clients (thousands)	**1,589**	1,602	1,602	1,590	1,620
Number of ATMs	**729**	702	693	677	685

1) After reclassification. Unconsolidated data in 2009 do not include operations in the Slovak Republic.
2) According to the Komerční banka methodology
3) Net profit/ average shareholders' equity
4) Net profit/ average assets
5) KB in the Czech Republic

Komerční banka, a.s. (hereinafter also "KB" or the "Bank") is the parent company of KB Group (hereinafter also the "Group") and is a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services – such as pension savings and building society schemes, leasing, factoring, consumer lending and insurance – accessible through KB's branch network, its direct banking channels, and the subsidiaries' own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients.

Further information

Detailed financial and operational information about Komerční banka Group is available in other publications on KB's website for shareholders and investors **www.kb.cz/en/about-the-bank/investor-relations/index.shtml**. Additional information on corporate social responsibility and ethics at KB is available in the section About the bank at **http://www.kb.cz/en/about-the-bank/about-us/basic-information.shtml**. Information about KB's products and services is accessible from the homepage **www.kb.cz/en.**

This document contains a number of forward-looking statements relating to the targets and strategies of Komerční banka Group. These statements are based on a series of assumptions, both general and specific. As a result, there is a risk that these projections will not be fulfilled. Forward-looking statements are valid only as of the date they are made, and it should not be assumed that they will be revised or updated in the light of new information or future events. Readers are therefore advised not to rely on this information more than is justified, as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.

Data marked with + in this annual report are based on management accounting and were not audited.

Contacts

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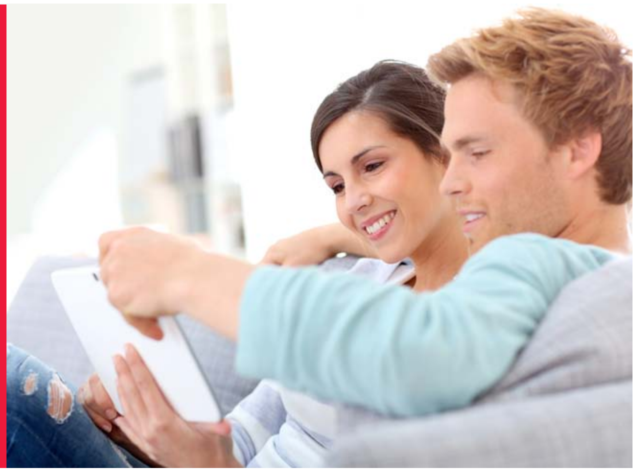
Email: investor_relations@kb.cz

Contents

Main Client Segments

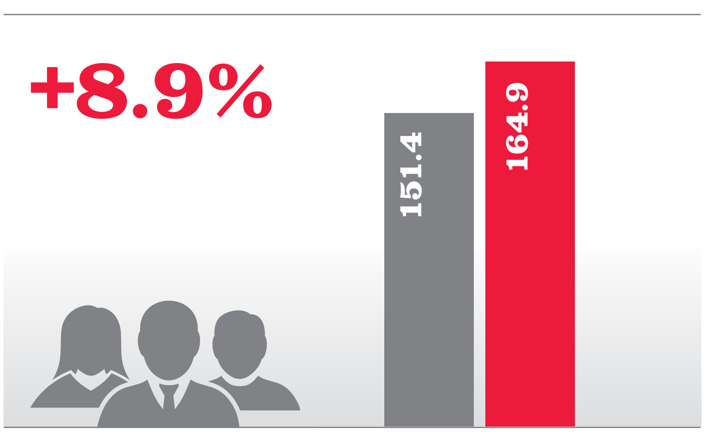
Individuals



KB is the third largest bank in the Czech market by number of clients in the individuals segment. The clients are served by 399 branches, direct banking and complementary distribution channels. KB maintains a leading position among active clients, as well as young people and children.

Key data (standalone KB, CZK million)	2013	2012	%
Volume of loans	**164.9**	151.4	8.9
Volume of deposits	**157.4**	152.6	3.1

Volume of loans (CZK million)

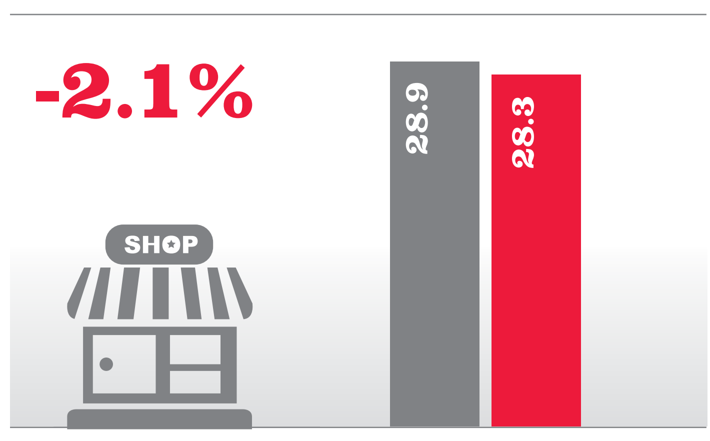


Small Businesses

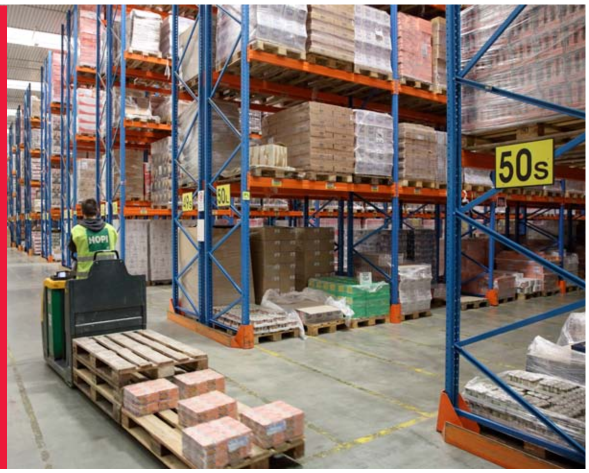
The strategic goal of the small business segment is to develop financing, value-added services and advisory, while reliably meeting the clients‘ day-to-day banking needs. The clients are offered customised financial solutions in 399 locations.

Key data (standalone KB, CZK million)	2013	2012	%
Volume of loans	**28.3**	28.9	(2.1)
Volume of deposits	**117.4**	112.7	4.2

Volume of loans (CZK million)



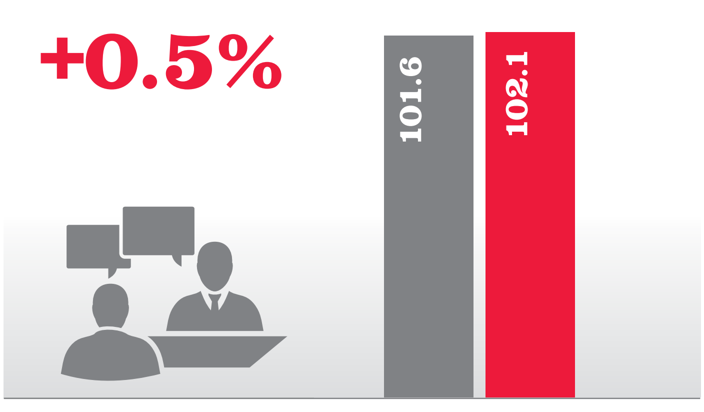
Corporates and Municipalities



As the leading bank for corporations in the Czech Republic, KB provides in 10 corporate divisions made-to-measure solutions in day-to-day banking, financing, asset management, trade finance, risk management and other services. It does so by building long-term partnerships with clients.

Key data (standalone KB, CZK million)	2013	2012	%
Volume of loans	**102.1**	101.6	0.5
Volume of deposits	**143.8**	131.0	9.8

Volume of loans (CZK million)

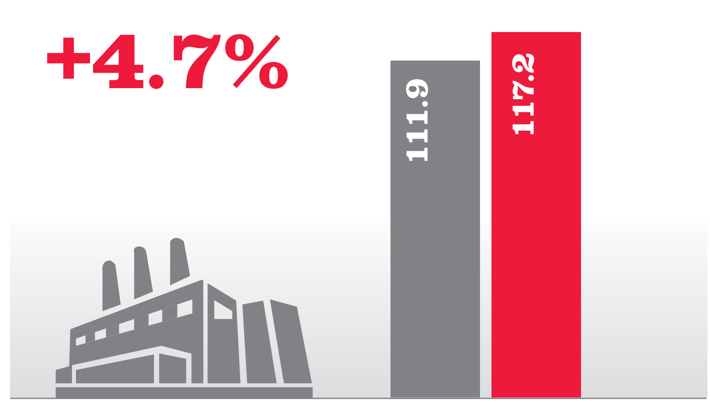


Top Corporations

KB maintains its prominent position among top corporate clients through dedicated relationship managers with an individual approach to clients. They are deployed in five business divisions (four in the Czech Republic and one in Slovakia).

Key data (standalone KB, CZK million)	2013	2012	%
Volume of loans	**117.2**	111.9	4.7
Volume of deposits	**97.6**	75.8	28.8

Volume of loans (CZK million)



Selected Business Transactions of 2013

PPF Group
Dual Currency Term and Revolving Facilities Agreement
Acquisition of 65,9% share in Telefónica Czech Republic, a.s.

up to EUR 2,288,000,000

SG AS SOLE ARRANGER AND UNDERWRITER, KB AS SECURITY AGENT AND PARTICIPANT

PPF Group
Guarantee Facility Agreement
Acquisition of 65,9% share in Telefónica Czech Republic, a.s.

CZK 1,300,708,363

SOLE ARRANGER

Luxembourg Plaza
Besnet Centrum
BB Centrum E
Real Estate Financing

EUR 97,000,000

MANDATED LEAD ARRANGER

AERO Vodochody AEROSPACE a.s.
Senior Facility Agreement

USD 80,000,000

MANDATED LEAD ARRANGER, COORDINATOR, FACILITY & SECURITY AGENT

MND a.s.
Term and Revolving Facilities Agreement

CZK 2,533,500,000
EUR 100,000,000
EUR 89,000,000

MANDATED LEAD ARRANGER, COORDINATOR, FACILITY AGENT

AQUALIA CZECH S.L.
Club Financing

CZK 3,300,000,000

MANDATED ARRANGER, BANK ACCOUNT SECURITY AGENT AND HEDGING COORDINATOR

Bonatrans Group, a.s.
Term and Revolving Facilities Agreement

CZK 1,625,000,000
EUR 106,500,000
MANDATED JOINT LEAD ARRANGER, SG AS M&A ADVISOR

FANS, a.s.
Term and Revolving Facilities
Trade Finace, FX Hedging

CZK 108,000,000
COMPLEX BANK SERVICES PROVIDER

CTP Property V, a.s.
Real Estate Finacing
Derivatives Hedging

EUR 79,500,000
COMPLEX BANK SERVICES PROVIDER

VAMOZ - SERVIS, a.s.
Revolving Facilities Agreement
Trade Finance

CZK 300,000,000
COMPLEX BANK SERVICES PROVIDER

TENZA, a.s.
Term and Revolving Facilities Agreement

CZK 400,000,000
COMPLEX BANK SERVICES PROVIDER

Teplárna Loučovice, a.s.
Investment Loan
Derivates Hedging

CZK 315,690,000
COMPLEX BANK SERVICES PROVIDER

Statement of the Chairman of the Board of Directors

Albert Le Dirac'h
Chairman of the Board of Directors of Komerční banka

Dear shareholders,

Today, at the start of 2014, we know that the recession is already behind us, and many indicators from the fourth quarter of 2013 give us reason for an optimistic outlook as to further developments this year. As we had entered 2013, however, no one had known when things might make the turn for the better. Individuals and entrepreneurs were therefore behaving cautiously, and so interest to finance investments began to pick up only toward the end of the year.

Even in this hesitant environment, Komerční banka's business was successful, growing the volume of loans by 4.8% compared to 2012. There was very strong interest in mortgages, and we also recorded a positive trend in consumer loans. The volume of deposits increased substantially by 9.1%, influenced in part by the cautious behaviour of clients who were building up their reserves.

During 2013, the banking sector continued to cope with low interest rates and strong pressure on the prices of banking services. These facts were reflected in our net interest income, which represented a decrease of 3.5%. Komerční banka Group nevertheless achieved very solid profitability owing to the good business results, high-quality loan portfolio and rigorous cost management, through which we reduced especially administrative costs and expenses in the category marketing and telecommunication.

But cost management means more to us than just cutting expenses. It also entails efficient management of investments into innovations which bring convenience and speed to our clients. We continued during 2013 particularly to develop the Mobilní banka 2 direct banking application, such as through making this application also available for telephones running the Windows Phone 8 operating system. Our clients can now also display on their mobile phones their investment portfolios kept at Investiční kapitálová společnost KB. Since last year, we also offer our clients the MojePlány (MyPlans) service within our MojeBanka internet banking. This tool enables clients to compose a financial plan without the need to visit a branch.

We also are investing into the classic and irreplaceable sales channel represented by our 399 points of sale. Accordingly, we unveiled a new branch concept during 2013 at the Prague 5 Anděl Branch. Not only does the new concept bring innovative design and utilise modern technology, its main objective is to enhance speed, flexibility and discretion of service within the business premises. The branch is designed to meet clients' simpler needs very quickly while providing our relationship managers with sufficient time to provide high-quality financial advisory. Based upon the outcome of branch pilot operations and clients' evaluations, we will continue in developing and expanding the concept.

No matter how much better we make our business premises, however, design in and of itself is not enough. Our main competitive advantage is in our high-quality relationship managers and the specialists supporting them. Komerční banka participated in a survey by NMS Market Research which concluded that the Bank offers the highest service quality to its clients. It even achieved the highest mark in all parameters monitored by the survey. We are aware of the fact that we must work unceasingly to maintain and further improve the level of service, and therefore our investments this year will also be focused on improving our employees' knowledge and skills.

We are mindful, too, about the importance of innovations in the broader social context. In 2013, therefore, we decided to support innovative companies and young beginning entrepreneurs with interesting ideas. This support took the form of the EuroInovace loan, through which Komerční banka, in co-operation with the European Investment Fund, offers advantageous price conditions with less-stringent security requirements for companies fulfilling the criteria for innovative companies. To better facilitate enterprise start-ups, Komerční banka, together with the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic, prepared the "START UP" grant programme for young and beginning entrepreneurs. The programme has attracted great interest.

Komerční banka Group is aware that it has a responsibility not only to its clients, but also to society more generally. Unfortunately, last year brought worries to many Czech citizens with the arrival of floods. We responded promptly, establishing so-called flood accounts free of charge, accelerating the process of settling insured events on real estate, enabling term deposits and savings accounts to be terminated without penalties, and permitting individual payment schedules to be set for loans already drawn. We also prepared advantageous conditions for loans to those affected by the floods. Moreover, we provided financial assistance to those in need through KB's Jistota Foundation, and our employees joined the effort as volunteers and with financial contributions of their own. You can read more about this in the chapter of this Annual Report on corporate social responsibility.

Responsibility is fundamental to every partnership, and it is a priority for us in our relationship with you, our shareholders, as well as in relationships with our clients, employees and society as a whole. Our Group defines its strategy as being a long-term, reliable partner to the Czech economy and Czech citizens, a partner which contributes to growth by financing projects and managing assets in a secure and efficient manner. I want to assure you that it is our unceasing ambition to be a bank that is well regarded by all of our stakeholders.

I thank you for your trust.

Albert Le Dirac'h
Chairman of the Board of Directors
Chief Executive Officer

Major Events in 2013

1

From 1 January 2013, KB Penzijní společnost, a.s. ("KB Penzijní společnost") began offering new funds and a full range of investment strategies in the second and third pillars of the Czech Republic's reformed pension system. It continues, too, in managing the transformed fund.

With the beginning of 2013, Komerční banka commenced offering mortgages and consumer loans with no loan administration fee.

2

KB's corporate credit card was named the Commercial Card of 2012 in the Czech Republic by MasterCard. The KB corporate card embraces a comprehensive solution for tracking and evaluating employees' business expenses, then exporting this data to bookkeeping systems.

Komerční pojišťovna, a.s. ("Komerční pojišťovna") presented as part of its Vital Invest life insurance new secured funds, known as Certus and Certus 2. Equity investments in the funds are directed to the food and pharmaceutical industries.

3

The new KB Rodina (KB Family) programme was launched. It permits a client to choose anyone as a partner for jointly collecting benefits under the MojeOdměny (MyRewards) scheme. If the conditions of the scheme are met, both clients can get back their monthly fees for account maintenance or for ATM cash withdrawals, receive financial rewards for their banking activities, or accrue additional savings to their pension accounts.

The Bank introduced the new KB Bonus Aktiv savings account, which has no notice period to tie up clients' savings. The account's owners can earn attractive returns while having instant access on demand to their deposited funds.

KB included the Transparent Account service into its offer. This service makes it possible for a client to disclose via KB's website an overview of transactions executed through its bank accounts. Non-profit and public sector entities will particularly appreciate the new service.

For the third consecutive year, KB Penzijní společnost was named in 2013 the best pension fund in the Czech Republic. Again, the recognition came from World Finance magazine as well as from the Global Banking and Finance Review portal.

Komerční banka changed the organisation of its distribution network from 1 March. The regional management level was eliminated and 10 retail and 10 corporate divisions are newly managed directly from headquarters. The simplified organisation should enable better response to the changing requirements of clients and the market.

KB's corporate credit card was named the Commercial Card of 2012 in the Czech Republic by MasterCard.

4

At Komerční banka's Annual General Meeting, held on 24 April 2013, the shareholders approved a dividend payment of CZK 8,742 million. That is CZK 230 per share and represents a payout ratio of 62.6%. The shareholders approved the Board of Directors' Report for 2012, the annual financial statements, as well as proposals for distributing the 2012 profit and the discretionary part of remuneration for members of the Board of Directors. In addition, the General Meeting elected members of the Supervisory Board and of the Audit Committee and extended KB's authority to acquire treasury shares.

KB began financing its SME clients' innovative projects under a guarantee agreement concluded with the European Investment Fund (EIF). Clients are able to borrow on more advantageous terms and with more accommodating security requirements. Loans totalling up to CZK 2.5 billion may be used for a broad range of innovations – from development of new technologies, products and services to process optimisation.

CZK
230
PER SHARE

Dividend paid out for 2012 amounted to CZK 8,742 million, or CZK 230 per share

5

Telefónica Czech Republic chose ESSOX s.r.o. ("ESSOX") to provide financing for its clients to acquire mobile handsets.

As the major partner to the Young Business – Your Own Way project of the Association of Small and Medium-sized Enterprises and Crafts of the Czech Republic, the Bank began to offer Profi Accounts at no charge to start-up businesses. In co-operation with the Association, KB also announced the Nastartujte se (Start up!) grant programme to support projects of young start-ups.

KB was recognised along with Česká pojišťovna a.s. and HSBC for the Best Deal of 2012 by Global Trade Review magazine. The deal was a syndicated long-term export credit to finance modernisation of an oil refinery in Serbia.

Group employees dedicated themselves even more strongly than usual to social responsibility. Among other activities, the employees participated throughout the month in a nationwide Bike to Work challenge, ran a marathon (individually and in teams), or took part in a charity golf tournament for Nadace KB Jistota (KB Jistota Foundation).

6

On 25 June, the Supervisory Board of Komerční banka elected Mr Albert Le Dirac'h as a new Member of the Board of Directors with effect from 2 August. On the same day, the Board of Directors elected Mr Le Dirac'h Chairman of the Board of Directors and Chief Executive Officer with effect from 2 August. This followed an earlier decision by Mr Henri Bonnet to retire from both those positions with effect from 1 August 2013.

KB's Flexible Mortgage won the Zlatá koruna (Golden Crown) award for being the best mortgage on the Czech market.

KB's Flexible Mortgage won the Zlatá koruna (Golden Crown) award for being the best mortgage on the Czech market.

7

As of 1 July, KB's Global Transaction Banking unit was established as part of the Transaction and Payment Services Arm. It provides services in the area of documentary payments, bank guarantees and corporate cash management, as well as correspondent banking services. The Top Corporations arm is newly responsible for export financing. The purpose of the change is to boost the quality of services and advisory to clients through more effective specialisation plus simplification of internal processes.

Komerční banka and the Council of Europe Development Bank (CEB) entered into an agreement on support for municipal projects. The new arrangement makes it possible for KB to finance its clients' development projects using more advantageous loans. This was the CEB's very first agreement with a privately held bank in the Czech Republic[1].

1) Source: CEB

8

The EKO Loan facilitated clients' access to subsidies available under the Czech government's New Green Savings Programme. The product is designed to finance projects focused on energy savings and renewable energy sources in residential housing.

9

The Group made a good showing in a contest organised by the daily newspaper Hospodářské noviny. Komerční pojišťovna ranked first in the category Most Client Friendly Life Insurance Company of 2013 and second in that for Best Life Insurance Company of 2013. Komerční banka placed second in the category Best Bank of 2013.

The KB shares were included into the STOXX Europe 600 and STOXX Europe 600 Banks indices, as STOXX started to classify the Czech Republic as a developed market.

KB Jistota Foundation launched its programme Srdeční záležitost aneb Pomůžeme vám pomáhat (Matters of the Heart, or We'll Help You to Help) and called upon KB Group employees to nominate their favourite volunteer projects that benefit senior citizens, children and adults with disabilities and/or social disadvantages. The programme met with great interest. Employees of the whole Group recommended 40 projects, of which the Foundation chosen eight for its support.

KB Jistota Foundation announced its Matters of the Heart, or We'll Help You to Help Programme, which met with enormous interest among employees

10

KB and the Chamber of Trade and Industry for the Commonwealth of Independent States signed a co-operation agreement for 2014. The aim of this collaboration is to promote Czech companies' trade with CIS countries, and it will facilitate KB clients' utilisation of the CIS Chamber's extensive experience and contacts.

Komerční pojišťovna introduced a new risk life insurance policy, MojeJistota, with the broadest risk coverage on the market, including for loss of income, injuries, death, and even provision of medical assistance services.

The Bank brought a new layout to its branches. The redesigned Prague 5 – Anděl branch was the first to see it introduced. Clients will perceive significant improvements in service quality, as their needs will be met at greater speed and convenience.

Komerční banka and the State Housing Development Fund (Státní fond rozvoje bydlení) signed an agreement on the Jessica Programme. KB has thus become the Municipal Development Fund Manager, and it will provide low-interest loans for the repair and modernisation of residential buildings using the European resources obtained by the Fund.

See box on page 22
The New Face of KB Branches

11

On its www.kb.cz website and in its internet banking, MojeBanka, KB launched financial planning applications for individuals – KB MojePlány (KB MyPlans) – and for small businesses – KB podnikatelské finance (KB Business Finance). Both applications propose optimal mixes of financial products for achieving future financial goals while taking into account the client's current and expected situation, savings and liabilities.

SG Equipment Finance Czech Republic s.r.o. ("SG Equipment Finance" or "SGEF") moved to the new building in Prague – Stodůlky. Funds raised from the sale of furniture used at the previous headquarters were donated to acquire equipment for the Ostrava – Kamenec Senior Home.

12

Komerční pojišťovna was named The Life Insurance Company of the Year in the Czech Republic by the magazine World Finance.

1/2014

At KB's Extraordinary General Meeting, held on 28 January 2014, the shareholders decided to amend the Bank's Articles of Association to reflect changes brought about by the Czech Republic's revised civil and corporations law effect from 1 January 2014.

See page 67
Corporate Governance

Macroeconomic Development in 2013

The Czech economy recorded a decline by 0.9% in 2013. This latest recession, which had begun late in 2011 and lasted for six quarters, was the longest in the history of the Czech Republic. It led to a cumulative decrease in real GDP of 2.8%. The Czech economy hit bottom in the first quarter of 2013 and its performance began to improve already from the second quarter, mainly due to improved foreign demand. The first signs of recovering domestic demand started to appear toward the end of 2013 and included increased consumer spending. This was partly a reaction by households to the decision of the central bank from the beginning of November to use the crown exchange rate as a tool of monetary policy.

The GDP dynamics in the fourth quarter exceeded all expectations, as the economy added 1.8% quarter on quarter, according to the Czech Statistical Office. After almost two years, the economy returned to growth even in a year-on-year comparison.

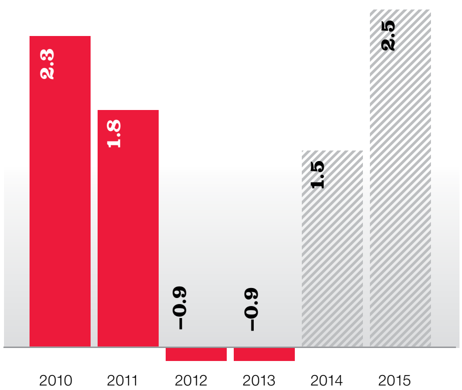
Through most of 2013, the central bank successfully intervened verbally against the Czech currency as a means of easing the monetary conditions. However, a quite strong disinflationary trend, which posed a risk of outright deflation in the beginning of 2014, demanded a more substantial monetary easing. In a situation where the monetary policy interest rate was virtually at zero and with excess liquidity in the banking sector, on 7 November the Bank Board of CNB decided to launch a currency intervention with the aim of weakening the Czech crown to a level close to 27 CZK per EUR. As a result, the Czech currency depreciated by 6%.

The strong disinflationary trend was apparent throughout the year. It even accelerated in the second half, although weakening of the currency following the intervention was reflected in a slight increase of consumer prices. For 2013, both average and year-on-year inflation slowed down to 1.4%. A similar trend was observed in the production sector, as the producer price index added just 0.8% in 2013 after rising by 2.1% in 2012. Prices in the construction sector even declined by 1.1%, and prices of services dropped by 1.5%. Faster prices growth was recorded only in agriculture, where prices increased by 4.5% in 2013 after going up by 3.8% in 2012. This was a result of disappointing harvests for some crops in 2012 and a potato harvest that was particularly poor in 2013.

The situation in the labour market further deteriorated, as the unemployment rate climbed to 8.2% at the end of 2013 from 7.4% a year earlier. Nevertheless, the seasonally adjusted level had begun to stabilise in the second half. With the average nominal wage rising by 0.5%, real wages decreased, but this also was influenced by one-off tax optimisation, mainly in the form of bonus payments made before the start of 2013. While household consumption thus stagnated overall, there already was visibly increasing appetite to consume among

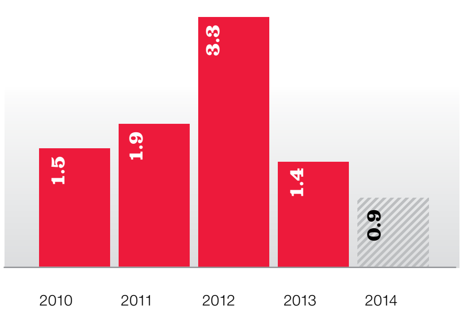
Real GDP outlook (year on year, %)

Source: Czech Statistical Office
2014 and 2015: KB Economic & Strategy Research forecasts



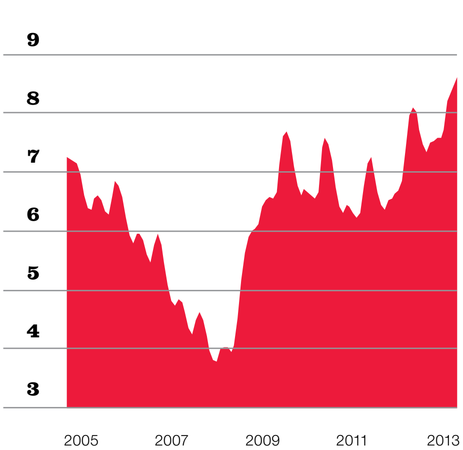
Consumer price inflation (average, %)

Source: Czech Statistical Office, Czech National Bank
2014: KB Economic & Strategy Research forecasts



households toward the end of the year, which was linked to low inflation, stabilised unemployment and completion of the fiscal consolidation which had been announced by the finance minister already in spring. Aided by a successful final quarter, retail sales recorded a gain of 1.0% for the year as a whole.

Unemployment 15-64 (%)



Growth in exports – already apparent from 2013's second quarter – was underpinned mainly by the recovery in Germany. The pace of expansion picked up with the improving conditions in the euro zone. The weaker crown at the end of the year supported the dynamics as well, and in the end exports grew by 2.8% for the year. The foreign trade surplus widened by CZK 45.1 billion to a record CZK 350.8 billion. Mainly due to the goods and services balance, the country recorded significant improvement in the current account, the deficit of which stayed at 1.4% after declining to 1.3% in 2012 in 2012. The Czech Republic did not suffer from external imbalances during 2013.

Despite an unfavourable start to the year, when the automotive sector saw a double-digit drop, industrial production ended in a strong upturn. This was influenced by exports but also by investment and innovation activity especially among Czech car manufacturers, who introduced new models in 2013. As at December 2013, industry was already growing at a 6.7% seasonally adjusted rate. The full year growth was 0.5%, thus reversing a decline of the same magnitude in 2012. On the other hand, weak investment activity among firms and substantially constrained infrastructure investments from public funds were behind an 8.3% drop in construction activity. The building sector thus shrank for the fifth year in a row.

The recovery in the individual segments of the economy at the close of 2013 created a positive outlook for full renewal of economic growth in the Czech Republic during 2014.

1.4%

Average consumer price inflation in 2013

Komerční banka
Shares on the Capital Market

Stock Exchange Listing

Komerční banka's shares are listed under ISIN CZ0008019106 on the Prime Market of the Prague Stock Exchange (PSE) and are traded at RM-SYSTÉM Czech Stock Exchange. Global depositary receipts (GDRs) representing shares of Komerční banka in the ratio 3:1 are traded on the London Stock Exchange.

Stock Market Performance

Global equity markets performed strongly during 2013, underpinned by better-than-expected macroeconomic development in most major global markets, receding concerns about the fiscal stability and political situation within the euro zone, as well as the pursuit of accommodative monetary policy by the US Federal Reserve, Bank of Japan and some other central banks.

By contrast, the Czech equity market's performance was negative in 2013, as represented by a 4.8% decline in the Prague Stock Exchange's PX Index. This decrease was influenced by factors specific to some of the index-component titles, but also by weakness in the country's economic output.

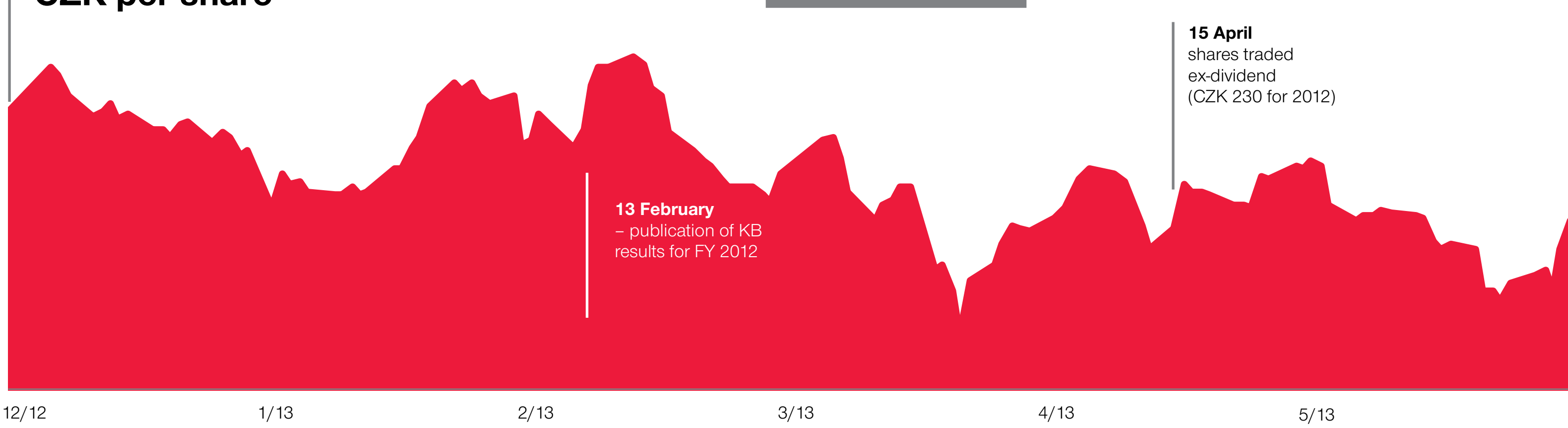
KB Share Price Development

The KB shares concluded trading for 2013 at CZK 4,421, which was 10.2% above the closing price of a year earlier. As at 31 December 2013, Komerční banka's market capitalisation stood at CZK 168.0 billion[1] (EUR 6.1 billion) , ranking it third among titles listed on the PSE. The average daily trading volume of CZK 197 million (EUR 7.6 million)[2] was the second highest among shares traded on the exchange and represented a daily capital rotation of 0.12%.

1) CZK/EUR exchange rate 27.425 as at 31 December 2013
2) CZK/EUR average exchange rate 25.974 for 2013

Development of KB share price in 2013
(% change)

12/2012
4,010
CZK per share



Dividend and payout ratio history

	2012	2011	2010	2009	2008	2007	2006
Dividend (CZK)*	230	160	270	170	180	180	150
Payout ratio (%)**	62.6	64.2	77.0	58.7	52.0	61.2	61.9

* Dividend per share before tax. The withholding tax rate applicable to dividends in the Czech Republic is 15% or, in certain cases, 35%.
** Dividend / earnings per share attributable to shareholders (IFRS consolidated).

KB's share price trended slightly downward through the first seven months of 2013. This was mainly caused by some weakness in KB's revenues and profitability as the Bank felt the effects on its net interest margin and revenues of extremely low market interest rates and a weak economic environment.

The share began to appreciate again following publication of the financial results for the second quarter. At that time, the Bank confirmed the ability to protect its financial standing through long-term hedging policies, rigorous control over operational costs and credit risks, along with various commercial initiatives.

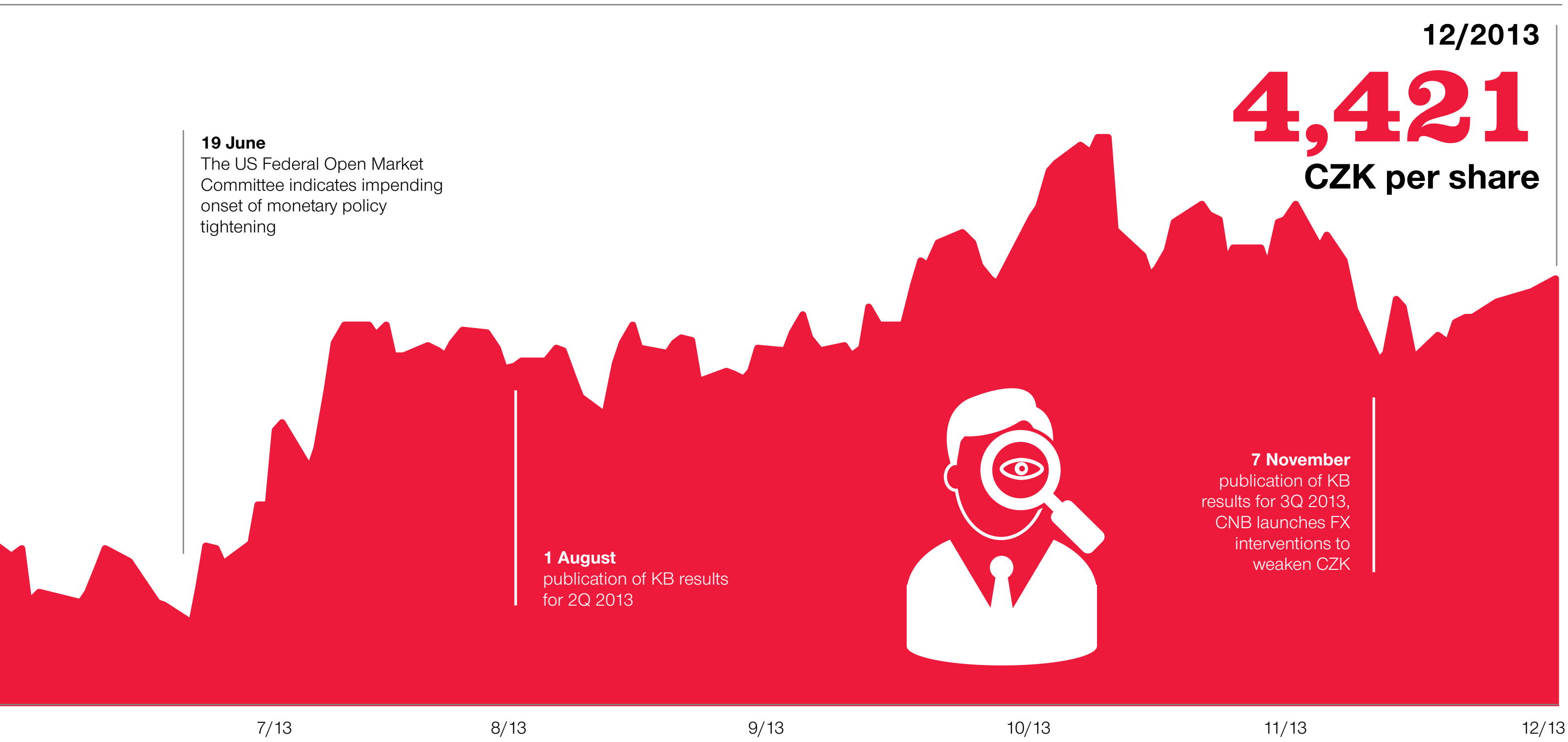
KB's share price hit its low for the year on 18 April at CZK 3,400, and it came close to that again on 22 July at CZK 3,481. The fact that Komerční banka's results were well received in the market and the aforementioned global factors contributed to a rebound, and the title reached its high for the year of CZK 4,810 on 6 November. In 2013, KB's share price significantly outperformed the PX Index.

Dividends

On 24 April 2013, the Annual General Meeting approved a dividend payment from the 2012 earnings of CZK 230 per share before tax, which equalled 62.6% of the consolidated attributable net profit. The dividend was payable on 27 May 2013.

The gross dividend of CZK 230 per share represented a dividend yield of 5.7% based upon the closing share price for 2012.

In view of the result achieved in 2013 and while considering also the Czech National Bank's capital requirements for systemically important financial institutions and the potential growth opportunities in the recovering Czech economy, the Board of Directors will propose at the Annual General Meeting in April 2014 a dividend payment for 2013 of CZK 8,742 million, or CZK 230 per share. That would put the payout ratio at 69.8% of KB Group's attributable net profit and the corresponding gross dividend yield at 5.2% relative to 2013's ending share price.



Komerční banka's dividend policy aims to ensure appropriate remuneration of shareholders for their investment while also maintaining solid and safe capital adequacy with a view to potential growth opportunities and applicable as well as anticipated regulatory requirements.

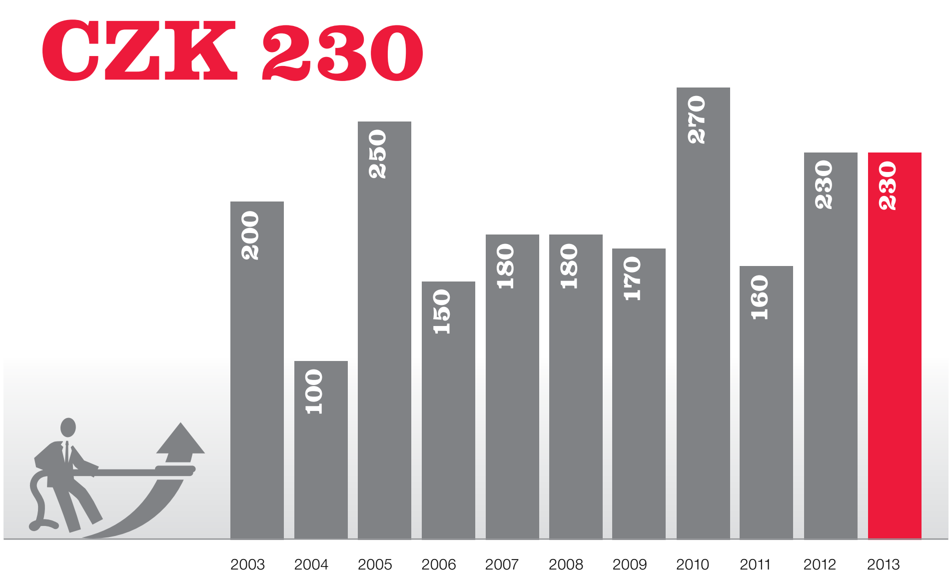
Total Return for Shareholders

The total return from holding KB shares in 2013 was 15.8%, comprising a 10.2% gain in the share price and the contribution from reinvesting the net dividend on the payment day.

During the same period, the PX Index declined by 4.8%. The Dow Jones Stoxx Eastern Europe 300 Banks Index, of which KB is a constituent, decreased by 16.8% in 2013 (-9.3% after conversion to the Czech currency). Since September 2013, KB has been a component of the Dow Jones Stoxx Europe 600 Banks index, as well, and this rose in 2013 by 19.0% in EUR terms and by 29.9% in CZK terms.

The following table shows the cumulative and geometric mean annual total return on investment for Komerční banka shareholders (including net dividend reinvested into shares) over various time periods ending 31 December 2013:

Dividend per share

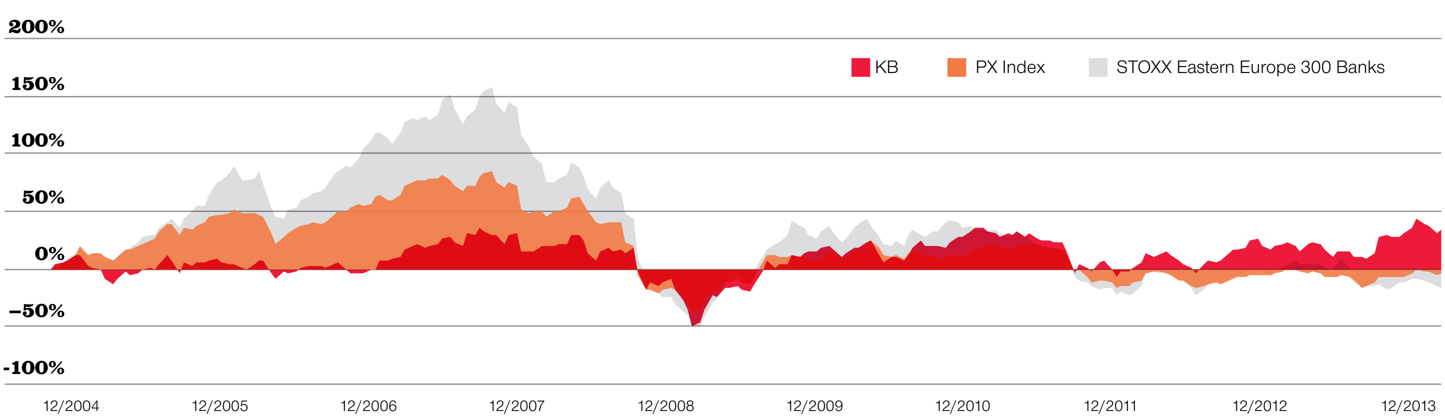


Total return to shareholders

Duration of shareholding	Position acquired	Cumulative total return	Average annual total return*
10 years	30 December 2003	193.3%	11.4%
5 years	30 December 2008	89.9%	13.7%
1 year	28 December 2012	15.8%	15.8%

* geometric mean

Development of KB share price vs. PX Index & STOXX Eastern Europe 300 Banks Index during 2004–2013 (% change, excluding dividends)



Information on Komerční banka shares

	2013	2012	2011	2010	2009	2008	2007
Number of shares issued	**38,009,852**	38,009,852	38,009,852	38,009,852	38,009,852	38,009,852	38,009,852
Number of shares outstanding	**37,771,180**	37,771,180	37,771,180	37,955,852	37,955,852	37,955,852	37,955,852
Market capitalisation (CZK billion)	**168.0**	152.4	126.6	168.6	149.3	112.9	166.1
Earnings per share (CZK)*	**331.7**	369.4	250.0	351.2	290.0	346.7	294.8
Book value per share (CZK)**	**2,479.6**	2,588.5	2,089.1	1,970.2	1,780.3	1,630.3	1,306.7
Share price (CZK)							
closing price at year-end	**4,421**	4,010	3,330	4,435	3,929	2,970	4,371
maximum	**4,810**	4,214	4,510	4,583	4,000	4,475	4,509
minimum	**3,400**	3,089	2,900	3,250	1,545	2,185	3,119

* Earnings attributable to shareholders per average number of shares outstanding (IFRS consolidated).
** Shareholders' equity exclusive of minority equity (IRFS consolidated) divided by average number of shares outstanding.

Dialogue with Shareholders and the Capital Market

Apart from the 60.4% of KB's share capital held by Société Générale, an international financial services group headquartered in Paris, France, the Bank's free float is held by a diverse base of shareholders, ranging from large international asset managers to private individuals. From the total of more than 43,000 shareholders as at 31 December 2013, individuals resident in the Czech Republic numbered more than 38,000. The vast majority of freely traded shares is held by institutional investors located in main global financial centres, such as New York, Boston and London.

KB works to build long-term relationships with its shareholders through regular and open communication with all capital market participants. During 2013, KB management participated in more than 100 investor presentations and meetings involving more than 190 institutions in Prague, London, New York, Boston, Edinburgh and Warsaw.

More than 20 brokerage companies regularly publish their research reports on Komerční banka.

Acquisition of Treasury Shares in 2013

Komerční banka held 238,672 of its own shares as at 31 December 2013. These securities had been purchased during 2006 and 2011 in accordance with decisions by the Bank's general meetings of 28 April 2005, 26 April 2006 and 21 April 2011 allowing KB to acquire its own shares into treasury. These shares are recognised in the portfolio of financial assets available for sale (banking book).

Komerční banka shares held in treasury

	Number of shares as at 1 January 2013	Part of registered share capital as at 1 January 2013	Number of shares as at 31 December 2013	Part of registered share capital as at 31 December 2013
Financial assets available for sale (banking book)	238,672	0.628%	238,672	0.628%

During 2013, Komerční banka did not acquire its own shares into the banking book, nor did it dispose of its own shares from this portfolio. Komerční banka did not during 2013 intermediate transactions in KB shares for its clients.

Based upon the consent of the General Meeting convened on 24 April 2013, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions:

- The maximum number of shares that can be held by the Bank at any specific point in time shall be 3,800,985 ordinary shares representing the total nominal value of CZK 1,900,492,500.
- The acquisition price must be at least CZK 1 per share and not greater than CZK 6,000 per share.
- The period during which the Bank may acquire its own shares is 18 months.
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in Section 161a (1) (b), (c) and (d) of the Commercial Code.
- During the valid period, the Bank may buy and sell shares repeatedly without further limitations.

Board of Directors

AURÉLIEN VIRY
Risk Management

KAREL VAŠÁK
Top Corporations and Investment Banking

PETER PALEČKA
Corporate Secretary

ALBERT LE DIRAC'H
Chairman of the Board of Directors and Chief Executive Officer

VLADIMÍR JEŘÁBEK
Distribution – Retail and Corporate

PAVEL ČEJKA
Chief Administrative Officer

Report of the Board of Directors on the Bank's and Group's Business Activities and State of Their Assets

Vision and Mission

Long-term Mutually Beneficial Relationships with Clients and Other Stakeholders

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

To Create Value for Clients, Shareholders and Employees

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

Declaration on Principles of Corporate Social Responsibility

Code of Conduct

Komerční banka recognises that only by taking an ethical approach to doing business and providing financial services can it hope to maintain and even strengthen its position in the banking sector. The Bank also acknowledges that a fundamental prerequisite to successfully developing the company consists in the professional conduct and behaviour on the part of its employees, as exemplified in particular by fostering and preserving direct and open relationships with clients as well as by fortifying the mutual trust between KB and its clients. Komerční banka expects its employees to be fully aware of and committed to their obligation to act in accordance with the ethical standards set forth in its Code of Ethics, which applies to all KB employees without exception, and to endeavour always to adhere to those standards.

Corporate Governance

Komerční banka adheres to and voluntarily upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004 and issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the websites of the Ministry of Finance of the Czech Republic at www.mfcr.cz and of the Czech National Bank at www.cnb.cz.

Sustainable Development

Komerční banka is aware of the influence that its activities have on the surroundings wherein it operates, and it considers responsible behaviour to be important. Therefore, it adopts adequate measures which should on the one hand eliminate any negative influence on the environment and on the other contribute to its protection and improvement. KB monitors the impact of its activities on the environment and identifies those areas upon which focus is needed. It then adopts measures directed to effectively reducing its environmental impact.

Strategic Assumptions

During 2013, the Czech economy exited the recession which had begun already in 2011. KB expects that the economic performance of the country will be gradually improving in 2014 and 2015. A cornerstone of Komerční banka's strategy continues to be the assumption that the main trends in the Czech Republic's society, economy and banking system will continue over the long term to converge towards those levels seen in Western European countries and that, over time, this convergence will manifest itself in gradual change and advancement in business and consumer attitudes and demands. The Bank expects financial intermediation to grow in importance, driven by increasing consumer wealth and sophistication with respect to requirements for financial services. Banking clientele from both corporate and retail segments will become more demanding, and thus it will be necessary to offer the various client segments more differentiated services corresponding to their distinct needs.

The Czech economy is not suffering from any significant external imbalances, and its public finance situation is favourable by international comparison. The banking sector is characterised by a high aggregate level of capital adequacy and a ratio of client loans to deposits that remains below 80%. At the same time, a healthy, if not low, level of leverage among consumers and businesses provides room for continued growth in lending and financial services over the medium term. The solid state of the banking sector, its profitability and potential for growth lead most important players to classify the Czech market as one of the core markets within their international franchises, and these factors also attract new competitors. The competition is thus intense across all segments and product types.

Demand for financing and banking services was restrained during the recession of 2011–2013, with the notable exception of mortgages, which continued to exhibit solid growth, driven by decreased property prices, low interest rates and favourable demographic factors. Moreover, financing of exports continued to grow dynamically. As Czech exporters reinforce their presence especially on the markets of Eastern Europe and Asia, they are requiring more structured financing solutions. Several cases of repatriation of stakes in important Czech companies, often financed with the participation of Czech banks, also contributed to the growth in business lending. As the pace of the economic recovery continues to build, this should support gradual improvement in those remaining segments of the lending market which have been hindered by weak confidence. These include the likes of unsecured consumer lending, investments by firms into new capacities and fixed assets, and lending generally to small and medium-sized enterprises. KB should be able successfully to grow its lending activities relative to the market by building upon its solid client franchise as well as the strength of its capital and liquidity.

A relatively conservative savings structure among Czech households and the limited yields available from deposits in the present environment of low market interest rates mean that the volume of non-banking financial assets of retail clients can be expected to grow faster than deposits. The recent rapid growth in the volume of deposits from business clients, influenced by the impulse to accumulate cash in an uncertain environment, will probably slow.

Ambition 2015

KB's long-term excellent performance is attributable to its enviable customer base of corporations, municipalities, small businesses and discerning individual clients. The quality of the services and products delivered to the customers must correspond to their high expectations, and KB must be able to offer proper advisory with respect to clients' financial needs - both short and long term. Since 2010, Komerční banka has undertaken several initiatives beneath the umbrella of the Ambition 2015 programme that aim to differentiate the Bank in terms of client and employee satisfaction, efficiency of processes and achieving synergies.

Among other successes of the Ambition 2015 programme, KB introduced best-in-class quality of multichannel access to Group services by means of its MojeBanka and Mobilní banka platforms. A wide array of product innovations was introduced, even as the range of current account bundles for individual and small business clients was simplified. The Group repositioned Modrá pyramida as a provider of comprehensive financial advisory for households and substantially extended the portfolio of products offered by Modrá pyramida's sales representatives.

Management of KB's retail and corporate distribution networks was simplified, and the Bank established knowledge centres for selected industries. A number of processes in distribution, back office and risk were optimised or provided with improved tools. An example of an improvement with a marked impact on efficiency was the centralisation of cash handling in new cash centres. Sourcing policies were refined which contributed to sourcing's improved effectiveness. KB increased the number of hours of training - particularly for relationship managers in the retail and corporate segments - and it developed targeted programmes such as Talent Management for selected employees and M'Academy for managers.

Given the fact that almost all planned changes and innovations have been implemented and the rare exceptions are no longer relevant, the Bank's management decided to bring the Ambition 2015 programme to a close.

Strategy and Priorities for 2014

KB is developing a universal-banking model wherein its investment banking activities are primarily focused on serving clients while trading on the Bank's own account is a complementary activity constrained by conservative limits. Komerční banka strives to build long-term, mutually beneficial relationships with its clients, allowing it to precisely identify dynamic changes in clients' needs and expectations and constantly adapt its services offer according to this knowledge. KB's strategy is based on superior client knowledge and level of services as well as operational efficiency and prudent risk management.

Business Development

As its main base for building mutual relationships, KB is constructing a branch network wherein a dedicated relationship manager is appointed to assist each client. The service model assigned to each client is tailored according to proper client segmentation. In addition to the modern and client-oriented branch network, clients are given access to a full range of distribution channels to accommodate their needs for efficiency, security and comfort. The Bank aims to invest more into this area to become an integrated, multichannel bank and thus to leverage synergies among all available channels. Modrá pyramida's platform has increasingly been used for selling a wider range of KB Group products, and it complements the other KB distribution networks.

With the aim to enhance clients' satisfaction and reinforce mutually beneficial relationships, important investments are directed to boosting the quality of advisory, improving the competence of relationship managers, and equipping them with the best information and financial planning tools. High-quality advisory is seen as KB's strong competitive advantage across client segments.

In parallel, clients' loyalty and activity in retail segments will be further underpinned by extending client reward schemes and targeting cross-selling initiatives. The Group's ambition in retail is to outperform market growth in the areas of consumer loans, mortgages, and lending to small business clients. KB aims to protect its deposit base and achieve profitable growth in the volume of clients' assets under management, especially by providing value-adding advisory to clients and developing a comprehensive solution for long-term savings and investments.

In the corporate segment, KB aims to reinforce its position as the reference bank for businesses as well as its strategic partnerships with clients while augmenting the Group's market shares in overall financing drawn by that clientele and in serving their financial needs. Attention is devoted to providing high added-value services to corporate clients, including expert advisory capabilities developed within knowledge centres for selected areas and sectors.

KB will continue to invest into its most valuable asset - the employees - because the Group can achieve its objectives and have satisfied clients only through the work of skilled, loyal and credible people.

Operational and Financial Performance

KB runs on an efficient operating model founded upon disciplined cost management wherein expenditures planning is closely tied to expected revenues development. The Group's attention is focused on finding and extracting additional cost efficiencies - primarily through streamlining organisation, furthering synergies within KB Group and with Société Générale Group, and exploiting

The New Face of KB Branches

On 21 October 2013, Komerční banka opened its first branch the face of which reflects a new design. Clients encountered this new style for the first time when visiting the Prague – Anděl branch. On the basis of experience acquired in this setting, the new concept will be rolled out to additional branches.

The pilot project involved not only the interior design, but also the approach taken by the branch's employees. Clients should be able to recognise these changes at first glance. "The new concept pioneers new work roles, inaugurates new client zones in the bank lobbies, and adjusts the existing operational branch model. We focused on boosting client satisfaction and providing greater discretion, especially for the top segments but also for the other segments," relates Martin Paruch, Deputy Senior Executive Officer for Distribution. "We would like to improve the efficiency of our existing operational model by devoting our relationship managers less to routine services and allowing them more time for selling activities."

technological advances. One of its key priorities is to continue internal simplification efforts with a view to becoming more agile and, thereby, to respond more flexibly to rapidly changing market conditions and customer demands.

In managing its risks, the Group takes a prudent and balanced approach to all types of risks assumed. It aims at the same time to support the development of its business activities, including to grow its lending activities in a sustainable manner while bolstering the Group‘s market positions. The objective is to ensure profitable credit and market activities across the business cycle while preserving a sound balance sheet with strong capital and liquidity ratios. The interest rate and liquidity risks in its Structural Book are therefore conservatively managed with the aims to minimise the exposure to financial risks and to deliver a sustainable and steady profile of interest income. Credit risk procedures and limits are prudently determined. Risks accepted into the Market Book are confined by strict trading limits that are regularly reviewed. All risk management processes, techniques and limits are continuously evaluated and improved.

See page 54
Risk Management

In today’s volatile and highly competitive environment, KB employs a careful price-setting strategy that offers clients products bearing competitive interest rates while also taking into account the associated costs of capital and liquidity consumed, credit risk, and the expense of hedging against financial risks. The aim is to ensure that margins and financial stability are preserved even despite possible changes in market conditions. The remuneration of credit risk must properly reflect the nature of the instrument and counterparty.

KB’s long-term soundness and flexibility are assured by maintaining robust capital strength and an ample liquidity position, both of which are fully compliant with heightened regulatory requirements. Capital and liquidity are the foundations that reinforce KB’s standing in the lending market and will allow the Bank potentially to take advantage of selected and attractive acquisition opportunities, should these present themselves in future.

The main characteristics of the Bank’s new branches were suggested by the clients themselves, who had responded to surveys as to what is most important to them in a branch and what they would expect from a new concept. One of their explicit priorities was greater discretion, and that is precisely why this aspect is one of the most important points in the project for creating the branches’ new face.

Main Challenges and Risks for the Bank and Group in 2014 and Expected Developments in the Financial Situation

Komerční banka is well capitalized and has ample liquidity to sustain its ongoing commitment to advancing its business activities in the Czech Republic, financing its clients, and building long-term partnerships with them.

Credit-granting standards have been calibrated in order to assure the Bank's satisfactory performance even in the declining phase of the business cycle. KB's hedging policy mitigates the short-term impact of interest rate fluctuations. Its funding is assured due to its broad and stable base of client deposits. Placements of free liquidity are confined by strict limits and mostly are directed to operations with CNB and Czech government bonds.

KB expects to operate during 2014 in a macroeconomic context of moderately increasing economic output within the Czech Republic and low inflation. The Czech National Bank will probably stick to its accommodative monetary policy by holding its regulatory two-week repo rate at minimum levels; the exchange rate floor of 27 CZK per EUR set upon the launch in November 2013 of the central bank's intervention to weaken the Czech crown is expected to be maintained throughout the year. Approved taxation changes in force from 2014 will not notably impact on KB's financial results.

As of the beginning of the year, KB expects that improving consumer confidence will help to sustain the solid pace of growth in mortgage lending during 2014 and should contribute also to a moderate recovery in unsecured consumer lending. A pick-up in investment activity among businesses (boosted by foreign demand due to a better economic situation in the euro zone and the weaker Czech currency), and thus in demand for investment loans, may only become more visible from the second half of the year and beyond.

Growth in deposits from corporations is expected to decelerate significantly compared to 2013, while individual clients will likely again redirect part of their savings to such non-bank products as pension and mutual funds and life insurance policies. These products help them to improve returns while diversifying their savings.

Although expanding business volumes should help to return KB Group's overall revenues to positive growth territory, certain constraints will probably persist even in 2014. The most important negative factor for KB's revenues will continue to be the low level of market interest rates, which limits yields on reinvesting deposits. Some increase may occur at the long-term end of the yield curve, however, if commencement of the business cycle's expansionary phase will be confirmed. Extension of the MojeOdměny programme for rewarding clients' activity levels will have a short-term negative influence on revenues from fees and commissions, despite the programme's positive impact on client numbers and activity. The CNB's measures have effectively limited volatility of the Czech koruna's exchange and interest rates, and that reduces clients' demand for hedging of financial risks and the Bank's revenue potential from financial operations.

In the situation of only moderately growing revenues, KB will continue to carefully manage operating expenses in order to maintain the achieved level of efficiency. As reflected in its cost-to-income ratio, this efficiency gives KB a major advantage in the market competition.

The rather cautious attitude of business and individual clients during the recession as well as Komerční banka's prudent risk policies and some releases of provisions created in the previous periods contributed to a low level of risk costs reported in recent periods. KB's risk management will remain robust, but the cost of risk may moderately increase to a level closer to its estimated across-the-cycle average.

KB has been regularly stress testing its banking book and market book exposures, and the results always have been well above internationally and locally required minimums.

Should 2014 unexpectedly be marked by moderate economic recession that would mean slower growth or even moderate decline in business volumes and revenues along with increase in risk costs. Average risk weights of assets would increase, thus leading to a slight decrease in capital adequacy ratios. Those ratios would nevertheless remain safely above the regulatory requirements. KB Group's business model has proven its robustness, and the operations of the Group should remain profitable.

Komerční banka is subject to the approved EU regulations on capital adequacy and liquidity. The safe levels of its capital, liquidity and leverage ratios provide adequate room to continue in developing the Group's business activities and maintaining fair returns to shareholders.

See page 59
Capital Management

The governing coalition agreement among the Czech Social Democratic Party, ANO movement and Christian Democratic Union published on 13 January 2014 and the government programme announced on 12 February 2014 presume several changes to the legislative and economic framework in the Czech Republic. Among the most important from Komerční banka's perspective are the intended merger of the second pillar of the pension system (just launched in 2013) with the established third pillar and the declared possibility to consider introducing a specific income-tax rate for regulated sectors in order to finance a potential decrease of value-added tax on certain consumer products.

Given the lack of details known as of writing this annual report about the respective measures to be taken, it is not possible to provide numerical estimates of the possible impacts from potentially implementing the aforementioned proposals. KB believes such impacts would be manageable.

The financial stability ratios confirm KB Group's strong position. In the conditions envisaged at the beginning of 2014, management expects the Bank's operations will generate sufficient profit in 2014 to cover the Group's capital needs which ensue from the growing volume of assets as well as to pay dividends.

Report on Business Activities

Clients of KB Group and Their Service

As at the end of 2013, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,589,000 clients (-0.8% year on year), of which 1,337,000 were individuals. The remaining 252,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 574,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 564,000. ESSOX's services were being used by 284,000 active clients.

The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,165,000 by the end of 2013 and corresponds to 73.3% of all clients. Customers held 1,562,000 active payment cards, of which 219,000 were credit cards. The number of active credit cards issued by ESSOX came to 136,000. The year 2013 was marked by growth in the usage of internet banking, as the number of users of the MojeBanka platform rose by 9% to 1,029,000. The growth in mobile banking was even greater, as the number of users of the Mobilní banka application more than doubled to 97,000 from 45,000. The internet was used more as a sales channel, too. KB sold 8% of all consumer loans without clients visiting a branch.

The Bank's branch network is its primary place for building relationships with clients. It is complemented by the continually evolving modern forms of service through direct banking channels and the distribution capacities of the subsidiaries (in particular Modrá pyramida). For selected products, KB works together with business partners, such as by co-operating with Česká pojišťovna, which includes mutual selling of property insurance at KB branches and of mortgages through the insurance company's distribution network. The services and products of other KB Group companies are available in their own distribution networks, the Komerční banka branch network, and in some cases via the business partners.

Komerční banka's clients had at their disposal 399 banking branches (including one branch for corporate clients in Slovakia), 729 ATMs, plus full-featured direct banking channels supported by two call centres, Consumer financing from ESSOX was available through its network of 2,600 merchants. Modrá pyramida's customers had at their disposal 208 points of sale and 1,109 advisors. SGEF was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network.

KB is developing the "know your client" concept that requires banking advisors to be truly acquainted with their clients' needs. Each of KB's clients has a dedicated banking advisor at the Bank. This advisor is personally responsible for the portfolio of clients entrusted to him or her, for the business results, and for building the client relationships.

Surveys have shown greater client satisfaction than in previous years, mainly owing to an orientation towards providing banking services to match client needs. This means delivering simple services efficiently and quickly, comprehensive client development activities to determine an appropriate product structure (including products with high value added), and all while utilising synergies all across the KB and SG groups. An extensive branch network with experienced relationship managers constitutes a significant competitive advantage for KB in the Czech market.

See box on page 27
Recognitions Received in 2013

In order efficiently to fine-tune the service model to the needs of closely defined customer groups, Komerční banka is developing a system of detailed segmentation. The highest level segments in the Bank are the following:

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

A set of sub-segments within these segments is elaborated, but the essential objectives remaining valid for all groups are to:

- ensure a long-term personal approach to each client,
- offer a palette of key products corresponding to actual needs,
- satisfy the clients' rigorous demands, and
- provide individual financial advisory through active service.

In 2013, KB Group attended to

2.5

MILLION CLIENTS

73%

OF CLIENTS

utilise at least one direct banking channel

KB MojePlány (KB MyPlans) and KB Podnikatelské finance (KB Business Finance)

In April 2013, Komerční banka offered its clients two new applications for composing financial plans – KB MojePlány (MyPlans) and KB Podnikatelské finance (KB Business Finance). The former is focused on the Individuals client segment and the latter on Small Businesses. With their comprehensiveness and wide availability, they offer clients unique value-added services.

The development of the KB MojePlány application began three years ago, originally with the objective to offer a long-term savings product following the planned transformation of the pension system. Over the course of the development process, this idea was gradually expanded into a concept which also supports the clients in fulfilling their other dreams and plans. Within the KB MojePlány application, the client gradually inputs his or her specific objectives and their timing, information necessary for composing his or her investment profile, plus information on income, expenses and the products he or she already uses. On the basis of all this data, the application generates for the client his or her personal financial plan, which takes into account not only KB/SG Group products but also products the client is currently using from other financial institutions.

The KB Podnikatelské finance application offers services focused on advisory in financing the business needs of clients in the Small Business segment. Through several small steps, the application enables a comprehensive analysis of the client's specific objectives and preferences and then recommends an appropriate constellation of products that best suit the client's real needs. These can be KB products as well as products of companies from the KB/SG Group.

Both applications come in three versions: one is used by relationship managers while working with clients at the branch, the second is accessible to clients through their internet banking (MojeBanka and MojeBanka Business) and the third (designed for non-clients) is generally available at the KB website.

Individuals

In 2013, Komerční banka reconfirmed its position as the third largest bank on the Czech market in the Individuals segment[1]. The Bank acquired nearly 115,000 new clients in this segment, bringing the total number of clients to 1,337,000. While that represents a year-on-year decline of 0.4% overall, the proportion of active clients intensively using KB services rose. The Bank also continues to maintain an important position in the children and youth segment, with more than 415,000 such accounts.

1) Source: Data published by Czech banks

KB is strengthening the client approach in its activities. The services offer covers the full range of clients' financial needs while calling upon the expertise of the entire KB Group. The Bank sharpened its focus on active customers and on providing value-added advisory. Within its long-term strategy, KB optimised the financial services offer and presented a wide range of innovations.

In the Individuals segment (and also the Small Businesses segment), KB further expanded the MojeOdměny (MyRewards) client programme that rewards clients for their activities. Customers positively received improvements in that programme during 2013, and this brought an increase in the number of active clients and growth in financial product sales. KB also streamlined the procedures for consolidating consumer loans from other financial institutions and valuing pledges of real estate.

See box on page 28
Product and Service Innovations in Retail

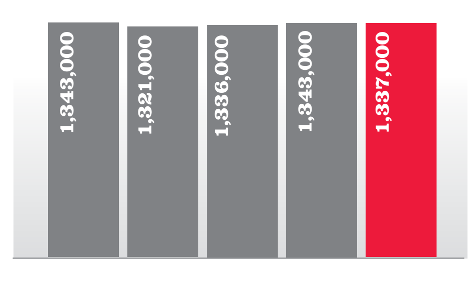
See box on page 27
Recognitions Received in 2013

Individuals segment KB (Bank)[+]

	2013	2012	Change %
Number of mortgages	**122,800**	109,600	12.0
Volume of mortgages (CZK billion)	**148.6**	134.8	10.2
Number of consumer loans	**178,200**	194,200	(8.2)
Volume of consumer loans and overdraft loans (CZK billion)	**13.8**	13.8	0.0
Volume of credit card loans (CZK billion)	**2.6**	2.7	(3.7)
Volume of deposits (CZK billion)	**157.4**	152.6	3.2
Number of active credit cards	**154,400**	161,000	(4.1)
Number of service packages opened	**1,046,200**	1,049,600	(0.3)

Number of clients in Individuals segment (Bank)

1,337,000



In the area of lending to individual clients, the mortgage portfolio grew its volume by 10.2% in 2013 to CZK 148.6 billion. This was driven by advantageous pricing and other parameters of KB mortgages. KB's Flexible Mortgage was declared the best mortgage loan for 2013 in the Zlatá koruna competition. Within the Group, this was partially offset by lower demand for building society loans. The volume of loans provided by Modrá pyramida decreased by 11.6% to CZK 43.6 billion. Demand for consumer loans began cautiously to grow from the middle of the year. In a year-on-year comparison, the volume of consumer loans (in total for KB and ESSOX) expanded by 3.8% to CZK 28.5 billion.

Recognitions Received in 2013

Independent research by NMS Market Research determined KB to be the bank with the highest-quality service on the market. It received the highest rating in all monitored parameters and Komerční banka's overall service quality index reached 78%. The bank ranking second received 12 percentage points fewer.

Komerční banka placed second in Hospodářské noviny's prestigious awards in the category Best Bank 2013.

Other Group companies shared in these successes. Komerční pojišťovna received the title Life Insurance Company of 2013 in the Czech Republic in the international rating by the magazine World Finance. In a competition by Hospodářské noviny, it won the category Most Client-Friendly Life Insurance Company of 2013 and was runner-up in the category Best Life Insurance Company of 2013. KB Penzijní společnost received two awards as the Best Pension Fund in the Czech Republic for 2013 from the magazine World Finance and the Global Banking & Finance Review portal.

Pension Reform

The pension reform launched in January 2013 presented a great challenge not only to KB Penzijní společnost but to the entire Komerční banka Group, and it significantly affected the retail section of the financial group, especially in the first half of the year.

The transformation of Penzijní fond Komerční banky to KB Penzijní společnost permitted the company with effect from 1 January 2013 to use the transformed fund to operate supplementary pension insurance and conduct the company's activities for the second and third pillars. In connection with that, the assets of the company were separated from the assets of the fund's participants with effect as from 1 January 2013.

Komerční banka Group is participating in the second and third pillars of the pension system in accordance with its intention to develop long-term relationships with its clients and to comprehensively meet their financial needs. KB Penzijní společnost manages a total of nine funds. In addition to the transformed fund, it offers four pension and four participation funds covering the needs of conservative as well as more aggressive investors. The offer is extended with the possibility to select various savings strategies depending on the client's profile and age. Sales of pension savings and supplementary pension savings are conducted primarily via Komerční banka branches and the distribution network of Modrá pyramida stavební spořitelna.

Before launch of the reform, it had been estimated that between 500,000 and 1 million clients would join the so-called second pillar. In the end, fewer than 84,000 people concluded contracts during 2013 (the first year from commencement of the reform). Expectations were not fulfilled, and especially owing to uncertainties concerning the future of the second pillar.

The year 2014 may bring other changes to the sector, as predicted by the proclaimed programme of the Government of the Czech Republic. In the years ahead, flexible responses to these changes will be crucial for KB Group to be able to offer its clients the best pension savings solutions.

Private Banking

KB offers comprehensive Private Banking services to clients with financial assets exceeding CZK 20 million at its branches in Prague, Brno and Ostrava, and from 2013 also in Pilsen and Hradec Králové. Private bankers also make themselves available outside the Bank's business premises and operate across the entire Czech Republic. Clients with assets in excess of CZK 10 million have access to selected Private Banking products at all the Bank's regional branches.

In 2013, Private Banking again recorded double-digit growth in both the number of clients and the volume of assets under management. Further development will be founded upon reinforcing internal synergies within the Bank, maximising opportunities on the local market, and building long-term co-operation with Société Générale Private Banking Expert Centres in the area of open-architecture investment solutions.

During 2013, investors were most interested in conservative products, namely deposits and State Savings Bonds and also in diversification into bond instruments, investment and barrier certificates. Subscriptions for a guaranteed savings insurance policy offered in co-operation with Komerční pojišťovna and a Lombard loan for financing clients' private needs both recorded respectable results.

The offer of products and services for clients in 2014 will reflect both the anticipated modest recovery in the Czech economy and opportunities ensuing from regulatory changes. Within the gradually recovering market for mergers and acquisitions, KB Private Banking offers its services to owners selling their firms, namely assistance in the selling process, in cross-generational structuring of assets, and in building financial assets portfolios.

Product and Service Innovations in Retail

KB continues to innovate and strives for rising client satisfaction. The Bank scored well in Société Générale Group's internal competition known as Innov'Trophies. Videobanker, Risk Academy, and Mobile and QR Payments were recognised as being among the best innovations worldwide within the Group. The Mobile and QR Payments project was chosen by the expert panel as the second best innovation and by the voting of Société Générale clients as the very best innovation. KB presented a number of other significant innovations and improvements during 2013.

KB further developed its MojeOdměny rewards programme, which is a unique instrument for improving client satisfaction, loyalty and activity. This enables all KB clients to easily receive maintenance of the MůjÚčet package at no charge just by actively using KB Group services. MojeOdměny allows clients to optimise their costs for financial services and makes the KB offer fully price-competitive with all categories of banks on the market. That programme's expansion supported client loyalty and activity and positively affected the balance of new versus defecting clients, as well as cross-sales of the entire Group's products. Also within the MojeOdměny concept, the new Profi programme for entrepreneurs and small businesses was introduced. This provides solutions for advantageously managing business and personal finances simply and transparently at a single location.

KB launched new advisory applications for the Individuals and Small Businesses segments: KB MojePlány (KB MyPlans) and KB Podnikatelské finance (KB Business Finance). Not only do these assist relationship managers in their advisory, but KB also made the applications available to clients via MojeBanka internet banking and on its website www.kb.cz. Both tools suggest optimal combinations of financial products for achieving future financial objectives while taking into account the client's current and expected situations, savings and commitments.

See box on page 26
KB MojePlány (KB MyPlans) and KB Podnikatelské finance (KB Business Finance)

Following through on its successful launch of contactless credit cards and mobile payments, KB now also offers contactless debit cards. Available now, too, is a Platinum debit card which brings unique advantages and a wide spectrum of additional services to its holders and their family members. The MasterCard Business Selection programme was also launched during the year. This programme will offer an attractive system of discounts from leading contracting partners to the holders of MasterCard company cards.

In the investment area, sales of the Amundi International SICAV fund were launched and KB launched sale of the new secured funds Certus and Certus 2 as part of Vital Invest insurance. Another innovation in the area of premium investments is a new variant of the product KB Private Asset Management "5D".

Komerční banka unveiled a new points of sale concept. The changes implemented bring clients substantial improvement in the system of service, in particular by increasing the speed and flexibility of meeting their needs. Fundamental changes in the interior layout of the business premises are among the concept's integral components. The objective of branch innovation is to reinforce Komerční banka's leading position in client service quality and to heighten clients' satisfaction with KB's services.

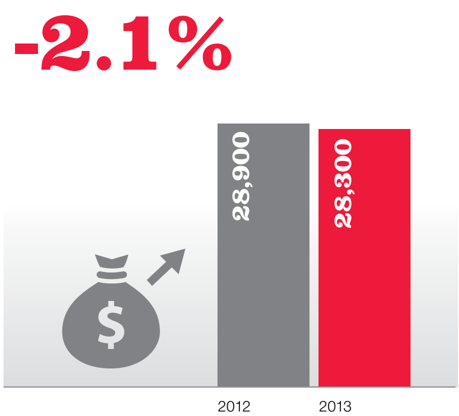
See box on page 22
New Face of KB Branches

The Bank has long devoted great attention to the area of technologies and to developing its MojeBanka internet banking. It has newly simplified the procedure for logging in to internet banking by means of a certificate, eliminated the requirement for Java in order to boost system speed and stability, and made MojeBanka internet banking accessible to tablet users. KB innovated the services offer for the Mobilní banka 2 direct banking application. Clients can now display their investment portfolios kept at IKS KB and submit repeated payment orders based on account history. Komerční banka also prepared the popular Mobilní banka 2 in a version for telephones running the Windows Phone 8 operating system.

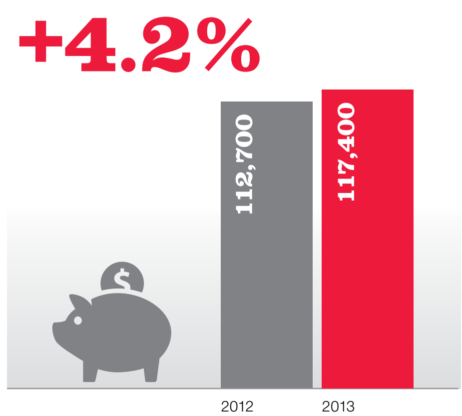
In 2014, Komerční banka will dedicate itself especially to strengthening its multi-channel client service. Following on to the Videobanker pilot projects, it will present to its clients a revolutionary new method of providing help in using internet banking based on sharing the web browser screen. KB is preparing to strengthen its capability to sell products and services on-line, and it will focus, too, on electronic exchange of documents between the Bank and its clients.

A sampling of KB's communication visual

Loans to Small Businesses (CZK million, Bank)$^{+}$



Deposits of Small Businesses KB (CZK million, Bank)$^{+}$



Small Businesses segment KB (Bank)$^{+}$

	2013	2012	Change %
Volume of drawn loans, credit card receivables, overdraft loans (CZK billion)	**28.3**	28.9	(2.1)
Volume of deposits (CZK billion)	**117.4**	112.7	4.2

Small Businesses

At the end of 2013, Komerční banka was serving more than 240,000 clients in the small business market, confirming its position as market leader in this segment. Within the segment, the Bank aims to deliver an individual approach and expert advice to entrepreneurs regardless of their size or how long they have been in business. During the year, 18,000 new entrepreneur clients came to KB^{+}. They were drawn by the good reputation of KB's relationship managers and services, its innovated products, but also by the MojeOdměny programme which considerably reduces entrepreneurs' costs for day-to-day banking services.

See box on page 28
Product and Service Innovations in Retail

The volume of loans to small businesses recorded a slight decrease for 2013 in comparison to the previous year. This corresponded with the trend and overall market sentiment, which during the year was by and large rather sceptical and cautious. It also reflected the fact, however, that smaller businesses were investing their own sources into development. The decline in the volume of loans drawn also relates to the expectations for improvement in 2014, as companies want to invest when the economy is recovering. Client's deposits in the segment at KB grew year on year by 4.2% (from CZK 112.7 billion to CZK 117.4 billion)$^{+}$, as volumes in current and savings accounts increased.

See box on page 27
Recognitions Received in 2013

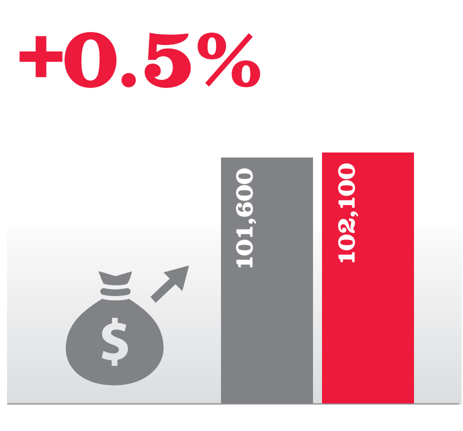
Enterprises and Municipalities

Despite a certain degree of recovery in the second quarter, 2013 was nevertheless marked by economic recession which was reflected in the behaviour of small and medium-size enterprises. Given the uncertain outlook, they continued to be cautious about investing. Public sector clients also were sensitive to the influence of austerity measures on their budgets in connection with delays in payment of European grant funds. In order to have cash in reserve, businesses were building the volume of their deposits. Within the segment, there was an escalation of strong competitive activity to provide financing.

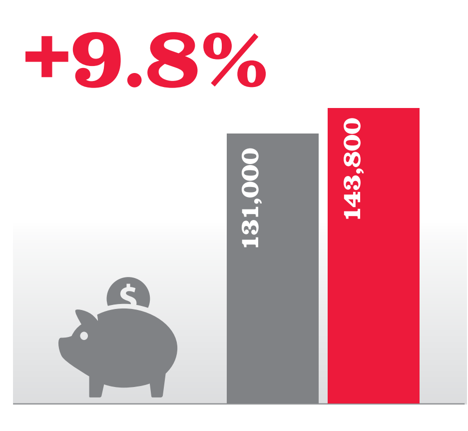
Nonetheless, the Bank succeeded in maintaining its growth trend. In 2013, the average volume of loans increased year on year by 0.5% to CZK 102.1 billion^{+}. The growth rate was also affected by reclassification of several dozen clients into theTop Corporate segment. Deposits, meanwhile, expanded by an average 9.8% to CZK 143.8 billion^{+} despite an extreme drop in interest yields. Taken together, these results confirm KB's stable position in a market where its market share is slightly growing even as it maintains an acceptable cost of risk. More than 10,600 clients were served in the segment, and according to market surveys 51% of medium and large enterprises are KB clients[1].

The Bank succeeded in broadening the spectrum of programmes involving international financial institutions, and thereby

Loans to Enterprises and Municipalities (CZK million, Bank)$^{+}$



Deposits of Enterprises and Municipalities (CZK million, Bank)$^{+}$



[1] Survey performed by Median agency, 2012

significantly increasing the volume of funds available to clients through such programmes.

The most important of these are under contracts with the following:

- European Investment Bank (EIB) in a total amount of EUR 100 million. The funds are designated for financing small and medium-sized enterprises (EIB loan for SMEs).
- European Investment Fund (EIF) in a total amount of EUR 160 million, where EIF guarantees loans are made to innovative companies (EuroInovace). In response to the great interest in this product, the Bank negotiated a significant addition to the guarantee line, which is the largest among Czech banks.
- Council of Europe Development Bank (CEB) in an amount of EUR 100 million. The funds are designated for financing of municipal projects. KB is the only private bank offering such sources to Czech municipalities (EuroMuni).

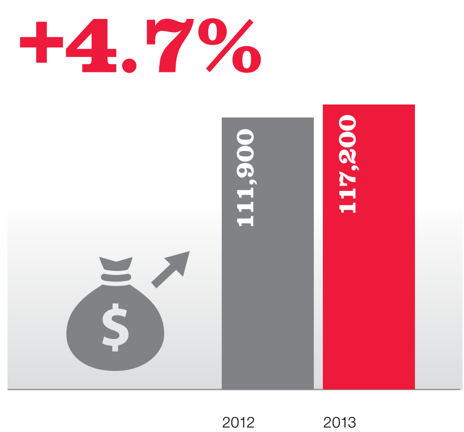
Fundamental changes were made in the organisation of the distribution network during 2013. The objectives were to optimise processes, and thereby to enhance service quality and accessibility. A team of specialists was created that is devoted to economically connected groups. Additional specialist teams which remain available to clients directly in the regions are focused on the areas of foreign trade, card acceptance, and pre-financing and drawing of EU grants.

Owing to its targeted sector approach, KB responded flexibly to the changing needs of specific client groups in individual branches by deploying teams of experts in such areas as innovations, energy, real estate, the public sector, engineering and agriculture.

Co-operation with professional associations and unions, together with participation in events of the individual industries, plays an indispensable role in this process. The most important co-operating partners include:

- the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic, which brings together small and medium-sized enterprises and business people in an open, apolitical platform and represents more than 254,000 business entities;

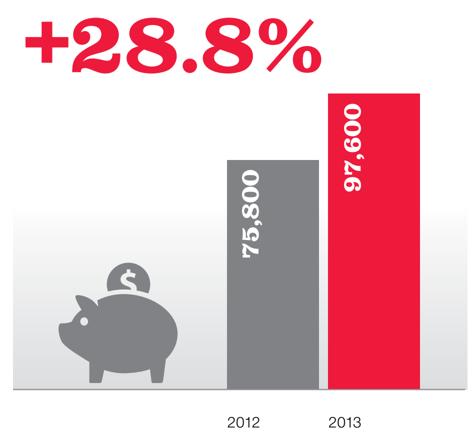
Loans to Top Corporations (CZK million, Bank)*



- the Chamber of Trade and Industry for the Commonwealth of Independent States, the objective of which is to support Czech business entities in their commercial activities on the markets of CIS countries; and
- the Federation of the Food and Drink Industries of the Czech Republic, representing the interests of the food industry and processors of agricultural commodities.

Among other events, the Bank actively participated in the International Engineering Fair in Brno, the Bread Basket International Agricultural Fair in České Budějovice, the Russian engineering fair Metallobrabotka, the Meeting on Budgets and Financial Vision of Cities and Municipalities, and several Žofín Forums. Traditionally, the Bank has co-organised a number of expert seminars, including export conferences with the government agency CzechTrade, seminars in co-operation with the Governance Institute (which is focused on Asian markets), and various events concerning energy and food industry topics. KB also contributed to projects recognising innovative ideas of Czech entrepreneurs and companies, such as the Visionaries project under the patronage of the Ministry of Industry and Trade and the AMSP Grant Programme under the auspices of the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic.

Deposits of Top Corporations (CZK million, Bank)*

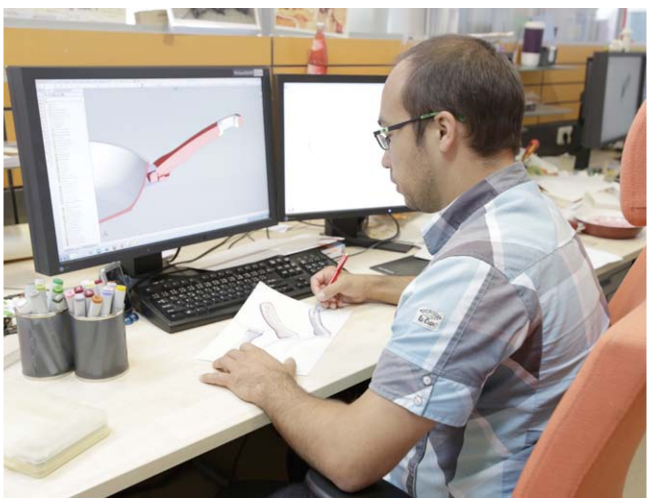


A number of cultural and educational events were organised for KB clients, including meetings with interesting personalities from the Czech business setting, such as with the artist and architect Bořek Šípek or with the architect Eva Jiřičná. A new project in 2013 was the KB Akademie educational programme comprising specialised expert trainings in the fields of financial services, taxes or law.

The Bank continued to prepare the client magazine Export Journal, and it was a partner for the magazine Trade News. In these periodicals, KB addresses topics important for the development of small and medium-sized enterprises and international trade. KB also participated in the unique Barometer of Czech Medicine project, which is a comprehensive survey providing feedback from the directors of hospitals and health insurance companies.

During 2013, the Bank implemented a number of innovative product and process projects with the objective of increasing client satisfaction and effectiveness. KB was the first on the market[1] to offer on-line drawing of short-term and revolving loans (through application TF Online). The product JESSICA, offered in co-operation with the State Housing Development Fund, enables clients to draw low-interest loans for modernising apartment buildings and establishing subsidised apartments thanks to European funds. Forty-one Czech cities having integrated development plans are already in process to receive as much as CZK 600 million.

1) Source: KB market research



4,000
in the company's entire history

100
countries for exporting products

Developing a revolutionary product is an open process

All TESCOMA-brand products originate in the company's DESIGN centre. A young team of professional designers together with members of the development and quality management team monitor aesthetic and technological criteria so that the products not only bring first-class quality and pleasure to the kitchen, but also maintain perfect functionality throughout their working lives.

"It's very difficult to be the first to bring something new to the market in a developed, competitive environment," says Petr Chmela, Tescoma's Statutory Representative. "Developing new and revolutionary products is by no means a matter of chance – some sort of fortuitous enlightenment, random inspiration or mysterious impulse. It is an open process involving a great deal of discussion, verification, experimentation and testing, altogether entailing the targeted effort of entire research teams and many scientific workers. A number of our products have therefore received worldwide patents, and several have been recognised with prestigious international design awards."

Co-operation between Tescoma and Komerční banka dates back to 1992, from Tescoma's very establishment. The company uses quite a number of products – domestic and foreign standard payment operations, documentary letters of credit, documentary collection, bank guarantees, operating credit and long-term credit for investment projects. "We are working with very user-friendly tools, such as Profibanka and TF OnLine," comments Petr Chmela on the co-operation. "The long-term relationship between our company and the Bank is founded on mutual trust. We appreciate the professionalism of the Bank's employees at the individual places of business, including their readiness immediately to resolve acute problems that arise. Another advantage for us is that Komerční banka is a member of a strong banking group with global operations."

Top Corporations

Several distinguishing aspects characterised the top corporations market during 2013. Residuals of pessimism from previous years faded only slowly and there were minimal investments into new projects and company development. Demand for operating finance was stable at a subdued level.

In the second half of the year, KB noted a modest recovery in the economy and increasing optimism among the top corporations in relation to new investments and projects. In 2014, therefore, the Bank expects to see greater interest in financing new projects, in acquisitions, and in refinancing existing transactions. With its well-established business model, sophisticated products and services, and in combination with specialists in various business areas, Komerční banka can offer top corporations the most advantageous solutions for their activities and developing their businesses.

The market was considerably influenced by the increased activity particularly of Czech investors acquiring stakes in leading Czech firms. This included in particular the largest transaction in Central and Eastern Europe, which was the sale of a stake in Telefónica Czech Republic to PPF Group. The sell mandate for advisory services and for acquisition financing of EUR 2.3 billion was awarded to Société Générale Group. Komerční banka contributed to the financing and likewise managed settlement of the entire transaction.

Investments in developer financing were also interesting. Owing to Komerční banka's good position on the market and high-quality developers and lessees, the Bank was able to participate in financing such projects as construction of the Florentinum office complex and the headquarters of ČEZ.

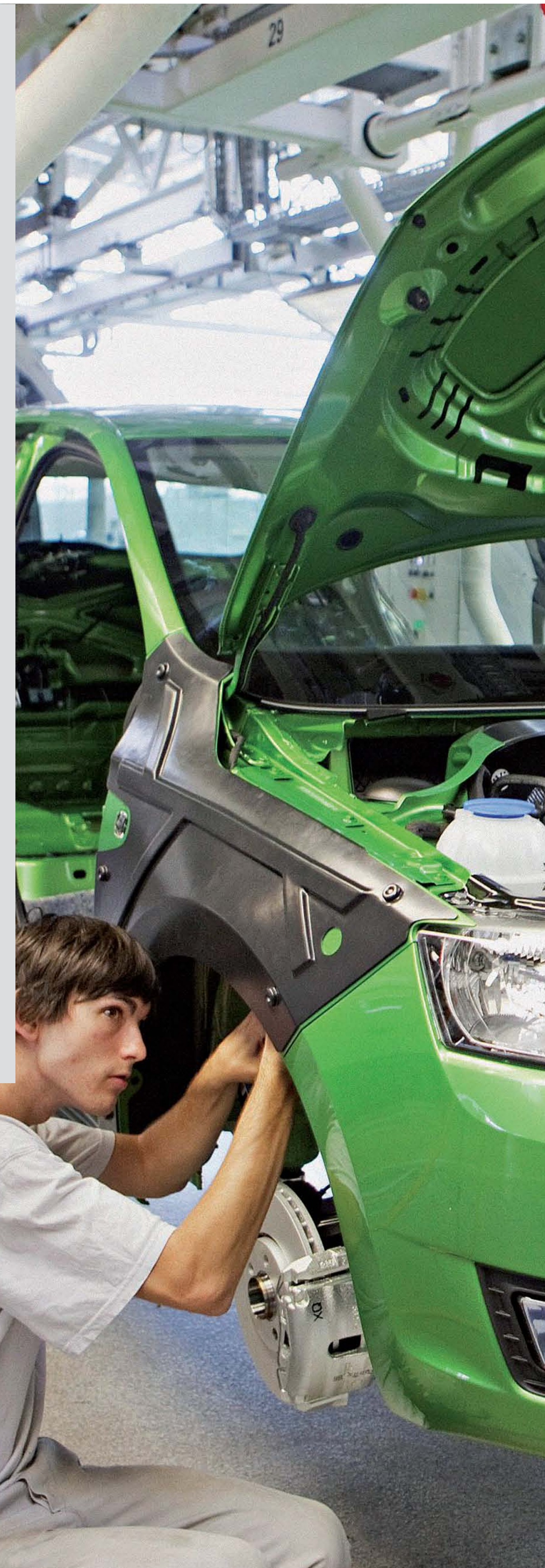
The year 2013 was especially interesting from the perspective of how deposits developed. These grew by almost one third in comparison to the previous year within the top corporations segment. The deposits gain related especially to developments in the economy and the minimal levels of investments into new projects. That meant companies were holding larger balances on their current accounts. Nevertheless, the segment did show a 4.7% increase in loans.+

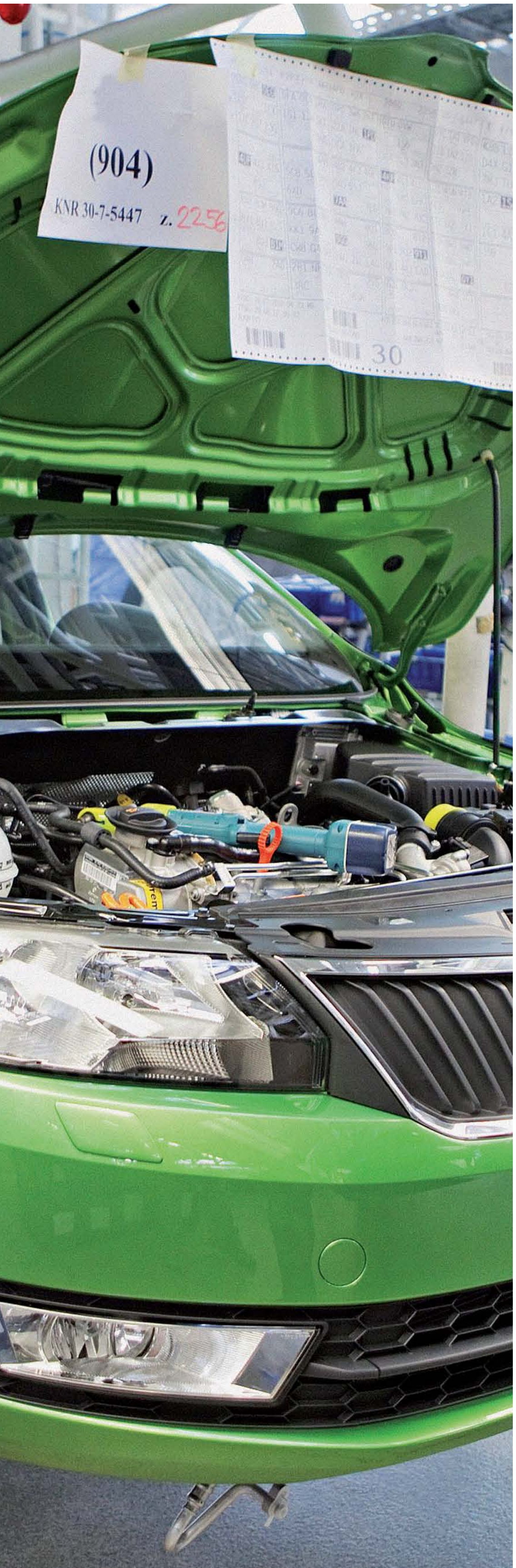
Export Financing

The Bank actively supported its clients' export activities by providing export buyer's credits. Those were mostly insured by EGAP (Export Guarantee and Insurance Corporation). The export financing portfolio increased year on year by 39%, and income from export financing grew year on year by 19%.

KB further diversified its portfolio of buyer's credits by broadening those countries where the projects were financed. Among others, it expanded into Israel (modernisation of a power plant by Doosan Škoda Power), Belarus (supply of locomotives by CZ Loko and construction of logistics centres by Metrostav) and Kazakhstan (Škoda Auto). It also diversified in terms of its products. In 2013, KB successfully provided financing that was insured by a private insurance company.

While assuming Czech companies will continue their good export performance in future, the Bank intends to further develop its export financing activities all over the world. It will focus primarily on countries with historical export ties to the Czech Republic, such as Russia and the CIS countries, while utilising the extensive network of the Société Générale Group.





Komerční banka, a.s., pobočka zahraničnej banky (KB SK)

KB SK is Komerční banka's sole foreign branch. It operates in Slovakia on the basis of a single banking licence issued by the Czech National Bank. KB SK is cultivating its co-operation with top corporations within Slovakia, as well as with the clients of KB and the SG Group.

Growth in Slovakia has been dynamic. Total assets of KB SK increased year on year by 27%, and the year-on-year rise in total operating income under international financial reporting standards reached 43%. These results significantly surpassed the defined objectives and represent an especially noteworthy success in consideration of the cautious approach of KB clients towards new investments as a consequence of the economy's greater unpredictability. Despite the solid development described above, net profit was markedly diminished after accounting for provisions. The creation of provisions reflected the Bank's cautious view of certain industries in Slovakia and also provided KB SK with a good starting position for the years ahead, when consolidation of the affected industries is expected.

KB SK further modified its organisational structure in order better to respond to clients' needs, improve process efficiencies, and fully integrate changes required under legal regulations. The main project in Slovakia was to transform all banking systems in accordance with SEPA (Single Euro Payment Area), which under regulations valid for euro zone countries should be completed before 1 February 2014. The Slovak branch is working on a number of other projects which will ensure conformity with the stricter regulations for European banks.

The top corporations market in Slovakia went through extraordinary changes in 2013, and especially in the energy sector, where there were ownership changes among the market's strategic players. Some of these were Komerční banka's clients. Due to Komerční banka's strong position and rating, as well as the international know-how of Société Générale Group, KB SK participated in almost all these transactions. After these changes, the Slovak branch remained a banking partner of these corporations. These transactions only confirmed that Komerční banka's focus on clients' needs, its individual approach and its unceasing effort to improve is the correct approach and ensures sustainable growth and a commensurate position for KB SK on the Slovak market. Fortifying synergies among Group companies in Slovakia will remain a main objective in the coming years.

KB SK has its headquarters at Astoria Palace in Bratislava.

Investment Banking

In 2013, the European economy finally exited the long recession that had been caused by the debt crisis within the European Monetary Union. Germany in particular recorded a successful year, benefiting as it did from strong exports. The peripheral countries, on the other hand, continued to struggle with the effects of consolidation measures. In any event, overall EMU economic performance came as a disappointment and Europe has seen only a slow and gradual recovery. The European Central Bank responded to the situation by delivering two interest rate cuts, bringing the key rate to its historic low of 0.25%. Meanwhile, European central bankers have been grappling with the issue of the euro's continuing strength against the dollar despite stronger growth in the US economy and the Federal Reserve's start in tapering its quantitative easing.

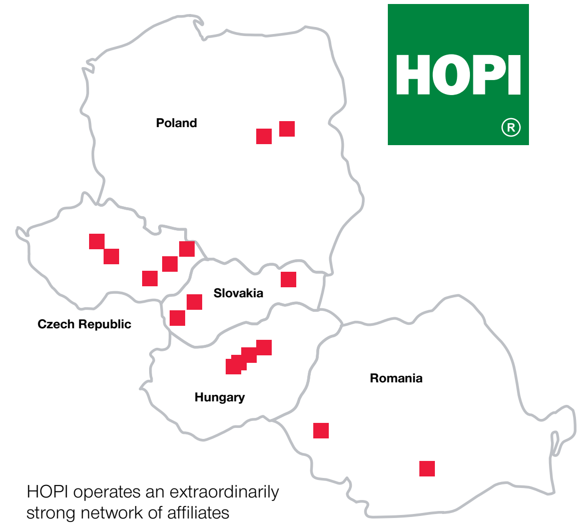
The Czech economy saw the end of a recession that had lasted for six quarters. An improvement in industrial production due to higher foreign demand and the gradual end of fiscal consolidation were the drivers behind the Czech economic recovery. Although the yield on the 10-year Czech government bond fell to its all-time low of 1.47% in May, it soon turned back northward and closed the year slightly above the 2.50% level. The CZK/EUR exchange rate traded in a narrow range of 25.50–26.00 for most of the year due to the Czech National Bank's verbal interventions. However, the CNB's Bank Board, fearing that the economy would fall into a deflationary trap, decided early in November to launch outright FX intervention against the crown in order to weaken the currency to above 27.00 CZK/EUR. The crown continued to depreciate for the remainder of November with no further direct impetus from the CNB. In December, the currency stabilised at around the 27.50 level.

The year was not a successful one for the Prague Stock Exchange, as its PX index dropped by nearly 5%. The regional bourses generally did not fare well in comparison with major markets. The Warsaw Stock Exchange's WIG20 index fell 7% during 2013, while the Budapest Stock Exchange gained by a mere 2%. In contrast with this performance, the European STOXX 600 increased by 17%, the S&P 500 in the US rose by almost 30%, and Japan's Nikkei 225 jumped up by 57%.

Despite the rather unfavourable market conditions, however, good results were achieved in transactions with corporate clients. The decline in revenues caused by lower volumes in interest rate derivatives and pressure to squeeze margins on FX products was compensated especially by a focus on sophisticated hedging instruments. These were in the areas of commodities, emission allowances and, in particular, FX options (revenues from which grew by 14%). Revenues from transactions in bonds and equities decreased slightly as a result of low interest rates and the overall subdued investment activity. A milestone was set as the Bank successfully executed its first-ever hedge co-ordination mandate.

Overall financial results were also affected by the successful implementation of several accounting standards, in particular by transition to market-based CVA (Credit Valuation Adjustment) and setting of derivatives revaluation with respect to FVA (Funding Valuation Adjustment).

The Global Finance Platform team is responsible for syndicated loans, structured financings and primary issues. In an active but highly competitive market, the team successfully executed a total of 30 loan financings during 2013. This included a number of client mandates in acquisition and real estate financings, often involving a syndication or a lead role in a club deal. In several cases, transactions were completed jointly with specialised teams of Société Générale, which provided their global expertise. One such example was 2013's landmark Czech telecommunications transaction. As a result, the Global Finance Platform cemented KB's leading role in the domestic market for providing clients with complex, innovative and professionally executed financing solutions.



HOPI operates an extraordinarily strong network of affiliates in 5 Central European countries.

One of the most important logistics companies in the Central European region, HOPI, was founded in 1992 by František Piškanin. This family business has gradually created its own know-how, and through natural development grown to its current importance and size. Its main mission is to provide comprehensive logistics services. In addition to its operations in the Czech Republic, HOPI operates in Slovakia, Hungary, Poland and Romania. The company employs more than 3,300 people.

František Piškanin's relationship with Komerční banka goes back to 1992, when, with its help, he concluded his first transaction in the amount of CZK 5 million, which concerned Dutch seed potatoes. HOPI and Komerční banka then launched regular co-operation in 1994, and so in 2014 they are celebrating 20 years of their journey together. "I've been using Komerční banka from the very start in order to be able to realise my vision, my objective, my business plan. It's a financial group that has my trust," he says. "In the difficult times of 2010, 11 and 12 most other banks hit the brakes, but Komerční banka held onto its clients. Through all the years, our co-operation has gained a human dimension. For me, Komerční banka is not just a brand name – it means specific people."

450,000 m²
of warehouse space

3,300
employees

Growing together for 20 years

HOPI's success is built upon the capabilities of its stable and experienced team of logistics professionals. A highly sophisticated IT system helps them in their work. The company uses EDI and a web interface to communicate with its customers, and the efficiency of its activities is supported by transparent on-line reporting. Other pillars of HOPI's success include its method of resolving problems related to packaging management which actively decreases the waste and packaging it generates, the optimal locations of its logistics centres, and the state-of-the-art warehousing technologies it uses.

About the economically challenging period of recent years which negatively affected shipping and transport companies, František Piškanin says, "The recent economic crisis did not harm us at all, but rather helped us. Our work includes storage processes focused on refrigerated, frozen and dry foods. Our customers include end retailers such as Makro, Tesco, Ahold and many others. People have to eat, and therefore shop, whether there is a crisis or not. The second leg upon which our business stands is multinational producers. In the crisis, they learned to economise their inventories and they also did everything they could to maintain turnover, such as bringing out new products. We therefore have had enough work even in recent years."

Transaction and Payment Services

In mid-2013, the former Operations department was renamed Transaction and Payment Services (TPS). From 1 January 2013, TPS has been responsible for managing seven Cash Centres servicing corporate clients as well as the processing of cash in CZK and foreign currencies unloaded from branches . In August of 2013, TPS took over responsibility for processing claims and complaints from Marketing. With the objective of centralising services having the same focus, the Global Transaction Banking (GTB) unit was established as part of TPS on 1 July 2013. GTB provides KB clients documentary payments, bank guarantees and services for corporate cash management and correspondent banking. Following this step, the Export Financing unit was transferred to the Top Corporations Department.

In 2014, TPS will work on such important projects as Card Management System Replacement and GTB – Payments & Cash Management, as well as completion of the SEPA End Date project, and resolving activity optimisation at Passive Products Centres.

Payment Cards

As at the end of 2013, KB recorded 1.56 million active cards in its portfolio, most of which (1.34 million) were debit cards. In 2013, the proportion of embossed cards grew to more than 60% from less than 49% at the end of 2012. KB very dynamically expanded the points-of-sale network within which card payments can be made. As at the end of the year, the Bank was accepting cards from more than 26,000 merchants, which represents growth by 23.1%.

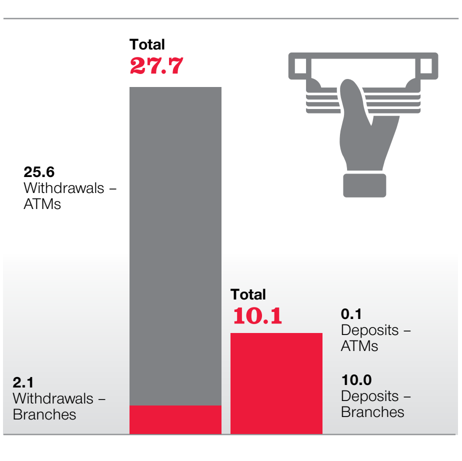
The trend among payment card holders of shifting from ATM transactions to payments at retailers persisted in 2013. In connection with the expansion of the retail network and the development of contactless payments, in 2013 for the first time the average value of KB card payment transaction decreased to below CZK 1,000. The number of payments at merchants rose year on year by 13.7%, and the value of these payments increased by 7.2%. In contrast, the number and volume of ATM withdrawals diminished by 4.2% and 2.8%, respectively. Payments made by card over the internet remain the most dynamically growing area. In 2013, the number of payments made by KB cards at internet merchants climbed year on year by 31.8% and the volume of payments by 23.7%.

Non-cash Payment Operations

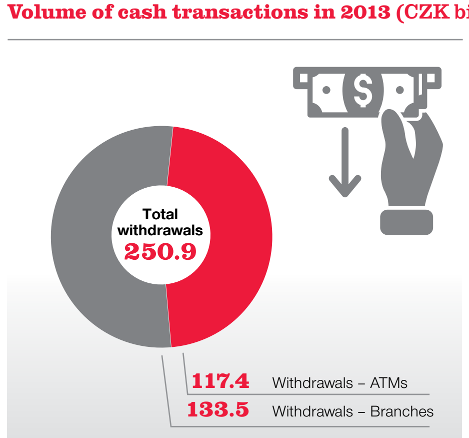
KB maintains a stable market share in the area of domestic non-cash payments, and with a slightly growing trend (average growth of 1% versus 2012). In foreign payments, the Bank recorded a year-on-year increase of 4.1% in the number of payments. During 2013, SEPA payments made up 70% of the total number of foreign payments.

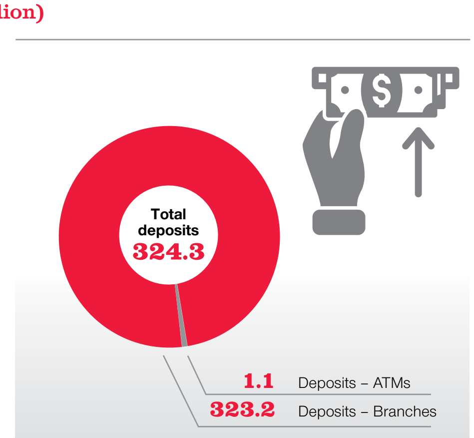
In accordance with Regulation (EU) No. 260/2012 of the European Parliament and Council, and as a part of the SEPA End Date project, Komerční banka successfully prepared a transition of domestic payments in Slovakia to the SEPA environment and

Number of cash transactions in 2013 (millions)



Volume of cash transactions in 2013 (CZK billion)





introduced the new SEPA Direct Debit product serving clients direct debit needs across the whole SEPA area.

Cash Transactions

The numbers and volumes of cash transactions at Komerční banka declined year on year. This trend was caused by the economic situation existing in the Czech Republic during 2013 as well as clients' continuing preference for non-cash payment instruments. Concerning the successfully completed project to centralise cash processing in Komerční banka, the volume of client cash deposits packages processed in cash centres stabilised at an overall level of CZK 90 billion per year. In 2013, Komerční banka also continued in expanding its network of deposit ATMs through which clients can make on-line cash deposits. In addition to the 10 pilot devices installed in late 2012, a further 20 devices were installed during 2013. KB also launched the ATM DCC (Dynamic Currency Conversion) service at ATMs, which offers foreign clients the possibility to decide whether they want to exchange cash withdrawn in CZK to the currency of their account at a proposed rate.

+25%

GROWTH IN THE NUMBER OF BANK GUARANTEES

in Trade Finance

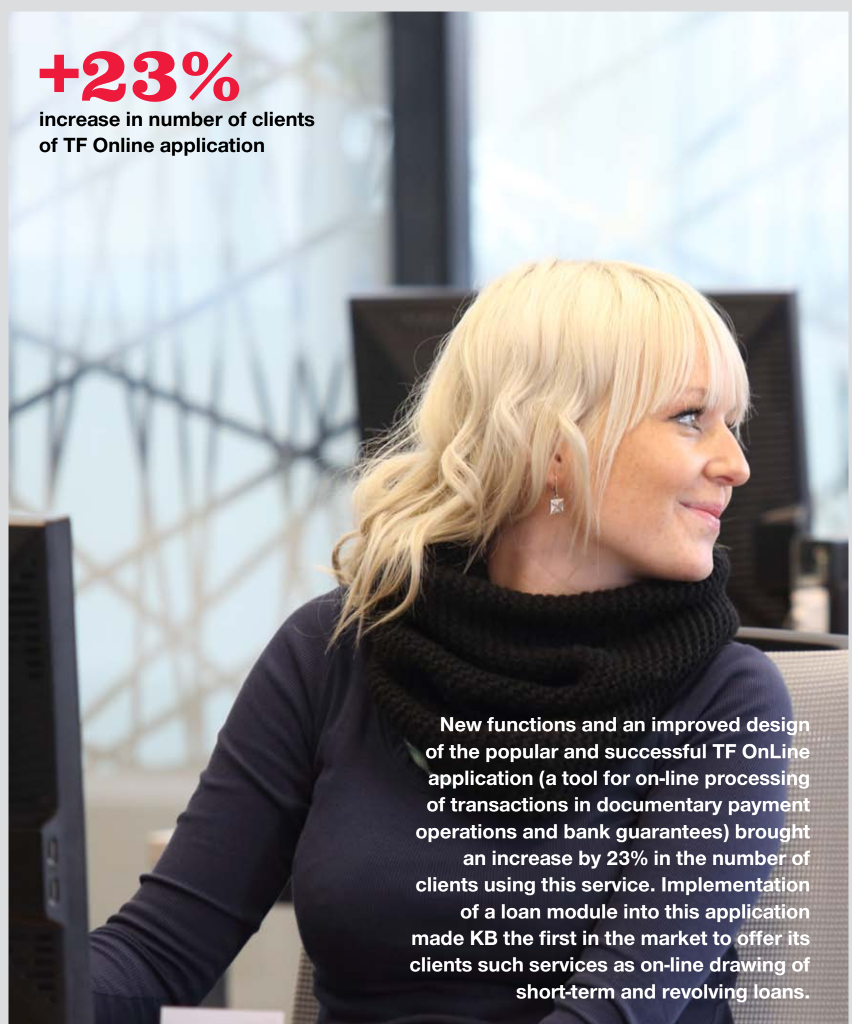
Advances in Payment Operations and Trade Finance

Komerční banka brought its clients a good many useful advances in this area during 2013. Clients can newly submit standing orders with the option for their being postponed (e.g. during school holidays for lunch payments) and to submit them for transfers between accounts in foreign currencies. In direct banking, the Bank now conveniently allows clients to use an already performed payment to create a repeated payment order or a standing order. Owing to the expanded functionality of direct debit information, clients can also continuously monitor the state of their processing or identify the reason for any non-execution of a direct debit in the debit history.

For corporate segments, KB was one of the first banks in the Czech Republic[1] to introduce the possibility of exporting account statements into their accounting systems in the new XML format complying with the Czech Banking Association Standard. Customers can now send payment orders abroad electronically in up to 110 currencies to more than 160 countries.

In the area of Cash Management, new structures and products for international cash pooling while centralising funds at KB were successfully implemented. Demand for these services grew considerably. The main interest was from Czech companies with developed foreign trade, especially in Western European countries.

1) Source: KB market research



New functions and an improved design of the popular and successful TF OnLine application (a tool for on-line processing of transactions in documentary payment operations and bank guarantees) brought an increase by 23% in the number of clients using this service. Implementation of a loan module into this application made KB the first in the market to offer its clients such services as on-line drawing of short-term and revolving loans.

The total volume of cash deposits carried out via ATMs in 2013 was CZK 1.1 billion. The total volume of cash deposits made by clients through ATMs and otherwise was CZK 324.3 billion (a 4.8% decrease versus 2012) while the total volume of withdrawals from ATMs and otherwise came to CZK 250.9 billion (a 5.9% decrease). The total number of cash withdrawals in 2013 was 27.7 million, representing a 3.7% decline year on year. ATM withdrawals represent 92.4% of all cash withdrawals at KB.

Trade Finance

In Trade Finance, there was significant growth of almost 25% in the number of bank guarantees issued. In view of the situation in the area of public procurement and statutory changes regarding distribution of fuel and alcohol, clients more frequently applied for guarantees with shorter tenors. In comparing income growth year to year, forfaiting of bank risk was the fastest growing. It gained by more than 40%.

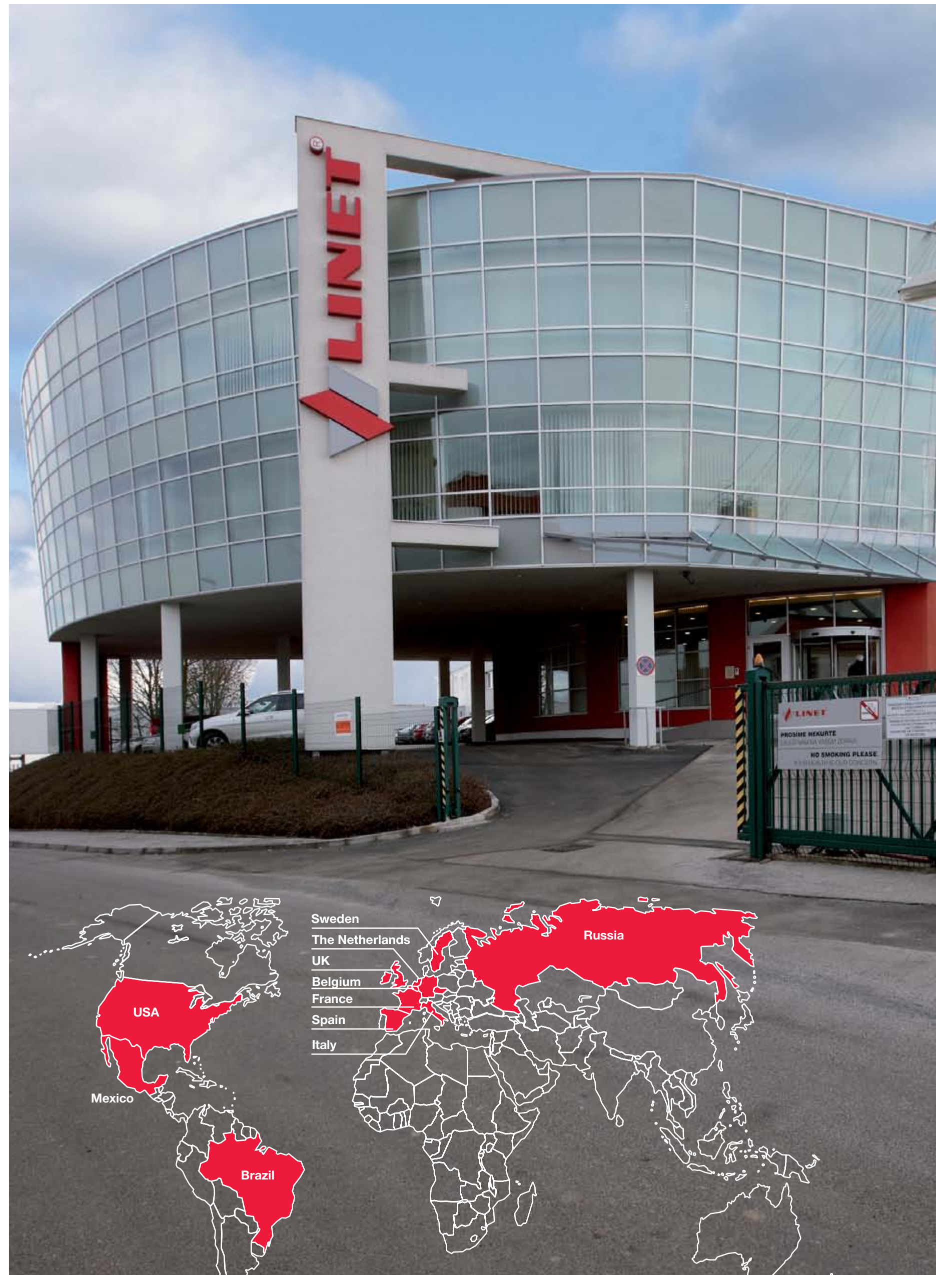
Description of Real Estate Owned by the Bank

Komerční banka manages real estate used especially to conduct those business activities for which it is licensed under the applicable legal regulations.

Summary of the real estate managed by the Bank:

As at 31 December 2013	Number	Of which owned by KB
Buildings in the Czech Republic	417	113
Buildings in the Slovak Republic	2	0
Total	419	113

Note: See also the Notes to the Separate Financial Statements prepared in accordance with IFRS, notes nos. 19 – Assets held for sale and 26 – Tangible assets.



Linet Group SE companies are spread across three continents

Cash pooling

The cash pooling service consists in combining funds from eight accounts (from a total of 16) for the subsidiary companies of LINET Group, namely those companies which do business in euro. Each of these companies has an open euro account at KB (or as the case may be at an SG bank in the given country). Turnover is calculated each day and any positive balance is drawn into the main cash pooling account. Any possible debit balance is covered by the pooling account. This method of financial management enables keeping watch over the costs of each subsidiary company, providing them with loans from common funds and never from the Bank. That means lower interest costs plus savings due to eliminating interest charged for slipping into a negative balance.

“We have several unique products,” says the firm’s founder, Ing. Zbyněk Frolík, by way of introduction. “These beds are composed of several thousand components, and their price is equivalent to that of a small car. Sensors placed beneath the mattress make the beds also a measuring centre. They monitor breathing, blood pressure, activity, sleep phase and quality, increased heart rate or blood pressure, and many other data points. As soon as a patient’s health risk measurement reaches a specified level, the bed sends this information via internet, GPS, GPRS or other medium to a person who can intervene. We also offer other accessories, such as bedside tables that facilitate mobility and even special furniture so that we are able to outfit an entire hospital or retirement home.”

LINET®

CZK 4 billion
Linet Group SE turnover in 2013

CZK 28 million
investment through KB in 2013

We grew with Komerční banka

LINET spol. s.r.o. is a part of LINET Group SE, the third largest global manufacturer of hospital beds. In the Czech Republic, its activities focus on the manufacture of hospital beds for intensive and critical care. Its products are exported to more than 100 countries around the world. In 2013, the turnover of LINET Group SE amounted to CZK 4 billion.

The co-operation between LINET and Komerční banka began in 1990. The firm’s first loan was requested half a year after the Bank was founded. The next milestone on the mutual journey was a request for a loan of CZK 70 million to expand production. LINET had requested the loan as a firm with basic capital of about CZK 15 million. KB had provided the loan even without a guarantee from LINET’s German co-owners. By 2011, when a loan of CZK 1 billion was made to acquire that same German firm, the long-term nature of this co-operation was very clear. Today, Komerční banka covers a substantial part of LINET’s financial needs, and this also includes use of the cash pooling service.

Comments on the IFRS Consolidated Financial Results

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 12,528 million for 2013 under International Financial Reporting Standards (IFRS). This represents a 10.2% decrease in comparison with 2012.

As at the end of 2013, the Group's Core Tier 1 capital adequacy ratio stood at a strong 15.8% under Basel II standards, and the ratio of net loans to deposits (excluding client assets in pension funds) was 77.0%.

Profit and Loss Statement

Net Banking Income

Net banking income decreased in 2013 by 5.4% year over year to CZK 30,894 million. The decline was partially caused by one-off items, such as income in 2012 from the sale of KB's stake in Bohemian–Moravian Guarantee and Development Bank (CMZRB). Revenues adjusted for this and other extraordinary items were down 3.2% from the year earlier. Net banking income was lower in spite of the growth in loan and deposit volumes. That was due to persisting very low market interest rates, which limit yields from reinvestment of liquidity, generally subdued economic activity in the Czech Republic and reduced prices for certain banking services.

Net Interest Income

Net interest income, which constitutes more than two-thirds of KB's revenues, was down by 3.5% to CZK 21,207 million despite the growing loan and deposit volumes. Deposit spreads were under pressure from diminished yields on reinvested deposits, resulting from the significant decline in market interest rates which appeared towards the end of 2012, and from intense competition. Reflecting the extremely competitive market and higher share of loans with relatively lower spread in the portfolio, total lending spread also narrowed slightly. In 2012 and 2013, KB sold its remaining government bonds from southern Europe, and that, too, had a negative effect on the interest margin.

The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, was, in addition to the aforementioned factors, also affected by placements of short-term deposits by clients from the public and financial sectors. Those deposits inflated the formula's denominator. The margin thus declined to 2.8% in 2013 from 3.1% a year earlier.

Net Fees and Commissions

Net income from fees and commissions rose by 1.5% to CZK 7,077 million. KB expanded its MojeOdměny client rewards programme, which effectively drove down fee income from deposit products and transactions. On the other hand, the Group reported lower commission expense for acquisition of pension fund clients in comparison with the previous year. Income from life insurance and mutual funds increased, driven by growth in the volume of client savings in these products. Despite a rise in the number of transactions executed by clients, the income from transactions decreased due to diminishing average prices and clients' continuing switch to lower-cost means of making payments. Fees from loan syndications recorded a significant rise year over year, confirming KB's success on this vibrant but very competitive segment of the market.

Net Profit from Financial Operations

Net gains from financial operations were affected by several one-off items in both comparable periods. These included in 2012 income from the sale of KB's stake in CMZRB, gains from adjustments in the portfolio of Penzijní fond KB, and sale of the remaining Greek and Portuguese government bonds. In 2013, these were mainly negative valuation adjustments of certain derivatives reflecting implementation of the IFRS 13 accounting standard and refinements of valuation methods for derivatives according to their cost of funding. The reported result declined by 30.8% to CZK 2,489 million. Influenced by CNB measures, low volatility of exchange rates and interest rates is limiting clients' demand for financial hedging. Net gains from FX payments reflected lower average spreads.

Other Income

Other income declined by 4.0% to CZK 121 million. In 2013, other income primarily comprised revenues from intermediation and property rental.

Operating Costs

Total operating expenditures were pared back by 2.5% to CZK 13,148 million. Within this category, personnel costs came down by 0.8% to CZK 6,728 million as the average number of employees was lower by 1.8%, at 8,604. General administrative expenses decreased by 6.6% to CZK 4,666 million. The main savings were achieved in real estate expenses (following the move of certain operating functions into the new building at Prague – Stodůlky), telecommunications and marketing costs. On the other hand, rolling out of contactless payment cards and related infrastructure required greater spending in this area. The category depreciation, impairment and disposal of fixed assets was up by 2.8% to CZK 1,754 million, as higher amortisation of software applications was only partially offset by lower depreciation of buildings and IT hardware.

Gross Operating Income

Gross operating income for 2013 was down by 7.5% to CZK 17,746 million.

Cost of Risk

In accordance with the good quality of KB's assets portfolio, the cost of risk diminished by 7.1% to CZK 1,739 million. The risk profile developed positively in both retail and corporate segments. Stated in relative terms, the cost of risk in 2013 was 37 basis points while in the previous year it had been 41 basis points.

Share of Profit of Pension Scheme Beneficiaries
The proportion of profit attributable to clients of the transformed pension fund declined to CZK 484 million from CZK 489 million. This line represents a remuneration of funds of participants who have been saving based on the contracts concluded before 1 December 2012.

Profit before Taxes
Consolidated profit before income taxes decreased by 7.1% year on year to CZK 15,731 million.

Income Taxes
Income taxes rose by 4.3% to CZK 2,825 million.

Net Profit
KB Group's consolidated net profit for 2013 came to CZK 12,906 million, which was 9.3% less than in the previous year. Of this, CZK 378 million was profit attributable to holders of minority stakes in KB's subsidiaries; the profit attributable to the Bank's shareholders amounted to CZK 12,528 million (down 10.2% year on year).

Other Comprehensive Income, Net of Tax
Other comprehensive income, which derives from hedging of cash flows, hedging of currency risk for foreign net investments, and profits and losses from financial assets available for sale, net of tax, reached CZK -8,005 million in comparison with CZK 10,620 million in 2012.

Comprehensive Income, Net of Tax
The Group's comprehensive income for 2013 amounted to CZK 4,901 million, lower by 80.3% year on year.

-7.1%

COST OF RISK

to CZK 1,739 million due to asset portfolio's good quality

Statement of Financial Position
KB Group's total assets as at 31 December 2013 grew by 9.8% year on year to CZK 864.0 billion.

Assets

Amounts Due from Banks
Amounts due from banks climbed by 96.1% to CZK 125.7 billion. The largest component of this item consisted of placements with central banks as part of reverse repo operations, which jumped by 279.9% to CZK 87.0 billion, and term placements with other bank that were lower by 23.8% at CZK 14.3 billion.

Financial Assets at Fair Value through Profit or Loss
Financial assets at fair value through profit or loss declined by 28.0% to CZK 37.1 billion. That portfolio comprises the Group's proprietary trading positions.

Loans and Advances to Customers
Total net loans and advances grew from the end of the previous year by 4.8% to CZK 473.1 billion. The gross amount of client loans and advances was higher by 4.8%, at CZK 491.6 billion.[1] Standalone KB had an 89% share in the loan portfolio. Modrá pyramida had a share of 9% in the consolidated portfolio.

Of the total amount of loans, credits to individual clients comprised 44%, increasing by 4.0% from the year earlier. Mortgages constituted the main driver for growth in lending to individuals, as demand was underpinned by low client interest rates. The portfolio of mortgages to individuals rose by a strong 10.2% year on year to CZK 148.6 billion, but this was partly offset by lower demand for building savings loans as the volume of Modrá pyramida's loan portfolio dropped by 11.6% to CZK 43.6 billion. The demand for consumer lending began cautiously to improve at mid-year. In a year-on-year comparison, the volume of consumer loans (from KB and ESSOX) grew by 3.8% to CZK 28.5 billion.

The total volume of loans provided by KB Group to businesses expanded by 5.4% to CZK 273.0 billion. The overall volume of credit granted by KB to (medium-sized and large) corporate clients in the Czech Republic and Slovakia and including factor finance outstanding at Factoring KB rose by 5.7% to CZK 218.4 billion[+]. The demand of corporations for financing of exports and acquisitions was particularly strong. Lending to small businesses diminished by 2.0% to CZK 28.3 billion[+]. Total credit and leasing amounts outstanding at SGEF were up 6.7% year over year, at CZK 21.6 billion.

The loan portfolio's quality has improved compared to 2012. The share of standard loans within that total climbed to 92.4% (CZK 454.0 billion) while the proportion of watch loans was 1.9% (CZK 9.6 billion). Loans under special review (substandard, doubtful and loss) comprised 5.6% of the portfolio, with volume of CZK 27.5 billion. The volume of provisions created for loans reached CZK 18.5 billion, which was 4.4% more than at the end of 2012.

Securities Available for Sale
The portfolio of securities available for sale diminished by 0.4% to CZK 141.2 billion. From the CZK 141.2 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 98.2 billion and foreign government bonds CZK 17.4 billion.

See box on page 42
Available-for-sale bonds

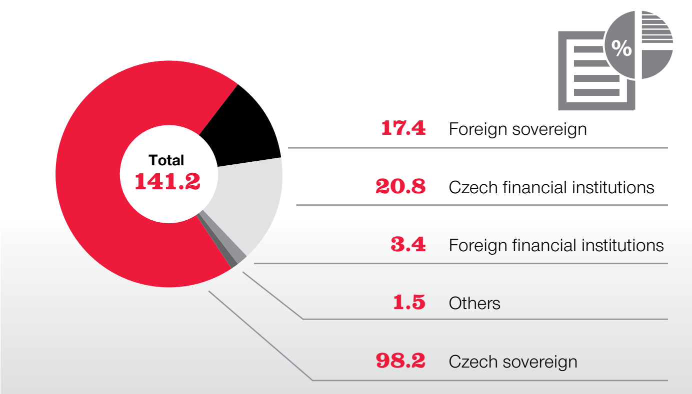
See box on page 43
Foreign sovereign bonds

Investments Held to Maturity
The volume of securities in the held-to-maturity portfolio increased by 26.4% to CZK 4.2 billion. This portfolio consists entirely of bonds.

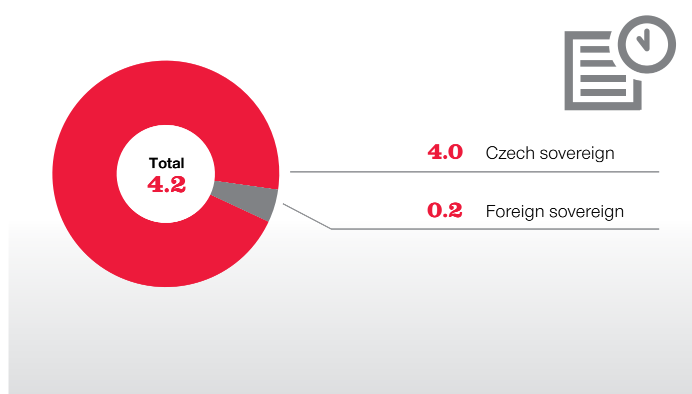
See box on page 42
Held-to-maturity bonds

1) There was a slight contribution to the CZK growth rates of loans and deposits (mainly in corporate segments) from revaluation of foreign currency denominated instruments, reflecting the weaker CZK following CNB intervention in November.

Available-for-sale bonds (in CZK billion, consolidated)



Held-to-maturity bonds (in CZK billion, consolidated)



Tangible and Intangible Fixed Assets

The net book value of tangible fixed assets slipped by 1.5% to CZK 7.9 billion, while that of intangible fixed assets was lower by 3.6%, at CZK 3.8 billion.

Goodwill

Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities

Total liabilities were 11.8% greater in comparison to the end of 2012, reaching CZK 767.4 billion.

Amount Due to Banks

In 2013, amounts due to banks increased by 27.7 % to CZK 49,7 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

Amount Due to Customers

The total volume of deposits on KB Group's balance sheet rose by 9.1% year on year to CZK 624.6 billion[1]. Deposits from businesses climbed by 13.3% to CZK 349.1 billion. This category was influenced by several large short-term placements that clients deposited close to the end of the year. Deposits at KB from individual clients rose by 3.2% to CZK 157.4 billion.

The deposit book at Modrá pyramida added 0.7% year on year to reach CZK 72.3 billion. Client assets in the transformed fund managed by KB Penzijní společnost grew by 12.1% to CZK 35.8 billion. These client assets continued to be consolidated into the KB Group accounts. Total technical reserves in life insurance at Komerční pojišťovna expanded by 22.0% to CZK 34.8 billion.

Securities Issued

The outstanding volume of issued securities rose by 14.2% to CZK 22.4 billion. The majority of this item is comprised of mortgage bonds issued during 2005–2007.

Provisions

Provisions increased by 12.6% to CZK 1.1 billion. This line item does not include provisions for loan losses, which are reflected at the item "Loans and advances to customers". It includes provisions for contractual commitments and provisions for other credit commitments, comprising provisions for off-balance sheet commitments and provisions for undrawn loan facilities.

Shareholders' Equity

KB Group's shareholders' equity dropped year over year by 4.0% to CZK 96.5 billion. The generation of net profit added to the equity. On the other hand, KB paid out a dividend of CZK 8.7 billion in May, and the book value of the available-for-sale portfolio and cash flow hedges (both of which represent primarily reinvestment of client deposits) decreased due to slightly higher interest rates in comparison with the end of 2012. KB's share capital remained stable at CZK 19.0 billion.

The cash flow hedging, which reflects the change in the fair value of hedging derivatives, decreased by 42.7% from CZK 14.3 billion at the end of 2012 to CZK 8.2 billion at the end of 2013, while the available-for-sale portfolio revaluation reserve dropped by 23.5% in the same period from CZK 8.1 billion to CZK 6.2 billion.

Revaluation of hedging derivatives and the portfolio of securities available for sale provides only a limited picture for determining the balance sheet value, as, in accordance with accounting standards,

Trademarks, Licences and Sub-licences

In 2013 Komerční banka also used trademarks for labelling its products and services both in the Czech Republic and the Slovak Republic. Those trademarks used were registered with appropriate intellectual property authorities in the Czech Republic and Slovak Republic.

With the Czech Intellectual Property Office Komerční banka registered a total of 168 trademarks.In cases of a further 11 trademarks, a registration process has been initiated, but, the process has not yet been completed. In the Slovak Republic, 7 trademarks are registered with the Industrial Property Office of the Slovak Republic.

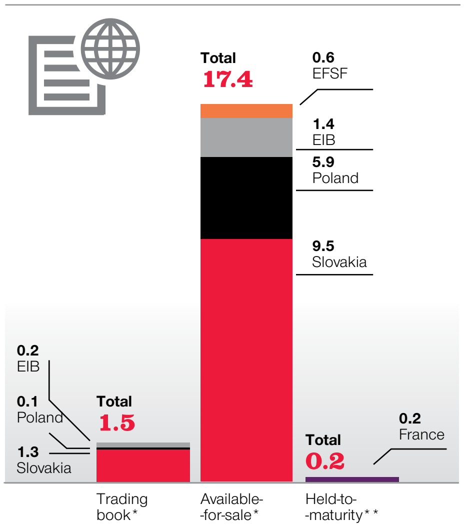
Within the KB Group, Komerční banka provides to certain of its subsidiaries licences for its trademarks. In some cases, Komerční banka is also a licensee and sub-licensee, typically from providers of IT services.

1) Excluding repo operations with clients. Total amounts due to clients rose by 12.1% to CZK 649.2 billion.

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

For the purposes of capital adequacy under Basel II standards, revaluation of the the cash flow hedging and the available-for-sale portfolio is not included in calculating the regulatory capital. Consolidated regulatory capital for the capital adequacy calculation stood at CZK 59.1 billion as at the end of 2013. KB Group's regulatory capital was composed solely of Core Tier 1 equity. The capital adequacy, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 15.8%. Regulatory capital was higher in 2013 thanks to the undistributed profit allocated to the Group's capital in April 2013. KB Group's risk-weighted assets (RWA) increased year over year due to growth of the credit portfolio, but average risk weight declined thanks to an improvement in the risk parameters for an important part of the clients, a larger share of exposures bearing relatively low risk weights (such as mortgages), divestment of relatively more risky sovereign exposures from southern Europe, and continuous refinement of risk management models and parameters.

Foreign sovereign bonds – holding by country (in CZK billion, consolidated)



* Fair value
** Amortised cost

Expenses on Research and Development

In 2013, Komerční banka had outlays through operating expenses of CZK 199 million for research and development. Most of these outlays were related to development studies and implementation of individual projects, particularly in the area of information technologies and systems, including development of internet applications.

Financial and Non-financial Investments

Financial investments made by the Bank (balance as at the end of the year)

CZK million, IFRS	31 December 2013	31 December 2012
Bonds and treasury bills	114,145	127,707
Shares	2	2
Emissions allowances	381	813
Equity investments in subsidiary and associated undertakings	26,220	24,928
Total	**140,747**	**153,450**

Main investments – excluding financial investments* (balance as at the end of the year)

CZK million, IFRS	31 December 2013	31 December 2012
Tangible fixed assets	5,235	6,581
Intangible fixed assets	3,363	3,496
Total tangible and intangible fixed assets	**8,598**	**10,077**
Tangible fixed assets held under financial leases	0	0

Note: * Net book value of investments. See also Notes to the Unconsolidated Financial Statements according to IFRS, notes no. 25 – Intangible fixed assets and 26 – Tangible fixed assets.

Main ongoing investments – excluding financial investments

In 2013, the Bank made non-financial investments in a total exceeding CZK 1.4 billion. Most of this amount was invested in the area of information technologies (over CZK 0.9 billion) for acquisition and development of software and hardware. A significant part of the total amount was invested into development and reconstruction of real estate owned by the Bank. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2014 should not exceed CZK 1.7 billion. The Bank will continue to invest mainly into maintenance and development of the distribution network, into quality of provided services and operational efficiency, including investments into information technologies. The Bank's investment plans may be adjusted in accordance with developments in the economic environment.

Komerční banka Group

Komerční banka, a.s.

KB FINANCIAL GROUP

- **Modrá pyramida stavební spořitelna, a.s.** 100%
- **KB Penzijní společnost, a.s.** 100%
- **Factoring KB, a.s.** 100%
- **SG Equipment Finance Czech Republic s.r.o.** 50.1%
- **ESSOX s.r.o.** 50.93%
- **Komerční pojišťovna, a.s.** 49%
- **KB Real Estate, s.r.o.** 100%
- **NP 33, s.r.o.** 100%
- **VN 42, s.r.o.** 100%
- **Protos, uzavřený investiční fond, a.s.** 100%
- **Bastion European Investments S.A.** 99.98%

OTHER PARTICIPATIONS

- **CBCB – Czech Banking Credit Bureau, a.s.** 20%

COMPANIES OF SG GROUP IN THE CZECH REPUBLIC AND SLOVAKIA

- **ESSOX SK s.r.o.***
- **ALD Automotive s.r.o.**
- **SOGEPROM Česká republika s.r.o.**
- **PEMA PRAHA spol. s r.o.**

COMPANIES CO-OPERATING WITH THE KB AND SG GROUPS

- **Investiční kapitálová společnost KB, a.s.**

Société Générale

* ESSOX SK s.r.o. is in liquiditation from 3 May 2013

As at 31 December 2013, Komerční banka had 10 subsidiaries and 1 associate, Komerční pojišťovna, a.s., where it held a 49% share. KB considers these companies as part of the Group.

In addition to its ownership interests in the Group, KB holds a strategic interest of 20% in Czech Banking Credit Bureau, a.s. .

With the aim to maximise the use of all potential synergy effects, KB Group deepened in 2013 mutual business co-operation within the Group and also with other members of the Société Générale Group operating on the Czech market. Special emphasis is given to improving co-ordination of product development in business areas and in distribution. The result should be optimal and complex satisfaction of clients' financial needs.

Information on values and changes in equity investments is provided in the Unconsolidated Financial Statements according to IFRS, note no. 24 'Equity investments in subsidiary and associated undertakings'.

See page 213
Equity investments in subsidiaries and associates

Summary of the results of Major Companies in Komerční banka Group

CZK million	Group holding (%)	Total assets		Shareholders' equity		Net profit		Consolidation method
		2013	2012	2013	2012	2013	2012	
Domestic participations								
Modrá pyramida stavební spořitelna, a.s.	100	81,869	82,021	7,818	8,170	1,066	1,123	Full
Komerční pojišťovna, a.s.	49	41,252	33,564	2,213	1,982	424	247	Equity
KB Penzijní společnost, a.s.	100	1,094	-	833	-	51	-	Full
SG Equipment Finance Czech Republic s.r.o.	50.1	25,971	24,330	2,315	2,180	252	222	Full
ESSOX s.r.o.	50.93	10,042	9,872	3,402	3,219	610	473	Full
Factoring KB, a.s.	100	5,822	4,302	1,628	1,589	63	17	Full
Protos, uzavřený investiční fond, a.s.	100	13,814	14,041	13,758	13,988	251	296	Full
VN 42, s.r.o.	100	2,004	-	1,993	-	1	-	Full
KB Real Estate, s.r.o.	100	1,071	1,179	494	495	(1)	(16)	Full
NP 33, s.r.o.	100	848	-	848	-	1	-	Full
Foreign participations								
Bastion European Investments, S.A.	99.98	6,744	6,329	3,365	3,162	85	92	Full

Basic information on Komerční banka Group Major Companies

Modrá pyramida stavební spořitelna, a.s.

Shareholder structure:
Komerční banka 100%
Core business:
building savings deposits and loans
Market position:
second largest building savings bank as measured by loan volume (16% market share)[1]
Main products:
state-subsidised savings accounts, bridging loans, building savings loans

Financial summary (CAS, CZK thousand)

	31 December 2013	31 December 2012
Total assets	82,155,312	82,146,845
Shareholders' equity	7,817,626	8,170,457
Loans to clients (gross)	43,685,807	49,359,889
Volume of deposits	72,503,840	71,836,203
Net banking income	1,882,737	1,985,322
Net profit	1,065,526	1,122,737
Capital adequacy (%)	21.05	20.79
Average number of FTEs	343	356
Number of point of sale	208	218

Volume of loans (gross, CZK billion)

-11.5%

Contact
Modrá pyramida stavební spořitelna, a.s.
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120 21 Prague 2
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Fax: +420 222 824 113
E-mail: info@modrapyramida.cz
ID: 60192852
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www.modrapyramida.cz

Modrá pyramida stavební spořitelna

KB Penzijní společnost, a.s.

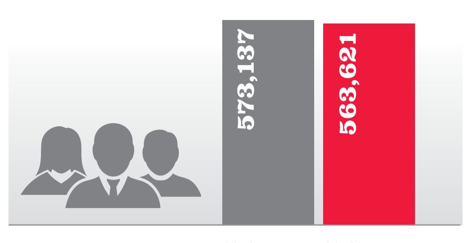
The former Penzijní fond Komerční banky, a.s. was transformed into KB Penzijní společnost, a.s. effective from 1 January 2013 as a result of pension reform in the Czech Republic.
Shareholder structure: Komerční banka 100%
Core business: to collect participant and employer contributions plus state contributions and then to manage those funds pursuant to the Supplemental Pension Savings Act (3rd pillar), to collect and manage funds of savings participants in pension funds (2nd pillar), and to organise supplementary pension insurance by means of a transformed fund
Market position: by number of participants 17% market share on the pension savings market (2nd pillar), 22% market share on the supplementary pension savings market (3rd pillar),11% market share on the pension insurance market (transformed fund)[2]
Main products: state-subsidised pension insurance, pension savings, supplementary pension savings

Financial summary (CAS, CZK thousand)

	KB Penzijní společnost 31 December 2013	Penzijní fond KB 31 December 2012
Assets under management[3]	38,666,688	31,902,495
of which in Transformed fund	38,427,121	31,902,495
Shareholders' equity	838,659	2,442,237
Net operating income	204,259	757,031
Net profit	54,251	575,382
Average number of FTEs	50	55

Number of clients (CZK thousand)

-1.7%



Contact
KB Penzijní společnost, a.s.
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Phone: +420 955 525 999
Fax: +420 955 525 929
E-mail: kbps@kbps.cz
ID: 61860018 Internet: www.kbps.cz

KB Penzijní společnost

SG Equipment Finance Czech Republic s.r.o.

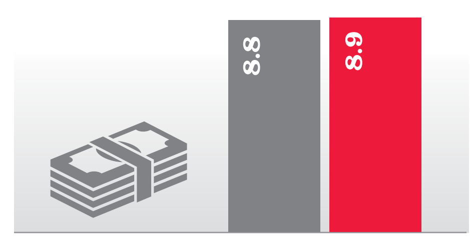
Ownership structure: Komerční banka 50.1%; SG Equipment Finance International 49.9%
Core business: leasing
Market position: 20% share on the leasing market in the Czech Republic measured as volume results based on financed amount (without consumer credit companies)[4]
Main products: financing of equipment, agricultural and forestry technology, vehicles for transportation of goods and passengers, high-tech, real estate and special projects

Financial summary (CAS, CZK thousand)

	31 December 2013	31 December 2012
Total assets	26,574,609	25,354,269
Shareholders' equity	1,594,023	1,775,317
Volume of new financing	8,858,686	8,803,215
Amounts due from clients (gross)	842,151	923,718
Net operating income	63,123	801,461
Net profit	(64,240)	407,161
Average number of FTEs	115	118

Volume of new financing (CZK billion)

+0.6%



Contact
SG Equipment Finance Czech Republic s.r.o.
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155 00 Prague 5
Phone: +420 955 526 700
Fax: +420 955 526 790
E-mail: info@sgef.cz
ID: 61061344 Internet: www.sgef.cz

SOCIETE GENERALE Equipment Finance

1) Source: Internal data CNB (ARAD), www.cnb.cz
2) Source: The Association of Pension Funds of the Czech Republic, www.apfcr.cz
3) Total volume on client accounts
4) Source Czech Leasing and Finance Association, www.clfa.cz

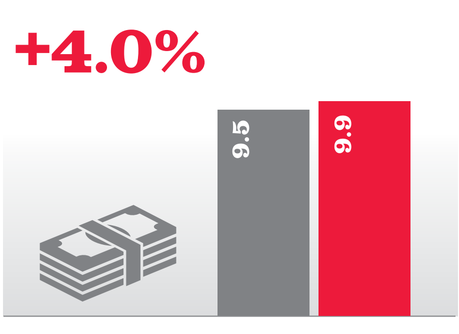
ESSOX s.r.o.

Ownership structure: Komerční banka 50.93%; SG Consumer Finance 49.07%
Core business: providing consumer loans and financial leasing, activities of payment institutions within the scope of payment services under a licence from CNB
Market position: 15% market share in consumer lending provided by companies associated in the Czech Leasing and Finance Association[1]
Main products: financing of consumer goods and automobiles, general-purpose loans, revolving credit (credit card), automotive financing

Financial summary (CAS, CZK thousand)

	31 December 2013	31 December 2012
Total assets	9,947,402	9,816,929
Shareholders' equity	3,425,237	3,206,052
Amounts due from clients (gross)	9,919,232	9,534,553
Net operating income	1,303,529	1,381,501
Net profit	648,173	451,566
Average number of FTEs	347	349

Amounts due from clients (gross, CZK billion)



Contact:
ESSOX s.r.o.
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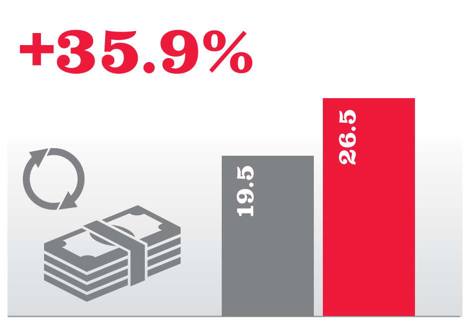
Factoring KB, a.s.

Shareholder structure: Komerční banka 100%
Core business: factoring
Market position: third place on the factoring market, managing 18% of the factoring portfolio on the Czech market[1]
Main products: domestic factoring, export factoring, import factoring, modified factoring, receivables management

Financial summary (CAS, CZK thousand)

	31 December 2013	31 December 2012
Total assets	9,456,287	7,747,704
Shareholders' equity	1,628,845	1,590,378
Factoring turnover	26,540,190	19,531,141
Amounts due from clients (gross)	8,188,402	6,464,669
Net operating income	133,610	110,619
Net profit	63,096	16,714
Average number of FTEs	42	40

Factoring turnover (CZK billion)



Contact:
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E-mail: info@factoringkb.cz
ID: 25148290 Internet: www.factoringkb.cz

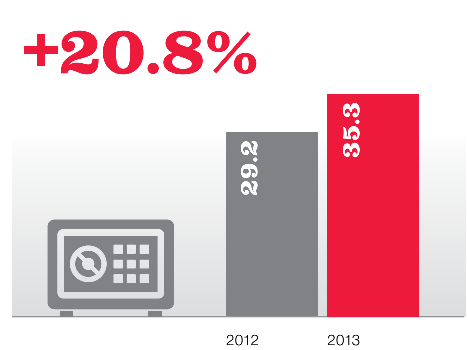
Komerční pojišťovna a.s.

Shareholder structure: SOGECAP 51%; Komerční banka 49%
Core business: insurance
Market position: 12% share on the life insurance market (measured by premiums written)[2]
Main products: saving life insurance, risk life insurance, capital life insurance, investment life insurance, accident insurance, payment card insurance, travel insurance, travel insurance for payment cards, risk life insurance for credit cards, risk life insurance for consumer loans

Financial summary (CAS, CZK thousand)

	31 December 2013	31 December 2012
Total assets	37,617,835	32,047,712
Shareholders' equity	2,564,419	2,389,057
Technical reserves (gross)	35,252,901	29,191,745
Gross premium written	8,350,969	6,148,770
Net profit	418,372	175,418
Average number of FTEs	150	149

Volume of technical reserves in life insurance (CZK billion)



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1) Source Czech Leasing and Finance Association, www.clfa.cz

2) Source: Czech Insurance Association, www.cap.cz

Corporate Social Responsibility

Komerční banka's relationships with all other interested entities are founded upon mutual partnership, and the basis for long-term partnership is the trust which Komerční banka earns and maintains through dealing responsibly with all its partners.

Corporate social responsibility constitutes the very basis of Komerční banka's fundamental values, and its business strategy regards this responsibility as a condition for long-term success. At Komerční banka, value is created through corporate social responsibility in the economic, environmental and social areas.

Transparent dealings with clients, suppliers and investors, responsible risk management, and the institution of an independent ombudsman are examples of how principles of social responsibility are applied within the economic area. Purchasing Green Energy, supporting commercial projects directed to renewable energy production, creating conditions for waste separation within the Bank's buildings – these are some of the specific activities the Bank is developing in the environmental area. In the social area, KB's responsibility begins inside the company and is directed to its employees. Komerční banka also participates in society as a whole by supporting culture, education, health care and those who are disadvantaged socially or due to health reasons.

31
CASES RESOLVED

by the Ombudsman of Komerční banka

Corporate Governance and Organisation, Internal Control

A fundamental principle of Komerční banka's business is to have a clear and transparent governance structure, fortified with strong and independent control functions. Komerční banka's governance structure is defined in the company's Articles of Association. With its six members and presiding chairperson, the Board of Directors is responsible for directing the business of the company. Control functions at the highest level are conducted by the Supervisory Board and the Audit Committee, which are bolstered within the Bank by Internal Audit and a comprehensive, formalised system of so-called first-level controls.

Responsible risk management is provided by an independent function at Komerční banka (more information can be found in the Risk Management chapter).

See page 54
Risk Management

Ethics

Komerční banka realises that only by taking an ethical and transparent approach to how it does business and provides banking services can it hope to maintain and improve its position on the banking market over the long term.

Integral to this approach are the requirements of professional conduct and behaviour for all KB Group employees. The Group has for a number of years been enforcing corporate rules of conduct and principles of ethical behaviour in relation to its employees. A basic overview of KB's ethical rules is publicly available on the Bank's website.

http://www.kb.cz/en/about-the-bank/about-us/ethics-in-komercni-banka.shtml

Komerční banka's detailed Code of Ethics elaborates upon rules of conduct compulsory for all its employees. While springing from the Code of Conduct of the SG Group, it has at the same time been a source of inspiration for other companies within the Group.

Ombudsman

In 2004, Komerční banka became the first financial institution to establish a position of independent ombudsman. KB's clients thus can address their complaints to the ombudsman in case they are not satisfied with their resolution by a branch or the Complaint Management Department. JUDr. Joseph Franciscus Vedlich, LLM has been in this position since 2009. As its jurisdiction was expanded in 2012, the institution of the independent ombudsman can be utilised by clients across a total of seven companies within KB Group.

In 2013, the ombudsman was contacted by 157 clients of Komerční banka Group. Mr Vedlich resolved 31 cases that fell within his competence. The remaining part of cases were resolved directly by Komerční banka.

Measures against Corruption

Komerční banka has implemented far-reaching rules under the KB Anti-Corruption Policy. The objective of those principles adopted is primarily to minimise the risk of corruption, but also to better and more effectively uncover corrupt dealings, and last but not least to minimise the risk of damaging the Bank's good name by collaborating with entities which could be connected to corruption. Therefore, the rules under the KB Anti-Corruption Policy affect not only KB and its employees but also its business partners and representatives.

Anti-money Laundering

In its approach, Komerční banka seeks maximally to obstruct its being misused for purposes of money laundering or financing of terrorism. For this purpose, there are applied rules, methods and controls in accordance with legal regulations and international standards, as are the rules of the Société Générale financial group. These rules and methods are continuously validated and updated, and the knowledge of the employees is both regularly developed in training as well as tested.

When entering into business relationships with clients, Komerční banka rigorously applies the "know your client" method. It declines to work with any person or entity refusing to co-operate in verifying identification or conducting in-depth control. Nor does it work with untrustworthy persons or those whose transactions do not meet standards of transparency or bear high reputation risk. The Bank will not overtake any businesses reporting risk of money laundering or financing terrorism.

Supplier Relations

In its relationships with suppliers, the Bank maintains proven procedures giving consideration to the environment as well as to social and human rights. The upholding of these procedures and principles is monitored,

SOS Children's Villages Association

SOS Children's Villages Association is a non-profit organisation providing foster family care for children who for quite various reasons cannot grow up in their own families but cannot be adopted. The idea for SOS Children's Villages originated in Austria in 1949, when it was focused mainly on war orphans and children abandoned as a result of the war. The first SOS Children's Village here was built in Doubí near Karlovy Vary. It began its activity in 1970.

The houses in this children's village have been used for over 40 years, and substantial investments are necessary for them to continue to function. KB Jistota Foundation donated CZK 300,000 toward reconstruction of a house for the SOS Sluníčko II project.

The SOS Sluníčko facility was opened in Doubí, part of Karlovy Vary, in July 2013. It is designed for children requiring immediate assistance, and it is prepared to accept them at any time. The crisis centre can accommodate eight children, who are looked after by four "aunties". They help the children overcome the hardships of separation from their families.

"Our task is not only to help children overcome separation from their parents, but also to minimise its duration. Social workers therefore work with the children's families, and their work enables the children to return to their parents as soon as possible. Our field workers help those who show interest with their financial and family situations. They frequently act as mediators between the families, the authorities and financial institutions," explains Petr Lužný, SOS Children's Villages National Director.

1970

establishment of the first SOS Children's Village in the Czech Republic

and the Bank co-operates with its suppliers to improve upon them. In managing its supplier relations, the Bank uses a so-called Ethical Sourcing Programme in accordance with the strategy of Société Générale. Many of the Bank's key suppliers are also subject to certification under the EcoVadis system in the area of corporate social responsibility. This provides the Bank additional information as to the behaviour of its suppliers in relation to the environment and society.

Philanthropy and Social Engagement

Volunteering

Komerční banka employees are engaged in a number of projects as volunteers each year. During 2013, they helped in repairing damage caused by flooding at the Prague Zoo. They also contributed CZK 121,300, the largest part of which was donated to the Červený Mlýn Všestudy social services house, which had been badly damaged in the floods.

Blood Donations

Donating blood can already be considered a tradition at KB, as the first collections on the Bank's premises were organised in 2008. A total of 70 litres of blood were donated by 155 colleagues during 2013. To date, KB's employees have donated in total 456 litres of blood.

Auction of Employees' Photographs

Another annual project in which the employees participate is an auction of photographs by employees, the proceeds from which are dedicated to charitable purposes through the Jistota Foundation. In 2013, employees contributed CZK 39,100 in this manner. Moreover, they could vote to select the recipient of the contributions. The Children's Centre in Veská received this amount for construction of a special bathing facility for children with very serious disabilities.

Cycling to Work

The Bike to Work event is popular at Komerční banka, as demonstrated by its 29 teams joining the green spring kilometres competition announced by the Auto*Mat movement. A total of 116 employees pedalled altogether 16,742 km in May. By using this environmentally friendly mode of transport, they decreased carbon dioxide production by 1.84 tonnes. KB Group had the second largest competing group in the whole Czech Republic.

Financial Inclusion

Financial Literacy

Each year, Komerční banka employees train children and adolescents in the area of financial literacy, both at secondary schools and children's homes. In 2013, the Bank joined the Accenture Academy programme, announced by Accenture within the worldwide Skills to Succeed project. In the Czech Republic, the programme focuses on

Červený Mlýn Všestudy

The Červený Mlýn Všestudy Home for the Elderly is a public-benefit organisation of the Central Bohemian Region. It provides care and assistance to people whose age and medical state necessitate the help of others. The home has 34 beds available, and 16 of these are for clients who require higher care.

KB Jistota Foundation supported the Červený Mlýn Všestudy Home for the Elderly with a CZK 200,000 donation which will be invested as appropriate to help improve care for senior citizens.

"We very much appreciate every gift that helps us improve the environment for our clients, and we welcome all financial aid. We used the money from KB Jistota Foundation for such improvements as the purchase of a bathing bed, garden furniture and equipment for the rooms of the home's clients, as well as to repair damage caused by the 2013 flood," explains Petr Kubíček, Director of the organisation.

34 beds **+ 16** beds for clients requiring higher care

Golfing for the Foundation

KB Jistota Foundation's second annual charity golf tournament was held in May 2013 at the Saint John Golf Park at Slapy. This informal gathering with KB service suppliers was also an opportunity to contribute to charity, and not only by paying the starting fee.

The amount collected from starting fees was increased by a further CZK 25,000 from an auction of three photographs by Antonín Kratochvíl. The total CZK 235,319 raised by the golf tournament was divided by the Foundation between St. Zdislava Hospice Care, Emergency Medical Services Prague and a wheelchair rugby team, whose participation at the European Championship the contribution will help to finance.

Support of hospice and palliative care is among those activities which the Foundation especially targets.

residents who are leaving children's homes and beginning their working lives. Through the efforts of Komerční banka employees who trained children at homes and directly at the branches, approximately 50 children from seven children's homes acquired basic knowledge about financial literacy in 2013.

Debt Advisory Centre

Komerční banka has been a partner of the Debt Advisory Centre since its establishment in 2008. The Advisory Centre is a public benefit organisation focused on providing no-cost and independent debt counselling to individuals. The Advisory Centre's main aim is to support its clients in their efforts to resolve their financial problems or insolvency. A component of the Advisory Centre's activities also includes preventing overindebtedness.

In 2013, the Bank supported the Advisory Centre with a donation of CZK 1,709,741. These funds were used for providing non-financial advisory and ensuring the Advisory Centre's operation.

Sponsoring

The main areas of Komerční banka's sponsorships are projects relating to culture, amateur sport, society and education. Partnership is the common theme in all of KB Group's sponsorship activities.

KB's largest sponsorship project is its all-around support for the artistic activities of the National Theatre. This partnership was again renewed for 2013, bringing to 12 years the time during which the Bank has been connected with this symbol of Czech identity and cultural history. In the cultural area, Komerční banka supported the excellent musical project of Vojtěch Dyk, who, together with B-Side Band, proved in summer and Christmas tours that quality jazz can reach a wide audience. As has become a tradition, support was continued also for the French Film Festival, which was again among the most important film festivals in the Czech Republic.

Sponsoring of amateur sport focuses especially upon projects that bring joy and entertainment to the largest number of participants. Therefore, KB has decided to continue its long-term support of floorball as the main partner of the Czech Floorball Union. As measured by the size of its membership base, this sport is already the second most popular in the Czech Republic. A Czech sport phenomenon is firefighting sport. This physically demanding sport appeals to spectators and corresponds perfectly to the "Partnership Matters" concept. That is why in 2012 the Bank began its support of the Czech Championship in firefighting sport.

Support for the Prague Zoo continues, as well. Komerční banka is assisting this unique institution in its efforts to save endangered animal species and to develop its modern facility, which is among the Czech Republic's main tourist attractions.

Komerční banka Jistota Foundation

The Jistota Foundation has been supporting projects in the areas of social and health care services for 20 years while focusing on senior citizens and children. In 2013, it supported 73 projects, mainly through financial support from the Bank but also thanks to employee initiatives. Not only do the employees make money donations, they also constitute the Foundation's management and supervisory boards. During 2013, the Foundation provided donations totalling CZK 7,331,298.

Support of baby boxes is a traditional project of the Jistota Foundation, with 20 boxes having been established owing to its support. Throughout their existence they have saved

37 new lives. The Foundation continues to support baby boxes in the form of donations for their regular maintenance. During 2013, that contribution totalled CZK 128,000.

The Foundation also helps people nearing life's end and long has been providing support to hospices all over the Czech Republic. The main project focused on hospices is the bed renewal programme in co-operation with the company Linet, through which the Foundation contributed CZK 1,175,000 to hospices.

New in 2013 was a project involving so-called public defibrillators. The Jistota Foundation supported the acquisition and installation of these devices in Brno with CZK 408,000. As from June 2013, the defibrillators have been available to save human lives at 13 locations in Brno.

Last year, under the slogan “Matters of the Heart, or We'll Help You to Help”, the Foundation for the first time appealed to all employees of KB Group with the possibility to acquire funds for expanding and improving a service in which employees volunteer during their free time. This activity met with a large response. Employees registered a total of 40 projects, from which the Foundation selected 8 winning projects which it supported with CZK 580,831.

The Jistota Foundation also supports victims of natural disasters. Last year, the Foundation helped Křešice and Hřensko, the municipalities most affected by flooding. The Foundation added CZK 78,700 to the aforementioned donations from the Bank's employees for repairing the flood damage, and a total of CZK 200,000 was designated for the Červený Mlýn Všestudy social services house, which had been seriously affected by the floods.

Environment

KB regularly monitors the impact of its activities on the environment and identifies areas needing attention with the objective of diminishing any such negative influence. Energy consumption, waste production and number of kilometres flown are some indicators the Bank monitors with the aim of achieving a neutral carbon footprint. On the basis of these values, KB then calculates the volume of CO_2 emissions produced and the influence on the environment. Employees may use an internal application to calculate the carbon footprint that they themselves create and determine how they can improve this result.

Komerční banka has joined the Green Company project, which aims to protect the environment. The project includes, for example, collection of electronic waste (including bulk company electronic waste) from the Group operations as well from the employees' private activities, its transportation and environmentally friendly liquidation. Employees can also separate recyclable and hazardous wastes. In the Bank's individual buildings, there are waste disposal information cards with detailed information about the methods for sorting waste at the given branch.

To save energy, KB prefers technological devices fulfilling environmentally friendly conditions (A-class, eco, etc.). Wherever possible, it uses LED light bulbs and motion detectors to control lighting. Since 2011, Komerční banka has been purchasing all its electricity in the form of Green Energy. The headquarters building in Prague - Stodůlky, which was commissioned in 2012, was designed with consideration not only for work conditions but also for its surroundings and the environment. It is the first building in Prague to have achieved BREEAM certification, reaching the level of very good at 59.5%.

Stakeholder Engagement

KB representatives participate in activities in the number of groups and associations promoting development of the respective markets (e.g. Czech Banking Association, Slovak Banking Association, Capital Market Association, among others), the professionalism of its members (e.g. CFA Society Czech Republic, ACCA), and business relations between countries (several international chambers of commerce) , as well as to facilitate the acquisition of knowledge and experience by students (e.g. AIESEC Czech Republic) and the popularization of economics (e.g. Czech Economic Society).

KB Jistota Foundation supported several events by Atletika vozíčkářů (Athletics of paraplegics)

Organising employee blood donations is now a Komerční banka tradition.

The firm opened during 2013 the most modern distribution warehouse in the Czech Republic, investing more than CZK 200 million. This is its largest one-time investment ever. "Customer requests are handled in a way that is unique not only in Europe but throughout the world," explains Vít Kutnar, General Director of DEK, a.s. "The customer enters with his or her car to one of the numbered service points in the roofed terminal. As soon as he or she pays for the requested goods, an employee immediately brings them right to his or her vehicle. Even during peak hours, an entire transaction takes on average less than 12 minutes."

In view of the positive responses from customers, DEKTRADE plans to construct another distribution centre at the other end of Prague based on the same concept. This construction will be completely financed through Komerční banka.

DEKTRADE®

With KB's support, DEK will now build its second innovatively designed distribution centre

DEK, a.s., is the largest supplier of construction materials and services in the Czech Republic. It has 52 branches here and another 14 in Slovakia. The company's yearly turnover in the Czech Republic alone amounts to some CZK 7 billion. DEK was founded in 1993 and has seen constant and significant growth since that time. Its main activity consists in selling construction materials through the network of its DEKTRADE subsidiary, which is strongly supported by technical consulting and design activities. This firm therefore employs more than 100 technicians. Not only is DEK, a.s. the market leader based on turnover and profit, but it also takes pride in being innovative and in the active and friendly approach to its customers.

DEKTRADE sells approximately one quarter of its materials under its own brand. Before materials are sold, however, they are tested by a large team of technicians in the firm's testing centre. It also co operates with other testing laboratories.

CZK 7 billion
company turnover in the Czech Republic

66
branches in the Czech Republic and Slovakia

Risk Management

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies.

Komerční banka's corporate governance standards assure that the risk management function is independent of commercial and operational functions.

KB Group Risk Management Strategy

Through its risk management strategy, KB Group continues to pursue a prudent and balanced approach to all types of risks assumed, i.e. credit, market and liquidity risks, as well as regulatory, legal and operational risks. At the same time, it aims to support development of the Group's business activities, including sustainable growth of its lending activities while reinforcing the Group's market positions.

The objective is to ensure profitable business activities across the business cycle and, at the same time, to preserve a sound balance sheet with strong capital and liquidity ratios. To this end, advanced risk management tools, including statistical ones, are continuously enhanced and analytical and risk management skills are maintained at high levels for both risk management and business staff.

In support of KB's strategic objectives, risk departments contribute to initiatives and projects that include optimising credit processes, increasing the effectiveness of risk management tools, and developing new financial products.

The level of the Group's appetite for risk fully reflects the risk management strategy. It is based on actively managing credit-granting criteria to reflect the market and macroeconomic environments in combination with strong and focused monitoring of both individual counterparties and particular portfolios.

A dedicated credit risk audit team is responsible for independently assessing the quality of credit risk management. The team is functionally integrated into the Bank's Internal Audit in line with Société Générale Group principles for internal control processes.

Credit Risk Management

Credit Risk Assessment and Monitoring

Client credit risk is managed on the basis of comprehensively assessing clients' risk profiles from quantitative (financial) and qualitative points of view using advanced scoring and rating models, dedicated IT tools, and individual approval by competent risk or business managers. The system of approval authorities is set up to reflect the risk profiles of the counterparties and the levels of competencies required for their assessment.

No credit exposure can be originated until internal credit limits for the client and transaction have been first duly established. Credit limits management and monitoring stand at the core of the Group's credit risk management, and these also are used in managing concentration risk.

All KB scoring, rating, LGD and EAD models are back-tested twice annually, their quality is carefully monitored, and any deterioration triggers corrective measures.

Credit Fraud Prevention

The Bank has established efficient processes for credit fraud prevention. An automated system is used to detect individual credit frauds in retail segments and for co-ordinating reactions to credit fraud attacks in all client segments. The system is fully integrated into the overall credit risk assessment process and is interconnected with the Bank's main applications.

Classification and Provisioning

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

Depending on the business segment, materiality, risk profile and specificity of the receivables, provisions are calculated either (i) according to statistical models developed in conformity with Basel II requirements and in compliance with IFRS rules and which are regularly updated based on the latest loss observations and new risk drivers reflecting the phase of the business cycle; or (ii) taking into account the present value of expected future cash flows while considering all available information, including the estimated value of collateral and expected duration of the recovery process.

The Bank also has implemented regular back-testing of provisioning models to carefully monitor their quality and identify any potential deterioration in a timely manner.

Real Estate Valuation

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

The Bank continuously monitors the residential real estate market and regularly revalues residential real estates in order to react adequately to developments in market prices. Commercial real estates are revalued individually in accordance with Basel II rules as an integral part of the regular monitoring activity.

Recovery Activities

In 2013, the Bank's recovery activities were influenced by the still-weak macroeconomic development and worsened financial situations of some clients. This puts the recovery performance under pressure as recovery periods were extended due to the increasing use of judicial proceedings.

Given the size of the portfolio in recovery the Bank continued in optimising its recovery capacity and performance by using external capacities as well as regular auction sales of unsecured retail receivables portfolios to selected investors.

KB Group Credit Risk Management Synergies

A general target of KB's risk management is to harmonise risk management processes and tools throughout the Group. The Bank enables shared access to selected tools within the credit risk system for designated subsidiaries (SGEF, ESSOX and Factoring KB), thereby providing a unified credit risk view and harmonising the credit risk approach vis-à-vis common clients who have provided the Group with their specific consents.

The Bank also co-operates on optimising granting processes (Modrá pyramida, SGEF, ESSOX and Factoring KB) with the aim of supporting business synergies.

KB acts as functional supervisor of Société Générale's International Retail Banking entities in the Czech Republic.

Principal Activities in 2013

In the credit risk area, KB Group focused especially upon the following activities during the year:

- optimising credit processes and supporting the Group's business activities within the context of the Ambition 2015 programme;
- updating key risk models to reflect the latest observations of portfolio development while maintaining sufficient margins across the business cycle;
- reviewing organisation and processes with the aim to achieve fully co-ordinated recovery of retail receivables within KB Group;
- completing the first stage of the Risk Academy, which provides continuous education in the field of risk management for all the Bank's employees involved in the credit process;
- participating in SG projects dedicated to group synergies;
- implementing the first stage of KB's participation as a material Société Générale subsidiary in the Asset Quality Review launched by the European Central Bank (ECB) with the aim of supplying ECB with the key portfolio information considered as providing a base for its new supervisory role in the European banking system; and
- reviewing provisioning rules while taking into account also SG Group standards for both Corporate and Retail clients.

Capital Markets Risks Management

The Capital Markets Risks department is responsible for managing market risk and counterparty risk in KB Group's capital markets activities. This department reports directly to the Bank's Chief Risk Officer. It operates within the framework of Société Générale Group's Market Risk division and in line with the following principles established by KB's Board of Directors:

- All risks are systematically and regularly monitored, and they are reported independently from business units.
- Methods for measuring risks and control procedures are defined and approved by KB management and Société Générale Group's Market Risk division.
- Limit applications are processed based on requests from business units and are approved by members of the Board of Directors with delegated authority or by the Board of Directors as a whole.
- All regulatory requirements are meticulously controlled.

Market Risk Management Methods for the Trading Portfolio

Assessment of market risks in the Bank's trading portfolio is based on the following main types of indicators that are used to quantify limits and measure related exposures:

- The Value-at-Risk (VaR) historical simulation method, calculated with a 99% confidence level and on a 1-day time horizon. Accuracy of the VaR model is back-tested on a regular basis.
- Measurement using crisis scenarios (stress testing) takes into account low-probability events not covered by VaR. The Bank performs several types of stress tests (historical, hypothetical) for exposure of underlying assets in the area of foreign exchange, interest rates and commodities.
- Sensitivity indicators are used to measure interest rate, basis spread and credit spread positions.
- Volume indicators are used to measure FX positions, as well as commodity, liquidity and concentration risks.

In the period since the 2008 Lehman Brothers bankruptcy, the cost of liquidity has become a major concern for market players as banks' unsecured funding has become much more expensive and interest rates paid on collateral for overnight money in the Czech Republic and abroad (CZEONIA, EONIA) have significantly diverged from interbank offered rates.

To be in line with market developments, KB enhanced its valuation model during 2013's last quarter. The model enables properly managing mark-to-market derivatives under agreements both with and without collateral, as it incorporates the real cost of liquidity into the valuation of derivative transactions.

The new valuation approach has helped Komerční banka to significantly improve its measurement of basis spread risk, and that facilitates even more accurate management of the interest rate risk.

Counterparty Risk on Capital Markets Activities

A market transaction may be concluded with a counterparty only if the specific product is authorised and if the counterparty's approved limits allow concluding such transaction. Counterparty limits for financial and capital markets operations are monitored on a daily basis. Any breach of a limit is immediately reported to the relevant level of management within the Bank. The Board of Directors is regularly informed of all limit breaches.

The measurement of counterparty risk arising from derivative products concluded with the Bank's clients is based on the Credit Value at Risk (CVAR) indicator. This indicator is calculated using Monte-Carlo simulation, and it quantifies the potential future replacement costs of transactions with a client in case of that client's default. With a confidence level of 99%, CVAR measures the Bank's maximum exposure to a specific counterparty in cases of adverse market scenarios.

All KB contracts with counterparties having important exposure include a close-out netting clause. With preference given to the interbank market, the Bank negotiates contracts implementing daily margin calls in order substantially to mitigate the credit risk of derivative contracts.

Asset and Liability Management (Liquidity and Other Financial Risks)

KB Group's Financial Risks Management Strategy

In addition to credit risk and non-financial risks, the Group is exposed to risks related to changes in interest and exchange rates, availability of financing sources, and liquidity of assets (financial risks). The process of managing financial risks aims to hold risks undertaken to a minimum while also facilitating the Group's organic development. The methods for identifying, measuring and managing risks in the areas of foreign exchange and interest rates are typically based on the requirement to minimise the impact on earnings. Liquidity risk is managed to maintain a very high probability of being able to cover potential future outflows of funds from the Bank.

From an organisational viewpoint, Komerční banka's Asset and Liability Management department (ALM) is in charge of designing measurement methods and managing interest rate, liquidity and foreign exchange risks of the Bank itself, and, indirectly, also those of the Group, as KB ALM methodically oversees the processes for asset and liability management within all the individual entities of KB Group. In line with the strategy, ALM aims to achieve stability in the financial results by minimising the impacts from changes in interest and exchange rates while ensuring at all times the sufficient availability of liquid funds. The transactions pursuing this optimisation of KB Group's financial performance are subject to approval by the Assets and Liabilities Committee (ALCO).

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

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

Liquidity Risk

KB Group's strong liquidity position is founded upon the various types of customer deposits that it holds and the fact that the Group does not substantially use secondary financing. Thanks to the stability of its large deposit base, the Group had no need to modify the structure of its balance sheet in response to external economic developments by reducing certain types of exposures or seeking to obtain other types of funding. KB Group's strong creditworthiness is supported by stable financial results, as well as the achieved level of capital adequacy. As a result, it has an excellent loans-to-deposits ratio of 73% (or 77% if assets of clients in Penzijní fond KB are excluded).

Funding of KB Group

Client deposits in the volume of CZK 606 billion (not including client assets inTransformed Fund and Other payables to clients) comprise a crucial part (approximately 67%) of the Group's total liabilities and shareholders' equity. Current accounts had the largest share on the client deposits within the Group (60.3%).

In addition to its broad and stable base of client deposits, KB Group has other possible funding sources, including debt securities issues and loans taken. Komerční banka continued to issue debt securities during 2013, when new issuance totalled CZK 11.4 billion in nominal value. As at the end of 2013, the total nominal amount of mortgage bonds and other debt securities placed outside KB Group reached CZK 20.8 billion.

KB Group's Liquidity – Monitoring and Management

Liquidity risk management focuses primarily on the ability of the Bank and entire Group to meet their payment obligations at all times. This includes maintaining adequate cash volumes as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily increasing the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management, which minimises the occurrence of unforeseen payment demands during a given period.

A liquidity snapshot broken down by currency (CZK, USD, EUR and sum of others) is monitored based on indicators measuring the incoming and outgoing cash flows within particular time horizons. Behaviour of the client deposit base is simulated using stress scenarios in order to maintain a very high certainty of covering possible outflows of funds. The Bank also simulates the utilisation of clients' funding volumes related to products whereby clients are able to determine the timing and magnitude of drawings. Sufficient liquidity is managed using a system of limits. To achieve these, KB uses on- and off-balance sheet instruments from the interbank market. The Group is prudent in its strategy and uses medium- and long-term instruments that allow it to stabilise both volumes and associated costs while at the same time better reflecting changes in costs when setting the prices of newly provided products.

The Group maintains high liquidity at all times. It covered all its liabilities during 2013 from its internal sources without any problems, and the use of secondary funding (e.g. issuing securities) remained limited. As at 31 December 2013, the Group was not drawing liquidity from central banks.

The Group's liquidity cushion is a combination of investments in government bonds and reverse repo operations with the CNB. In this context, a properly functioning bond market is an important prerequisite for a smoothly running financial sector. Therefore, KB Group greatly appreciates CNB's policy to provide repo operations, which the Bank sees as strengthening the bond market's liquidity and hence the banking sector.

With the introduction of Basel III regulation, two new measures were implemented: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both these regulatory indicators are generally similar to simplified indicators used to measure KB Group's liquidity. Since the beginning of 2012, KB Group's LCR ratio has been consolidated into SG group reporting and simultaneously it is reported to the Czech National Bank, the local regulator. The estimated levels of LCR and NSFR indicators have long been well above the required 100%.

KB Group's Structural Interest Rate Risk – Monitoring and Management

Interest rate risk constitutes the risk of possible changes in the Group's net interest income due to movements in market interest rates.

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

With regard to structural interest rate risk, the parent company (i.e. Komerční banka) and Modrá pyramida are the most significant members of the Group. The Group manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity analysis) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of the volatility of future interest income. The aim of the Group is to minimise structural risk and not at all to speculate on interest rate changes. To this end, the Group has established prudent limits, which were not exceeded in 2013.

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

As at 31 December 2013, securities were for the most part held by the Group in the available-for-sale (AFS) portfolio, even though the Group does not acquire these with the intention to sell them before maturity. The reason for this choice of portfolio lies in the fact that the held-to-maturity (HTM) portfolio, which would be the more appropriate choice in accounting terms (as a bond is maintained at amortised cost, and mark-to-market valuation does not occur), has strong restrictions and therefore, its use was minimised in the Group. An exception to the aforementioned is that the transformed pension fund managed by KB Penzijní společnost utilised the HTM portfolio on a broader scale, which is in accordance with the regulation of pension funds.

In January 2014, KB Group began reviewing the accounting recognition of certain debt securities held in the AFS portfolio (and which the Group intends to hold until their maturity) in order to assess whether all regulatory and accounting requirements, as well as internal limits, are satisfied for reclassification of the selected debt securities into the HTM portfolio. Doing so would limit volatility in the volume of regulatory capital otherwise stemming from the new Basel III regulatory concept. Basel III changes treatment of the fair revaluation difference accounted for in the equity account. The regulators newly include the revaluation difference into the regulatory capital, which means that the reported volume of regulatory capital may be unexpectedly influenced not only due to worsening of the credit quality of the issues but also because of movements in market interest rates.

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

KB Group's Structural Foreign Exchange Risk – Monitoring and Management

Structural foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis, and its position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk in the Structural Book, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in KB itself. The maximum open foreign exchange position of the Structural Book in 2013 was less than 0.17% of the Bank's capital, and thus it was essentially negligible.

Part of foreign exchange risk management also involves the Bank's ability to respond quickly to market developments so as to prevent the conclusion of economically disadvantageous transactions. The Bank uses an automatic system for continuously monitoring the development of market rates, and it changes those rates used in client transactions once the market movement reaches a predetermined threshold.

Price Setting

The process of product price setting is organised on two levels. The first involves the economic principle of determining a proper benchmark in terms of current market conditions and at the level of the Bank's portfolio (by ALCO). The second is to determine the price for the customer in view of a combination of marketing objectives and product parameters from the client perspective (by the Commercial Committee). ALM provides tools and supports the Bank's business network in valuing transactions, setting client rates, and determining exchange rate spreads.

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

Introduction of Basel III Framework (Implementation of CRD IV and CRR in Komerční banka)

With effect from 2014, Czech banks are subject to capital requirements according to the EU regulations implementing the Basel III regulatory framework. The estimated level of capital adequacy required of KB by the Czech National Bank will thus stand at around 13.9% of risk-weighted assets. This figure is composed of the 8% minimum capital level, a 2.5% systemic risk buffer and a 2.5% conservation buffer. The CNB is currently not imposing a requirement for a counter-cyclical buffer. In addition, KB estimates that the requirement for a capital buffer established according to Pillar II of the regulatory framework will reach a level close to 0.9%. KB's estimated Basel III capital, liquidity and leverage ratios imply adequate room for developing its business activities and maintaining fair remuneration of shareholders.

In KB's current understanding of the new regulatory framework – and since the structure of KB's capital is not complicated and effectively consists only of the high quality Core Tier 1 capital – pro-forma application of Basel III to the Group's balance sheet as at 31 December 2013 would lead to a decrease of capital adequacy by approximately 0.6% in comparison with that under Basel II rules. As at 31 December 2013, the overall impact mainly ensues from the following items:

- deduction of that part of capital attributed to minorities in fully consolidated subsidiaries,
- increased volatility of the regulatory capital as a result of including unrealised losses and gains on the AFS portfolio,
- an increased regulatory correlation coefficient for large financial institutions,
- introduction of a valuation adjustment for instruments measured at fair value (Additional Value Adjustments), and
- a reduction in the coefficient for the SME client segment (which is a positive factor).

In view of the above, the Bank has considered the potential changes in regulatory capital value as a result of bonds' fair value changes and it is gradually implementing measures to limit the overall volatility of regulatory capital. Some of these measures have been already used in the past, such as to utilise hedging derivatives to reduce the impact of market changes, and some others will be implemented over time. The latter category includes a reclassification of available-for-sale securities into the held-to-maturity portfolio.

In the area of risk-weighted assets, changes could range from inclusion of credit value adjustments for certain OTC derivatives to increasing correlation coefficients on certain exposures to large financial institutions and to unregulated financial entities.

KB also meets the newly defined minimum capital conditions, as its current level of capital adequacy stands well above the increased regulatory requirement. This means the Bank can continue its long-term strategy of managing its capital base via an appropriate dividend policy while maintaining its capacity to take advantage of emerging business opportunities. At the same time, of course, such approach must strike a balance among the market growth potential, level of risk appetite and investors' expectations.

Komerční banka has conducted an assessment of its liquidity in view of the newly defined Liquidity Coverage Ratio and Net Stable Funding Ratio. Required levels for both ratios would be safely met, as the Bank's overall liquidity is very good. In the area of regulatory liquidity ratios, the wording of regulation is now being refined even as initial reporting to the regulators is underway. The recurrent changes to the proposals for new regulatory requirements may increase inefficiencies in the financial system, because banks are responding over time to the expected impacts of the proposed measures and already are implementing the anticipated changes.

KB would also meet the currently anticipated target level for the leverage ratio. As at the end of 2013, a 3% requirement had been indicated. The Bank's healthy position is confirmed by this indicator as well, thus providing KB adequate room for further growing its business.

Capital Management

The Group manages capital adequacy to ensure its sufficient level while allowing for organic business growth and for potentially adverse macroeconomic development across the economic cycle. Under the Basel II regulation of capital adequacy which was in force during 2013, in addition to the usual reporting of the capital adequacy ratio (Pillar 1) this role includes fulfilling requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Group has selected a method close to the regulatory procedures applied for Pillar 1. That has resulted in there being very similar levels of necessary economic and regulatory capital.

KB Group has regularly simulated future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications due to their deteriorating the risk profile of the Bank's portfolio. The results of such stress testing are among those factors considered in determining KB's dividend

Information Disclosed Pursuant to Sec. 213 of Decree No. 123/2007 Coll.

a) Aggregate information about the conditions and main characteristics of capital and its components

The Bank's share capital is fully subscribed and paid, it amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with nominal value of CZK 500 each. The shares are dematerialised and are publicly traded on public markets.

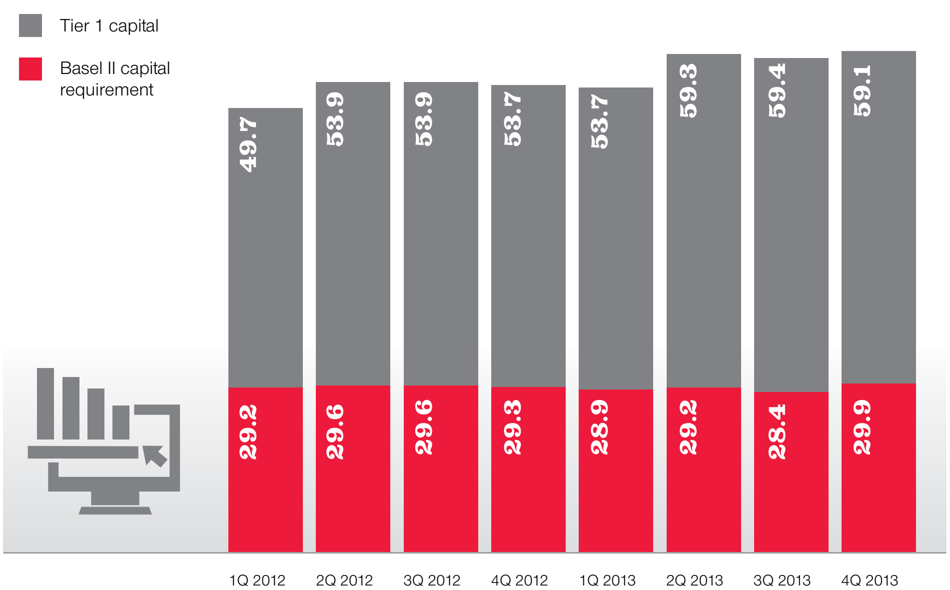
The Bank calculates capital both on a stand-alone and consolidated bases.

Information about consolidated capital	31 December 2013 (CZK million)
b) Total original capital (Tier 1)	**61,722**
of which: paid up share capital entered in the commercial register	19,005
own shares	-726
share premium	299
obligatory reserve funds	3,621
other funds from distribution of profit	1,049
retained earnings	43,495
goodwill from consolidation	-3,606
final exchange rate differences from consolidation	0
minority interests	2,502
goodwill other than from consolidation	-146
other intangible asset (besides goodwill)	-3,772
negative difference from revaluation of AFS capital market instruments	0
c) Total additional capital (Tier 2)	**0**
d) Total capital designated to cover market risks (Tier 3)	**0**
e) Total deductible items from original and additional capital	**2,635**
of which: deductible items due to an insufficient coverage of expected credit losses	**1,551**
f) Total capital after the consideration of deductible items from original and additional capital and stipulated limits applicable to items of capital	**59,087**

Information about consolidated capital requirements	31 December 2013 (CZK million)
Total capital requirements	**29,904**
a) relating to credit risk	**25,266**
relating to credit risk pursuant to the Standardised Approach in IRB, to total exposures	5,977
of which: to exposures to central governments and banks	0
to exposures to institutions	125
to corporate exposures	3,383
to retail exposures	2,428
to other exposures	41
relating to credit risk pursuant to the IRB Approach	19,289
of which: to exposures to central governments and banks	927
to exposures towards institutions	1,505
to corporate exposures	10,133
to retail exposures	5,817
to equity exposures (simplified method of risk weight)	1
of which: to exposures quoted on regulated markets	0
to other equity exposures	1
to securitised exposures	10
to other exposures	896
b) relating to settlement risk	**0**
c) relating to position, foreign exchange and commodity risks	**1,122**
d) relating to operational risk	**3,516**
The Bank discloses no other capital requirement.	

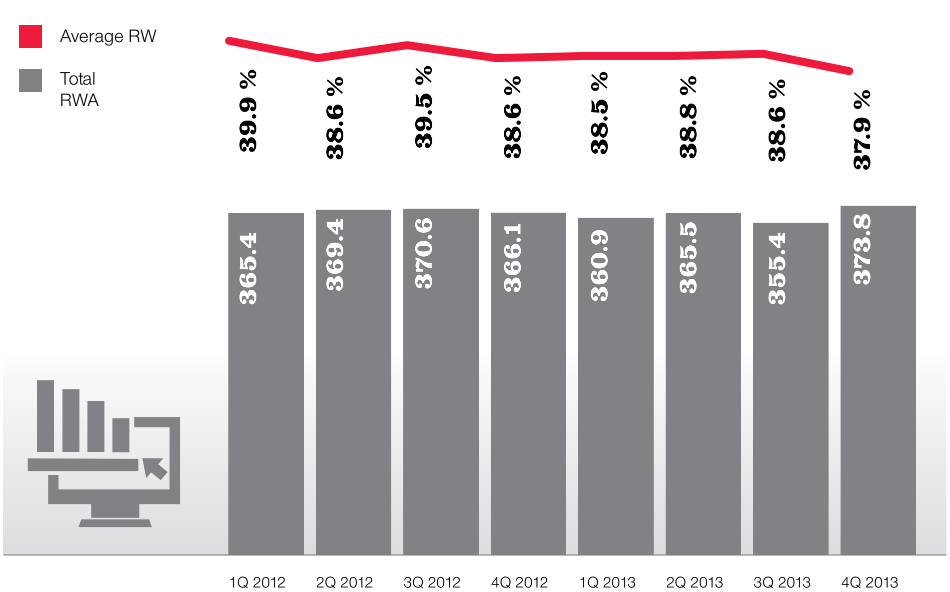
Ratios - Komerční banka (standalone)	31 December 2013
Capital adequacy	**16.01%**
Return on average assets (ROAA)	**1.73%**
Return on average equity (ROAE)	**24.40%**
Assets per employee (CZK thousand)	**99,510**
Operating costs per employee (CZK thousand)	**1,290**
Profit/Loss after tax per employee (CZK thousand)	**1,687**

KB Group Basel II regulatory capital evolution (in CZK billion)*



The Bank's regulatory capital in 2013 was comprised solely of Core Tier 1 capital and was influenced by its increase due to the allocation of undistributed profit to the Group's capital in April 2013.

Evolution of average RW and total RWA of KB Group (in CZK billion)*



The volume of risk-weighted assets (RWA) in 2013 increased due to the growth in credit exposure. During the third quarter, RWA declined thanks to better risk indicators for several significant exposures and continuous improvement in the risk models. A rise in the final quarter related to growth in the corporate portfolio.

policy, which is the primary tool for capital adequacy management in such situation that the Bank's capital is entirely classified as Core Tier 1. The possible secondary tools comprise purchasing the Bank's own shares into treasury and managing the volume of subordinated debt. KB did not acquire any of its own shares during 2013.

Regulatory Capital and Risk-Weighted Assets (according to Basel II)

KB Group uses two advanced approaches under the Basel II framework for calculating risk-related capital requirements: the "Advanced Internal Ratings-Based" (AIRB) approach for credit risk (except for KB SK which uses Standardised Approach) and the "Advanced Measurement Approach" (AMA) for operational risk.

As calculated in accordance with the regulations of the Czech National Bank under the Basel II framework, both regulatory capital and Tier 1 capital for KB Group well exceed the regulatory required minimum of 8%. KB Group's capital adequacy as at 31 December 2013 stood at 15.8%.

The Group continues in regular stress testing of its positions as an integral part of its risk management. Stress-testing results in 2013 confirmed that KB would meet the regulatory requirements for capital adequacy even in the case of an unexpected negative development in the Czech economy.

15.8%

KB Group capital adequacy

Operational Risk

The overall strategy for operational risk management is determined by the Operational Risk Committee, which also adopts appropriate steps in case of any negative development in the operational risk area and approves principal changes in the insurance programme utilised for mitigating impacts of operational risk events. KB has been applying the Advanced Measurement Approach (AMA) to operational risk management since 2008.

Besides the standard tools utilised within the AMA approach, such as collecting data on actual operational risk losses, risk control self-assessment, key risk indicators and scenario analysis, KB also has implemented a system of permanent supervision composed of daily and formalised controls.

Since 2012, the process of risk self-assessment has been closely linked to the risk mapping performed by Internal Audit. Moreover, Komerční banka boosted efficiency in collecting information on internal operational risk events while also enhancing the detail of information gathered for each such event.

During 2013, Komerční banka Group recorded 1,041 operational risk events in a total gross amount of CZK 139 million, which in a year-on-year comparison represents a slight decrease in the volume of losses.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. The AMA approach has been used in three Group companies. These are in two cases non-banking entities (SGEF and ESSOX), which situation is unique in the Czech Republic. The Czech National Bank performed its mission on fulfilment of requirements necessary for deployment of the AMA approach within Modrá pyramida. Based on the results of this mission, the French Prudential Supervisory Authority (as a regulatory supervisor of SG group) was asked for final approval to use the AMA approach in Modrá pyramida. The approval is expected during the first half of 2014.

Business Continuity

Business continuity management consists in developing KB's structures, procedures and resources intended to cope with natural or accidental disasters or wilful damage in order to protect the entity's employees, assets and activities and enable it to continue providing essential services. The aims are not only to comply with regulatory requirements, but also to reduce possible potential damaging impacts on clients, employees and infrastructure and thus to protect KB's image, business assets, brands, products, processes and know-how while limiting the impact of possible disasters on KB's financial situation and strength.

To further KB's commitment in the event of a significant business disruption, as well as to meet all regulatory requirements, the Group's infrastructure integrates business continuity management planning into its normal business operations. KB has developed both banking business continuity plans and crisis management plans for all main vital and critical processes. All plans are regularly reviewed and tested. During 2013, 90 tests were conducted. The system is subject to regular reviews by internal and external auditors, as well as regulatory authorities.

Information Security

The goal of information security management is to maintain the confidentiality, integrity, availability and proof of information by applying the risk management process. Sound information security management gives confidence to interested parties that information security risks are properly managed.

During 2013, the organisation and governance of information security was adapted to focus the Bank's effort on minimising the highest information security risks while also improving KB staff's security awareness. As KB was increasingly subjected to concentrated attacks by hackers, several security controls were implemented to reduce risks in handling sensitive information.

Compliance Risk

Risk of breach of regulatory rules, including standards of ethical conduct to which the Bank has made a commitment, may impact the Bank not only through the financial costs (such as penalties and compensations for caused damage), litigation with regulatory institutions and clients, but may also cause damage to KB's reputation which may amplify the financial losses. The Compliance Department monitors development in regulations related to the banking industry in the Czech Republic and also in the European context, in order to minimise this risk. Nevertheless, each employee's compliance with the regulatory rules and ethical norms while performing the everyday duties contributes to the effectiveness of the risk management.

The Compliance Department defines principles and processes for the compliance function, for preventing risks of money laundering and financing of terrorism, and for ensuring that legal regulations are upheld in relation to financial markets, banking law, consumer protection, and client data protection, as well as rules for advertising and fair competition. It also is responsible for establishing rules on ethical behaviour for employees. Moreover, the Bank provides consultancy to its subsidiaries and its branch in Slovakia.

KB has been using the Advanced Measurement Approach (AMA) to operational risk management already since 2008.

Large compliance projects of 2013 comprised training of front-office employees for the changes brought by the pension reform, and amendments to the client documentation due to the new Civil Code. From the EU sources, it was mainly preparation for implementation of the Capital Requirements Regulation and Capital Requirements Directive, which is to be transposed through the Act on Banks and CNB decree on prudential requirements. The regulation on OTC derivatives central counterparties and registers of business data (EMIR) is another important piece of regulation effective since 2013.

Besides the full implementation of the above mentioned regulations, the Bank expects that a new regulation on personal data protection, consumer protection in the area of mortgages and transparency of fees or rules for providing of investment services will be adopted in 2014.

Legal Risk

Legal risk management consists in minimising the uncertainty associated with enforcement and interpretation of legal acts, agreements, regulations and laws. The role of the Legal Department in this area is to provide co-ordination and expertise while working together with the individual units of KB to monitor legal risks. The Legal Department provides legal support when concluding and executing trades and contracts, introducing new products and processes, and preparing the Bank's standard forms for contracts. It provides information on relevant legislation and court decisions and, as appropriate, it also directs co-operation within the Group. The lawyers of the Legal Department also represent KB before the courts, financial arbiter and law enforcement authorities.

The main tasks of KB's lawyers during 2013 consisted in implementation of the new Civil Code and the new Act on Business Corporations into KB documentation and processes.

Governing Law

As an issuer of publicly traded securities, during 2013 Komerční Banka was governed in its activities particularly by the following laws:

- Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms;
- Act No. 21/1992 Coll., the Banking Act;
- Act No. 256/2004 Coll., on Capital Market Undertakings;
- Act No. 145/2010 Coll., on Consumer Credit;
- Act No. 284/2009 Coll., the Payment Systems Act;
- Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters and on Amending the Trade Licensing Act;
- Act No. 253/2008 Coll., on Certain Measures against the Legalization of Proceeds from Criminal Activity and the Financing of Terrorism;
- Act No. 513/1991 Coll., the Commercial Code;
- Act No. 563/1991 Coll., on Accounting;
- Act No. 101/2000 Coll., on Personal Data Protection;
- Act No. 143/2001 Coll., on Protection of Economic Competition;
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins;
- Act No. 591/1992 Coll., on Securities;
- Act No. 190/2004 Coll., on Bonds;
- Act No. 240/2013 Coll., on Investment Companies and Investment Funds;
- Act No. 89/2012 Coll., Civil Code (effective since 1 January 2014)
- Act No. 277/2013, on Foreign Exchange Activities.

Significant Legal Disputes

With respect to its overall financial situation, the Bank considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million.

As at 31 December 2013, the Bank was a party to legal proceedings as a plaintiff in 6 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 486 million. The Bank was a bankruptcy creditor with a claim exceeding CZK 50 million in 35 bankruptcy proceedings. The total amount of claims filed in relation to these proceedings was CZK 12.5 billion.

As at 31 December 2013, the Bank was a party to legal proceedings as a defendant in 8 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 3.2 billion.

Information concerning the provisions created for litigations in which the Bank is a defendant is stated in the Notes to the Unconsolidated Financial Statements according to IFRS, Note 37– Commitments and contingent liabilities.

In 2013, Komerční banka also faced demands from a larger number of persons for refunding of loan administration fees, which they considered the Bank was not legally entitled to charge. The Bank used all of its procedural rights in order to prove that the fee complies with the contract and applicable law. As at the closing date of this annual report, only an immaterial number and total monetary volume of such claims for return of loan administration fees had been received by the Bank in various forms.

Preparation for the New Civil Code in Komerční banka

A new Civil Code was approved during 2012 by the Parliament of the Czech Republic. This act constituted a major recodification of Czech private law after 50 years. The new Code entered into force from 1 January 2014.

Komerční banka commenced the process of implementing the vast statutory reform immediately upon its enactment in mid-2012. Several dozen KB employees – among them eight in-house lawyers – participated in the project for implementing the Code into the Bank's processes. It took several months for the work group to identify all the necessary changes in those processes and in the associated documents.

In a subsequent phase, a new database of all document templates was set up. This comprised some 4,000 items, and the Bank's in-house lawyers began thoroughly to review and process all these documents in co-operation with external legal counsel. A new "Civil Code dictionary" was created, so that each document utilises the same terminology and agreed provisions. The process was made even more challenging by the fact that some documents were changed five times before a final consensus among all stakeholders was reached.

After six months of work, the Legal Department handed over to the IT Department in March 2013 almost 3,000 processed documents. The remaining part of the year was dedicated to implementing the new documentation into KB's IT systems. The Legal Department conducted several lectures and seminars regarding the new Civil Code for employees of Komerční banka, which totalled more than 180 hours.

Thanks to the timely measures taken, KB is among the first of all Czech banks to have completed implementation of the new Code into its activities and processes.

Internal Audit

The task of internal audit is to systematically and methodologically assess the functionality and effectiveness of risk management, management and control processes, and corporate governance, as well as contribute to their improvement.

Internal Audit is working as part of the global division of Internal Audit (DCPE) within the framework of the SG Group. In addition to conducting audits at KB, it also provided coverage for KB Group subsidiaries and SG Group entities in the Central European region.

The strategic goals of Internal Audit are primarily focused on covering major risks and the most significant activities of the Group regarding the fulfilment of all regulatory requirements. In 2013, audits were carried out according to the approved plan while also responding to the immediate needs of the Bank. In total, 103 audits (including 14 special investigations) were carried out, 31 of which were performed in KB Group subsidiaries. These audits covered both the distribution network and head office units, as well as selected companies providing KB with important services (outsourcing). In total, 553 recommendations addressing issues identified by audit engagements were implemented within KB Group during 2013, of which 46 were given high priority. Monitoring and follow-up of the recommendations are managed in the new centralised KART system implemented at the beginning of this year.

In its regular report to KB's Board of Directors, Audit Committee and Supervisory Board, Internal Audit evaluated the Bank's internal control system to be functional and efficient with some opportunities for further improvements. The review of the remuneration system in KB, including the fulfilment of CRD III requirements, was performed for the second time last year. It is planned to cover KB subsidiaries by this review as well starting from next year.

The plan for 2014 drew upon the outcomes from risk assessment that was performed, using a methodology uniform accross the whole SG Group.

103

INTERNAL AUDITS

were carried out accross the KB Group

Employees

KB's strategic vision in the human resources area is to create a long-term partnership with its employees, a prerequisite for which is a professional relationship based on trust, respect, mutual communication, equal opportunity, and the offer of interesting professional and career development.

The situation on the Czech labour market did not change significantly over the course of 2013. The economy failed to create enough jobs and thus unemployment slightly increased. Nevertheless, this development and the unemployment rate were better than the EU average. Although most job openings at Komerční banka met with strong interest because of KB's excellent reputation as an employer, it did remain difficult to fill certain positions requiring specific knowledge, skills and experience.

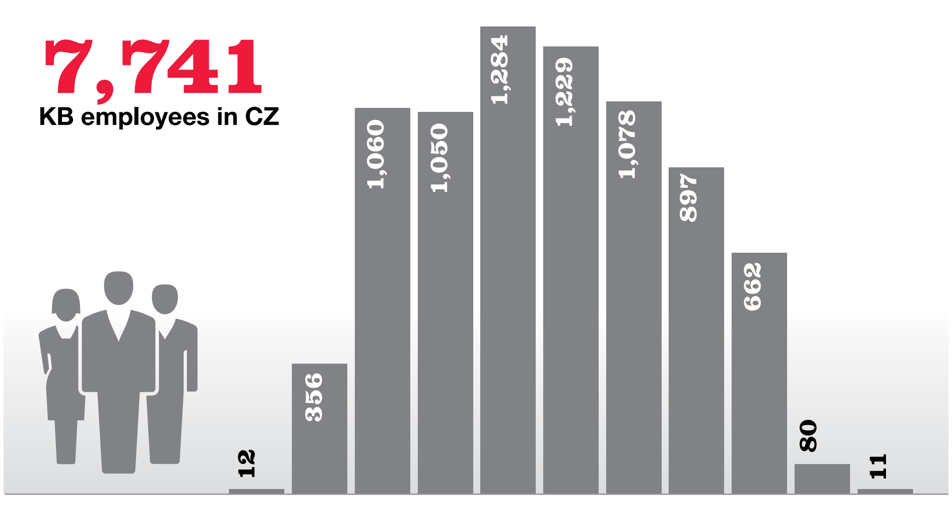
KB Group's average number of employees (recalculated to full-time equivalents, or FTE) was 8,604 (-1.8% year on year) during 2013, of which 7,706 (-1.8%) were within the Bank itself. The average number of employees (FTE) in KB subsidiaries was 898 (-0.8% year on year) in 2013.

As at 31 December 2013, Komerční banka had in total 7,777 employees, of which 7,741 were in the Czech Republic and 36 in Slovakia. At headquarters, there were 3,413 employees (44% of total) and in the distribution network 4,328 employees (56%). In comparison with the end of 2012 (7,895), the total number of the Bank's employees in 2013 (7,777) decreased by 118 (-1.5%).

Satisfaction

In spring 2013, employees had the opportunity to participate in the regular survey of employee satisfaction (SG Employee Barometer). One of the positive aspects was the high participation rate, which, similarly to previous surveys, reached 76%. Despite a large number of changes taking place in the Bank, most of the employees perceive the speed of changes to be appropriate. Confidence in the Bank's strategy and top management remains consistently high, and in particular so did employees' confidence in their direct supervisors. KB also perceives as good news the positive assessment of the Bank's risk management culture. Based on the survey responses, KB will seek ways to improve professional and career development as well as to ensure satisfactory balance between work and personal lives.

Age structure of employees in KB (Bank in the Czech Republic)



Diversity

Komerční banka views diversity among its employees as an important positive value which improves the performance of each team member. Diversity in the teams brings mutual enrichment, but also higher-quality collective results. The Bank has taken a systematic approach to diversity since 2008, when it created a programme for the career management, development and support of specific populations. KB not only selects colleagues on the basis of their education and professional experiences, but it also offers opportunities to a broad range of talents.

Employees on Maternal and Parental Leave

Approximately 10% of colleagues (765 employees) were on maternal or parental leave, which share remains stable. Komerční banka makes it a priority to maintain contact with these people during their maternal and parental leaves, and, upon their return, to make their reintroduction to working life as easy as possible.

Employees with Disabilities

During 2013, the Bank had on staff 82 employees with disabilities. Human resources specialists are trained to support the employment of people with disabilities, and the same topic is part of the managerial training that focuses on team diversity. Access is barrier-free to the new headquarters building in Prague – Stodůlky, and that extends the range of job opportunities. Employees with disabilities are granted one additional day off per quarter.

Gender Diversity

KB perceives raising awareness and education of employees as a way to promote a better balance between men and women in leading positions. KB supports the development of female employees through sharing positive examples and experiences by means of mentoring and networking. The Bank also participates in an international networking programme organised by Société Générale called Club Féminine. Komerční banka is not a proponent of quotas. When a position opens up, human resource specialists proactively inform female candidates with potential for the given position. The most suitable candidate – male or female – is then selected for that position.

Work–Life Balance

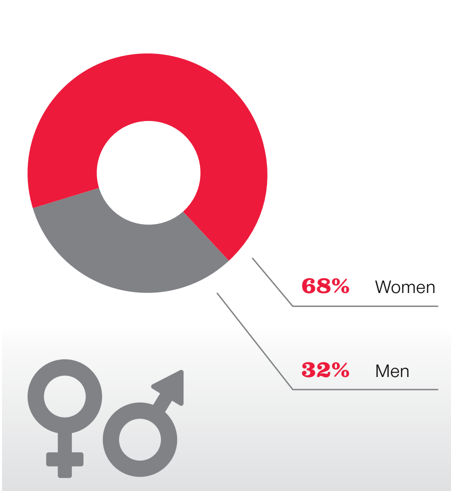
Flexibility in work scheduling significantly affects the balance between one's professional and private lives, which is an important aspect for all but especially for parents with children. KB allows several forms of alternative working hours, including home office. Approval of any adjustment in working hours or unpaid leave is evaluated individually, taking into account the type of business operation, character of the work performed, and the necessary competencies.

Co-operation with Students

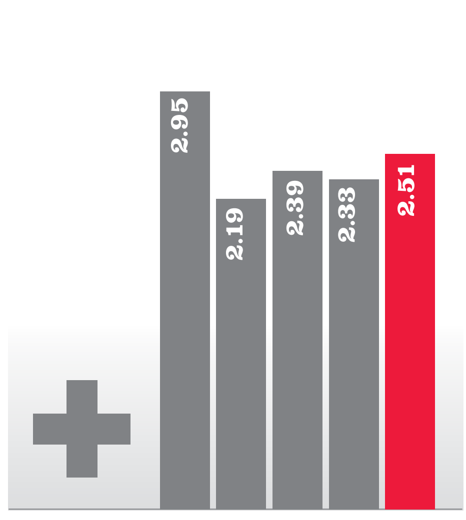
In 2013, Komerční banka deepened its co-operation with universities and student organisations (e.g. AIESEC and CEMS). KB began new co-operation with the Czech Student Union and joined the Prague Banking Club project. Within organised competitions, students ranked Komerční banka in third place in the Employer of the Year competition for the banking sector. At the end of the year, KB was awarded the title Bank of Choice by Czech Students (Banka českého studentstva). In the banks category, Komerční banka won the title The Most Desired Company. KB launched intensive collaboration with students during 2013 in the forms of thesis projects and unpaid internships, and especially among students with disabilities. KB was also a subject of equity analyses done by students of Czech schools of economics in the local round of the CFA Research Challenge.

765
EMPLOYEES
were on maternal or parental leave in 2013

Proportion of men and women in KB (2013)



Illness rate KB (Bank) (%)



Employees' Education and Development

KB Group creates a broad offer of educational programmes and courses for its employees. In 2013, the Bank focused especially on developing those employees having direct contact with clients within the branch network, as well as managers and participants in the Strategic Talent Management programme.

The Bank has opened an M´Academy managerial academy. This focuses on long-term individualised skills development in the areas of managing and developing people, effective collaboration, team-building, strategic thinking, change implementation, flexibility and innovation.

More than 400 people participated in the Strategic Talent Management development programme for key and talented employees. The programme was newly enhanced with a mentoring aspect that successfully linked up 94 mentors and mentees. Approximately 200 more internships organised across the Group further supported co-operation and the acquisition of new experience and knowledge. As traditionally, additional integration and developmental programmes were dedicated to new employees (StartinG), new university graduates (ConnectinG and ConnectinG+) and future managers (ChallenginG).

Remuneration and Employee Benefits

Komerční banka fulfilled its commitments during 2013 to employees in relation to basic wages and provision of employment benefits ensuing from the Collective Agreement concluded for the period from 1 March 2013 to 31 December 2016.

In the area of employee benefits, the Bank improved the coverage of employees with disabilities and in the age category 55+. For all employees, KB renewed the collective risk life insurance and prolonged the validity of banking benefits. KB Group employees had the opportunity to subscribe for shares under the Global Employee Share Ownership Programme of the Société Générale Group. Co-operation continued with the OZP occupational health insurer in the form of an extended offer of preventive medical care that goes beyond the care covered by general health insurance.

KB management meeting

Corporate Governance

(A separate part of the annual report pursuant to Section 118 (4) (b), (c), (e) and (j) and (5) (a)–(k) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended)

Komerční banka adheres to and voluntarily upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004 and issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the website of the Ministry of Finance of the Czech Republic at http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/fnm_sprava_kodex.html.

In connection with the changed legal framework applicable from 2014 and new possibilities in the area of corporate governance, KB's Board of Directors has decided to keep the existing model of governance structure, i.e. the dualistic model whereby in addition to the General Meeting, the Board of Directors, the Supervisory Board and the Audit Committee exist as bodies of the Bank. By changing its Articles of Association, Komerční banka conformed to the new Act No. 90/2012 Coll., on business companies and co-operatives (the Act on Business Corporations). In accordance with the Act on Business Corporations, the requirement to fill one third of the seats on the Supervisory Board with representatives of employees was removed from the Articles of Association, which means that all members of the Supervisory Board will be elected and recalled only by the General Meeting. Those employee representatives who currently serve as members of the Supervisory Board will continue in their positions until the end of the functional term for which they have been elected. The amendments in the Articles of Association which implement the new Civil Code and Act on Business Corporations were approved at an extraordinary General Meeting on 28 January 2014. During 2013, there were no fundamental changes which would adversely influence the aforementioned standards of governance of the Bank. KB pursued the most effective corporate governance and timely implementation of the new legal norms into its internal regulations and documents. In the changed legal environment of 2014, the Bank will continue to respect the principles of corporate governance which best correspond with the Bank's business model as well as the interests of the Bank and its shareholders.

Shareholders and the General Meeting

The share capital of KB totals CZK 19,004,926,000 and is divided into 38,009,852 ordinary listed shares admitted to trading on the European regulated market, each with a nominal value of CZK 500. All the Bank's shares carry the same rights.

Major shareholders of Komerční banka owning more than 3% of the share capital as at 31 December 2013 (per the extract from the issuers' register taken from the Central Securities Depository)

Shareholder	Proportion of share capital (%)
Société Générale S.A.	60.35
Chase Nominees Limited	5.26
Nortrust Nominees Limited	4.47

Shareholder structure of Komerční banka (according to the extract from the issuers' register taken from the Central Securities Depository as at 31 December 2013)

	Number of shareholders	Proportion in number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	**43,075**	**100.00**	**100.00**
of which: legal entities	590	1.37	97.65
private individuals	42,485	98.63	2.35
Legal entities	**590**	**100.00**	**97.65**
of which: from the Czech Republic	108	18.31	1.16
from other countries	482	81.69	96.49
Private individuals	**42,485**	**100.00**	**2.35**
of which: from the Czech Republic	38,023	89.50	2.21
from other countries	4,462	10.50	0.14

The General Meeting is the supreme body of the Bank. The Regular General Meeting is held at least once per year, and in no case later than four months from the last day of each accounting period.

A quorum of the General Meeting shall be constituted if the attending shareholders hold shares whose total nominal value exceeds 30% of the registered capital of the Bank, provided that voting rights are attached thereto in accordance with generally binding legal regulations. The quorum is checked at the time of convening the General Meeting and always before each vote. The General Meeting shall approve resolutions by a majority of votes of the attending shareholders unless legal regulations require a qualified majority of votes. The General Meeting's order of business is governed by the agenda stated in the published notice calling the General Meeting. Issues that were not included in the proposed agenda for the General Meeting are decided only with the attendance and consent of all the Bank's shareholders. The General Meeting shall be opened by a member of the Board of Directors authorised for this purpose by the Board (usually the Chairman of the Board of Directors). This member of the Board of Directors also shall conduct the General Meeting until a Chairman of the General Meeting is elected.

All persons registered in the list of attending shareholders and present at the General Meeting at the time of calling a vote are entitled to vote, unless the law stipulates otherwise. The sequence of voting corresponds to the order on the General Meeting's agenda. The casting of votes shall be carried out by means of ballots. Each CZK 500 of the nominal share value represents one vote. Any proposal presented by the Board of Directors shall be voted on first. Should such proposal of the Board of Directors be accepted by the required majority, other proposals or counter-proposals to this point shall not be voted upon. Other proposals or counter-proposals shall be voted upon in the sequence in which they have been presented. Should such proposal or counter-proposal be accepted in a vote by the General Meeting, other proposals or counter-proposals shall not be voted upon.

The General Meeting has within its powers to:

a) decide upon amendments to and changes in the Articles of Association, with the exception of a change in consequence of an increase in the registered capital by the Board of Directors or on the basis of other legal circumstances as established by law;
b) decide upon increase in the registered capital, with the exception of the procedure specified under Section 31 of the Articles of Association, or upon setting off a monetary claim towards the Bank against a claim to be used for payment of the issue price;
c) elect and remove members of the Supervisory Board, with the exception of the election and removal of members elected by the Bank's employees under Section 13 of the Articles of Association;
d) approve the Board of Directors' reports regarding the Bank's business activities and the Bank's assets, at least once per accounting period;
e) decide upon a decrease in the registered capital provided that a prior consent of the Czech National Bank has been given, unless this concerns a decrease to cover a loss;
f) decide upon a change in the class or type of the shares;
g) decide upon issuing bonds of the Bank if the law so requires;
h) decide upon modifying the rights attached to individual classes of the shares;
i) approve the Annual Financial Statements, Extraordinary Financial Statements, Consolidated Financial Statements and Interim Financial Statements when required by law;
j) decide upon distribution of profit or other shareholders' funds or coverage of a loss, and to determine directors' fees;
k) decide upon the compensation of members of the Board of Directors, Supervisory Board and Audit Committee, and approve the service contracts with the members of the Supervisory Board and of the Audit Committee;
l) decide upon merger or division of the Bank or on transfer of assets to the Bank as a member in cases required by law provided that a prior consent of the Czech National Bank has been given;
m) decide upon winding up the Bank with the prior consent of the Czech National Bank;
n) approve proposed distribution of the liquidation balance of the Bank's assets;
o) decide upon quoting participation securities of the Bank in accordance with a special legal regulation and upon terminating the registration thereof;
p) approve contracts serving as a basis for a transfer of the business or a part thereof, contracts for the lease of the business or a part thereof, contracts for the pledge of the business or a part thereof;
q) charge the Board of Directors to decide upon an increase in the registered capital under the conditions specified in the Commercial Code and the Articles of Association (Section 31);
r) decide upon acquiring the Bank's own shares in accordance with the relevant provisions of the Commercial Code;
s) decide upon eliminating or restricting the pre-emptive right to acquire convertible or priority bonds, elimination or restriction of the pre-emptive right to subscribe for new shares in accordance with the Commercial Code;
t) approve contracts of control, profit transfer contracts and silent partnership contracts, and changes thereof;
u) approve the acquisition or disposal of assets, when the law so requires;
v) decide upon other matters which, according to the generally binding legal regulations or the Articles of Association, are part of the powers of the General Meeting;
w) decide upon appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
x) decide upon the appointment and removal of members of the Audit Committee;
y) decide upon the approval of rules for the provision of discretionary compensation to Audit Committee members.

The results and information from the General Meeting are available on Komerční banka's website www.kb.cz.

Go to
www.kb.cz

Principle Resolutions of Komerční banka's Annual General Meeting Held in 2013

At the General Meeting held on 24 April 2013, 302 shareholders holding shares with nominal value representing 81.92% of the Bank's share capital were present in person or through their representatives. The General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2012 as well as the annual financial statements of Komerční banka for the year 2012, decided to distribute profit for 2012 in the total amount of CZK 12,247,540,349.08, and decided to pay out dividends in the amount of CZK 230 per share. The Annual General Meeting also:

- approved the consolidated financial statements for the year 2012;
- elected Mr Laurent Goutard, Mr Petr Laube, Mr Jean-Luc André Joseph Parer and Mr Giovanni Luca Soma as members of the Supervisory Board;
- elected Mr Petr Laube, Mr Jean-Luc André Joseph Parer and Mr Giovanni Luca Soma as members of the Audit Committee;
- consented to acquisition of the Bank's ordinary shares into treasury under specified conditions; and
- appointed the company Ernst & Young Audit, s.r.o. as the Bank's external auditor for 2013.

Extraordinary General Meeting of Komerční banka Held on 28 January 2014

Komerční banka convened the extraordinary General Meeting in order to have approved amendments in the Articles of Association implementing the re-codification of private law. The Articles were made compliant with the new legislation in force as from 1 January 2014, and the Bank has thereby conformed to the Act on Business Corporations with effect as from the date of publication of such conformance in the Commercial Register.

The objective of the changes in the Articles was to preserve all existing rights and obligations of shareholders and solely to transpose the new legislation into the Articles.

Fokus Labe

The civic association Fokus Labe endeavours to help people with mental illness find their place in society, work and a sense of purpose. The association promotes the idea of community care, meaning care outside the walls of institutions and hospitals. Among Fokus' clients are people with schizophrenia and bipolar disorder. Each client has specific needs and various limitations, but in working at sheltered workshops they all achieve noteworthy results.

PhDr. Lenka Krbcová Mašínová, Chairwoman of Fokus Labe

Fokus Labe offers its clients opportunities in the sewing shop, in gardening or in its catering operation. Previously, the catering operation's kitchen was on the ground floor of a building situated on the bank of the River Elbe, but it was completely destroyed in the floods of spring 2013. Fokus Labe appealed for sponsors to assist in renovating the sheltered catering operation. Having found money, its clients now work in new spaces on the first floor of the building. Just a couple flights of stairs higher there is a therapeutic social services office, which clients can visit according to need.

"Psychiatric disorders are deceiving in that a person who has one is never so healthy that he or she is completely able to manage without social support," relates PhDr. Lenka Krbcová Mašínová, Chairwoman of Focus Labe. "Sometimes it's necessary daily, sometimes once a week, sometimes once in a month. The flexibility of the sheltered workshops makes it possible for us to retain people with mental disorders to work over the long term. If their conditions worsen, the social services assistance increases immediately right on site. Social workers travel to our three cafés and shops where our clients work."

The products of Fokus' gastronomic business are sold in those cafés and the La Buž shop, which are focused on light French cuisine. In addition, the kitchen distributes lunches across the city, prepares food for catering and now also bakes to order sweets for the weekend to assist customers who do not manage this for themselves. There is great therapeutic value in the fact that clients are immediately able to see the results of their work and recognise that there is great interest from the general public. Moreover, this concept helps erase the stigma that people with mental illnesses ought to be removed from society.

Komerční banka has donated funds to purchase professional baking ovens for the catering training centre where Fokus' clients learn to cook and bake while preparing themselves for work at several sheltered catering workplaces.

Board of Directors

ALBERT LE DIRAC'H
Chairman of the Board of Directors
(since 2 August 2013)

Chief Executive Officer

PAVEL ČEJKA
Member of the Board of Directors
(since 1 August 2012)

Chief Administrative Officer

VLADIMÍR JEŘÁBEK
Member of the Board of Directors
(since 1 June 2008,
re-elected on 2 June 2012)

Distribution – Retail and Corporate

KAREL VAŠÁK
Member of the Board of Directors (since 1 August 2012)

Top Corporations and Investment Banking

PETER PALEČKA
Member of the Board of Directors (since 5 October 2001, re-elected on 8 October 2013)

Corporate Secretary

AURÉLIEN VIRY
Member of the Board of Directors (since 1 January 2011)

Risk Management

Board of Directors

The Board of Directors is an authorised body which manages the Bank's activities and acts in its name. The Board of Directors shall ensure business management, including proper keeping of the Bank's accounting records. The Board of Directors shall further ensure the creation and evaluation of the management and control system, be responsible for its continuous functioning and effectiveness, and create conditions for the independent and objective performance of compliance-related operations and of internal audit.

The Board of Directors shall decide upon all matters concerning the Bank, unless assigned to the competence of the General Meeting, the Supervisory Board or the Audit Committee by law or by the Articles of Association.

The Board of Directors consists of six members, natural persons, who meet the conditions provided in legal regulations for becoming a member of the Bank's Board of Directors and who are elected by an absolute majority of all Supervisory Board members at the recommendation of the Remuneration and Personnel Committee for a four-year term. The professional qualifications, credibility and experience of the members of the Bank's Board of Directors are assessed by the Czech National Bank.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations or other sanctions have been filed against them. No bankruptcy, receivership or liquidation was declared in relation to the stated persons in the past 5 years.

Composition of the Board of Directors

Albert Le Dirac'h
Chairman of the Board of Directors
(since 2 August 2013)

Henri Bonnet
Chairman of the Board of Directors
(since 10 September 2009, membership terminated as at 1 August 2013)

Pavel Čejka
Member of the Board of Directors
(since 1 August 2012)

Vladimír Jeřábek
Member of the Board of Directors
(since 1 June 2008, re-elected on 2 June 2012)

Karel Vašák
Member of the Board of Directors
(since 1 August 2012)

Peter Palečka
Member of the Board of Directors
(since 5 October 2001, re-elected on 8 October 2013)

Aurélien Viry
Member of the Board of Directors
(since 1 January 2011)

Albert Le Dirac'h
Graduated in management studies from the University of Rennes. Between 1979 and 1980, he worked in the Insurance National Group. He has worked in the Société Générale Group since 1980, first as an inspector in the SG Inspection department and from 1980 as deputy director and later as director of the Back Office within the Capital Markets Department. From 1995 until 1999, he was Head of Human Resources Management. From 1999 to 2006 he was CEO and a member of the Board of Directors of SGBT Luxembourg. Between 2001 and 2007 he served as Chairman of the Supervisory Board at SG Private Banking Belgium and from 2006 to 2008 as Deputy Head of Human Resources of SG Group. From 2008 to 2012, he was Chairman of the Board of Directors and CEO of Société Générale Morocco headquartered in Casablanca. The Board of Directors of Komerční banka elected Mr Albert Le Dirac'h as Chairman of the Board of Directors and Chief Executive Officer of Komerční banka, with direct responsibility for management of the Human Resources, Internal Audit and Marketing and Business Development departments, as well as the Strategic Plan.

Mr Le Dirac'h is also a member of the supervisory boards of SGEF and Komerční pojišťovna and chairman of the supervisory boards of Modrá pyramida and ESSOX.

Pavel Čejka
Graduate of the Czech Technical University in Prague with a focus on Management and Finance, and of the University of Chicago Graduate School of Business, where he obtained his MBA. He started his professional career in 1994 at Arthur Andersen, where he specialised mainly on advisory and auditing for financial institutions in the central European region. In 2000, he joined ČSOB as Executive Director of Financial Management. Mr Čejka joined Komerční banka in July 2003 as Deputy Financial Director, and from February 2006 to July 2012 he served as Executive Director of Strategy and Finance. With effect from 1 August 2012, he was elected by the Supervisory Board as a Member of the Board of Directors of Komerční banka in charge of Strategy and Finance, Transaction and Payment Services, Information Technology, Project Organisation and Management, Support Services, Information Management and Investment Banking – Operations.

Mr Čejka is also a member of the supervisory boards of the companies Modrá pyramida, ESSOX and Komerční pojišťovna. Moreover, he is a Chairman of the supervisory board of KB Penzijní společnost and a member of the statutory body of Bastion European Investments. In addition, he is a member of the Board of the National Theatre.

Vladimír Jeřábek
Graduated from VUT Technical University in Brno, Czech Republic, and from Nottingham Trent University. He has held the positions of economic director and member of the board

of directors in several banking institutions and at Zetor, a.s., a producer of agricultural tractors. Upon his arrival to Komerční banka in 1998, Mr Jeřábek was the regional manager responsible for the Brno region and later was in charge of Komerční bank's distribution channels. In February 2007, he was appointed Executive Director of the Distribution Network. He is responsible for the Bank's distribution network serving the Retail and Corporate segments and also for the alternative distribution channels such as internet banking and non-banking channels. The Supervisory Board elected Mr Jeřábek as a Member of the Board of Directors in charge of Distribution with effect from 1 June 2008.

Moreover, Mr Jeřábek is a member of the supervisory board of KB Penzijní společnost and Modrá pyramida.

Peter Palečka
Graduate of the University of Economics, Bratislava. From 1982 to 1988, Mr Palečka worked in foreign trade enterprises. Between 1989 and 1992, he worked at the Federal Ministry of Foreign Trade of the Czech and Slovak Federative Republic. From 1992 to 1994, he was the Permanent Representative of the Czech and Slovak Federative Republic and then of the Czech Republic to GATT, and from 1995 to 1998 he was the Permanent representative of the Czech Republic to the World Trade Organization. He joined Komerční banka in 1998 as the director for Strategy. In October 1999, he was elected a member and in April 2000 Vice-Chairman of Komerční banka's Board of Directors. On 5 October 2001, he was re-elected as a member and Vice-Chairman of the Board of Directors. At present, he is a member of the Board of Directors and Corporate Secretary.

Mr Palečka is also a member of the supervisory board and the chairman of the audit committee of Modrá pyramida.

Karel Vašák (Charles Karel Vasak)
Graduate of Lyon Business School (EM Lyon). Mr Vašák started his professional career in 1982, when he joined Société Générale Group. Until 1990, he worked within the distribution network of SG in France, and then during 1990 to 2001 in its international distribution network at a London branch, where he was responsible for French corporate clients. Subsequently, he assumed the position of Vice-Director of Société Générale in New York responsible for International Desk and later for Human Resources. From 2001 to 2006, he was Executive Director for Human Resources in Komerční banka. Subsequently, until May 2012, he was at Société Générale in France, where he was responsible for the North Lorraine Region, with the retail and corporate segments under his management. With effect from 1 August 2012, he was elected by the Supervisory Board as a Member of the Board of Directors of Komerční banka in charge of the Top Corporations segment (including the division in Slovakia) and also charged with overseeing Investment Banking.

Aurélien Viry
Graduated in finance and accounting from ESCP Europe Paris and holds a DECF in reporting and finance. His career at Société Générale began in 1990 in the inspection department of SG. In July 1996, he became deputy manager of the Société Générale branch in Seoul. He moved on to the SG Securities division in April 1999, working first as the Seoul branch manager and then, from December 1999, as co-chief operating officer in charge of North Asia based in Hong Kong. In October 2001, he became chief operating officer of SG Securities Asia Limited for the region of Asia. In April 2003, having returned to France, he started to serve as head of global equity derivatives middle offices at SG headquarters. From November 2005, Mr Viry was the CEO of GENEFIM, an SG subsidiary working in real estate finance. He was appointed by the Supervisory Board as a new member of the Board of Directors of Komerční banka in charge of Risk Management with effect from 1 January 2011.

Mr Viry is also a member of the supervisory board of SGEF and ESSOX.

Activity Report of the Board of Directors

The Board of Directors shall convene at its regular, periodic meetings, usually once every two weeks. Meetings shall be convened and presided over by the Chairman of the Board of Directors or, in his or her absence, by a member of the Board of Directors authorised to do so by the Board of Directors. Should it not be possible to hold a Board of Directors' meeting, a decision may be adopted by voting remotely in accordance with the Articles of Association.

The Board of Directors met at 21 regular and 4 extraordinary (unscheduled) meetings in 2013 and held five remote votes in accordance with the Bank's Articles of Association. The average meeting length was 2 hours and 10 minutes and with an average participation of 95%.

A quorum of the Board of Directors shall be constituted if an absolute majority of the Board members are present. Resolutions of the Board of Directors shall be adopted by an absolute majority of members of the Board of Directors present, except for the election of the Chairman of the Board of Directors, who shall be elected by an absolute majority of all members of the Board of Directors. If the votes are equal, the chairperson shall cast the deciding vote.

In 2013, the Board of Directors discussed the annual financial results of KB Group for the year 2012, as well as KB's consolidated financial statements, separate financial statements, and their footnotes as at 31 December 2012 and prepared under International Financial Reporting Standards (IFRS). The Board of Directors submitted these statements to the Supervisory Board for review and then to the General Meeting for approval. At the same time, it submitted to the Supervisory Board for review the proposed profit distribution for 2012, which was subsequently approved by the General Meeting.

The Board of Directors also discussed additional proposals for the General Meeting, in particular the Report of the Board of Directors on the Bank's Business Activities, the Report on Relations among Related Entities, the conditions for acquiring the Bank's own shares, proposal for appointment of the external auditor and other matters falling within the competence of the General Meeting. It approved the Bank's Annual Report for 2012 and Half-yearly Report for 2013, as well.

The Board of Directors regularly reviewed the quarterly financial results of KB Group and measures taken in relation to the bond portfolio held by the Bank. It continuously evaluated the Bank's capital adequacy and also approved the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the Czech National Bank on the basis of Decree No. 123/2007 Coll. stipulating the prudential rules for banks. It also discussed capital management policy, including the impacts of Basel III, reports on the financial results of the competition and the development of structural risks for each quarter of the year, as well as the KB Group budget for 2013. It further approved the issuance conditions for bonds issued by the Bank.

As part of its activities, the Board of Directors regularly assessed the Bank's risks. In the field of risk management, it discussed the reports on the development of market and capital risks and the development of lending on capital markets on a monthly basis. At the same time, it monitored sector analyses, discussed the limits of market risks, and, within its competence, it approved loans to economically connected groups above a specified limit. It also approved the strategy for dealing with clients assigned to the administration of the Asset Valuation and Recovery Department.

In the operational risks area, the Board of Directors discussed the regular quarterly reports. In the context of operational risk, reports on the results of the first level controls and overview of all permanent controls within the Bank were also discussed.

Compliance risks were evaluated both in the yearly report for 2012 and the quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2012 annual evaluation report on KB's system against money laundering and the financing of terrorism. It continued to oversee execution of measures assumed in connection with inspection by the Czech National Bank and included in the system of corrective measures. The Board approved the approach to clients in regard to the US Foreign Account Tax Compliance Act (FATCA) and discussed the determination of the Prague Interbank Offered Rate (PRIBOR) and the policy of compliance with the rules for protecting competition and other areas. It approved the approach of the Bank in conforming to the newly adopted standards of the Czech Banking Association.

In the area of Internal Audit, the Board of Directors discussed a number of documents. It approved reports on the status of corrective measures as at the end of each quarter of 2013 and was regularly informed of all actions carried out by Internal Audit. Management of corrective measures and their proper implementation were fully addressed, with emphasis on fulfilling all steps of the action plan in order to improve the area of information security. The Board also discussed the results of risk mapping, based upon which the annual internal audit plan for 2014 and a strategic plan for the period 2014–2018 were established and approved. It discussed, too, measures taken in accordance with the findings presented in the Management Letter which had been prepared and presented to the Board of Directors by the external auditor Ernst & Young Audit, s.r.o. The Board of Directors also evaluated the external auditor's activities and was provided with independent external evaluation of the activities of KB's Internal Audit.

The Board of Directors evaluated the overall functioning and efficiency of the Bank's management and control system, which is functional and effective. Furthermore, the Board of Directors addressed reports on the handling of complaints and claims (including complaints sent to the Bank's Ombudsman). The Board of Directors also discussed the Bank's strategic direction for the next year.

The Board of Directors discussed all issues falling within its competence as the sole shareholder in performing duties of the General Meeting in KB Group's subsidiaries, such as approving financial statements, election and remuneration of members of company bodies, amendments to the articles of association, appointment of auditors and other matters.

As part of its activities, the Board of Directors decided on many other issues related to organisational structure, approving directives within various arms or granting powers of attorney. It discussed optimisation of the portfolio of buildings for KB's head office. The new collective agreement was approved and elections of members of the Supervisory Board representing employees were held.

The Board of Directors, as the founder, also discussed the orientation of Komerční banka's Jistota Foundation and it was informed of the Foundation's activities. It discussed project prioritisation for the next year and it approved contractual documentation related to co-operation with the European Investment Bank.

Great attention was further devoted to Corporate Governance issues in the context of new developments in Czech legislation and at the parent company Société Générale. The Board was informed about regulatory changes and their impacts in connection with re-codification of the Civil Code and the new Act on Business Corporations. The Board of Directors evaluated its own activities in 2012 and submitted its report on those activities for this period to the Supervisory Board. The Board of Directors approved the proposal for amendment of the Bank's Articles of Association related to the new legislation, which was discussed in January 2014 by the extraordinary General Meeting.

The Board of Directors establishes specialised committees to which it delegates authority for making decisions in various activity areas assigned to them. The Board of Directors approves the statutes of these committees, while their members are appointed by the CEO. These committees include the following:

Directors' Committee (DIRCOM)

The Directors' Committee is a body for communication and exchange of views regarding strategies and issues in KB's general interest. The Directors' Committee has two forms: the Directors' Committee and the Enlarged Directors' Committee in which representatives of Komerční banka's subsidiaries and affiliates are also present. The committee does not have decision-making powers but proposes recommendations to the responsible bodies. It is an advisory body to the Chief Executive Officer.

List of Members of the Directors' Committee	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Officer, Distribution – Retail and Corporate
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Officer, Top Corporations
Peter PALEČKA	Member of the Board of Directors, Senior Executive Officer, Corporate Secretary
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Officer, Chief Administrative Officer
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Libor LÖFLER	Executive Director, Strategy and Finance
David FORMÁNEK	Executive Director, Human Resources
Petr KALINA	Executive Director, Support Services
Slawomir KOMONSKI	Executive Director, Investment Banking
Karel BERAN	Executive Director, Project Organisation and Management
Yvon PUYOU	Executive Director, Information Technology
Pavel RACOCHA	Executive Director, Internal Audit
Charles-Pierre SERAIN	Executive Director, Marketing, Communication and Business Development
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Patrice BEGUE	Executive Director, Retail Banking
Iveta OCÁSKOVÁ	Executive Director, Corporate Banking
Jiří ŠPERL	Executive Director, Strategic Planning

Additional members of the Enlarged Directors' Committee	Position
Pavel JIRÁK	CEO, KB Penzijní společnost
Jan POKORNÝ	CEO, Modrá pyramida
Miloslav KUKLA	CEO, Factoring KB
Renaud STERN	CEO, ESSOX
Reinhold KNÖDL	CEO, SGEF
Stéphane CORBET	CEO, Komerční pojišťovna
Albert RECULEAU	CEO, Investiční kapitalová společnost, a.s.
Petr KOHOUT	CEO, ALD Automotive, s.r.o.
Libor KOŠÍČEK	CEO, PEMA, s.r.o.
Secretary of the Committee: Renata KŠANDOVÁ	

Project Management Committee (PMC)

The Project Management Committee makes and proposes decisions regarding KB's development activities and their prioritisation (KB's Project Plan), including to initiate, change or terminate important projects, as well as to measure and evaluate projects' contributions. It considers the material content of important projects and their links as well as their use of financial and non-financial resources. Each member of the committee has one vote. If a consensus is not reached, the committee acts based on a simple majority of the members present or their deputies.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Officer, Chief Administrative Officer
Karel BERAN	Executive Director, Project Organisation and Management
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Officer, Top Corporations
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Officer, Distribution – Retail and Corporate
Martin PARUCH	Deputy Senior Executive Officer, Network Management Support
Charles-Pierre SERAIN	Executive Director, Marketing, Communication and Business Development
Libor LÖFLER	Executive Director, Strategy and Finance
Yvon PUYOU	Executive Director, Information Technology
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Petr NOVÁK	Manager of Information Management
Secretary of the Committee: Jiří PETRŽÍLKA	

Watch Provision List Committee (WPLC)

The Watch Provision List Committee makes and proposes decisions regarding provisions. The Committee is responsible for clients' inclusion into or removal from the Watch Provision List, used for rating clients according to the CNB classification system and for determining the appropriate amount of provisions. The Committee decides on three levels. Each member of the WPLC expresses an opinion on proposals regarding each discussed case. A consensus of all regular members at the respective level is sought so that the final decision assumed by that level reflects the joint position of the risk management and business units. If a consensus is not reached (i.e. if at least one of the regular members does not concur), then the case is moved up to the next WPLC level. If within WPLC Level 3 a consensus is not reached, then the final decision is made by the Chief Executive Officer. A higher level WPLC is entitled to review and change any decision of a lower level WPLC.

Members – LEVEL 3	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Officer, Top Corporations
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Officer, Distribution – Retail and Corporate
Libor LÖFLER	Executive Director, Strategy and Finance

Members – LEVEL 2	Position
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Dušan ORDELT	Manager of Credit Risk Approval
Pavel PROCHÁZKA	Head of Loan Consulting
Miloslav SODOMKA	Deputy Senior Executive Officer, Top Corporations
Lenka DVOŘÁKOVÁ	Manager of Credit Portfolio Management

Members – LEVEL 1 Pilsen	Position
Alena VACÍKOVÁ	Manager of Regional Credit Risk Assessment
Anna ŠÍPOVÁ	Head Credit Analyst – Region

Members – LEVEL 1 Hradec Králové	Position
Jiří DĚDEK	Manager of Regional Credit Risk Assessment
Alena SLÍPKOVÁ	Regional Credit Manager

Members – LEVEL 1 Ostrava	Position
Lubomír ANDRLA	Manager of Regional Credit Risk Assessment
Miroslav SKLENÁŘ	Regional Credit Manager

Members – LEVEL 1 Brno	Position
Markéta RIESNEROVÁ	Manager of Regional Credit Risk Assessment
Petr LUKÁŠEK	Regional Credit Manager

Members – LEVEL 1 Prague	Position
Petr PLAŠIL	Risk manager
Stanislav CHALUPA	Regional Credit Manager
Secretary of the Committee: Blanka KOLÁŘOVÁ	

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee makes and proposes decisions regarding asset and liability management in KB. Each member of the committee has one vote. If a consensus is not reached, the committee acts based on a simple majority of those members present.

Members	Position
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Officer, Chief Administrative Officer
Libor LÖFLER	Executive Director, Strategy and Finance
Lukáš VOBORSKÝ	Manager of Capital Markets Risks
Slawomir KOMONSKI	Executive Director, Investment Banking
Ivan VARGA	Manager of Treasury and Institutional Sales
Tomáš FUCHS	Manager of ALM
Secretary of the Committee: Tomáš FUCHS	

Commercial Committee (CC)

The Commercial Committee makes and proposes decisions in the area of business offers, business strategy and tactics, rates, prices and conditions. It also provides its opinions on selected new products in accordance with its statutes. A consensus of all members is sought. If a consensus is not reached, the committee acts based on a simple majority of the members present, and, in the event of a tie, the chairman has the deciding vote.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Officer, Top Corporations
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Officer, Chief Administrative Officer
Charles-Pierre SERAIN	Executive Director, Marketing, Communication and Business Development
Radek BASÁR	Deputy Executive Director, Marketing, Communication and Business Development
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Officer, Distribution – Retail and Corporate
Patrice BEGUE	Executive Director, Retail Banking
Iveta OCÁSKOVÁ	Executive Director, Corporate Banking
Libor LÖFLER	Executive Director, Strategy and Finance
Slawomir KOMONSKI	Executive Director, Investment Banking
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Yvon PUYOU	Executive Director, Information Technology
Karel BERAN	Executive Director, Project Organisation and Management
Tomáš DOLEŽAL	Manager of Operational Risk
Jana HANUŠOVÁ	Advisor to CEO for KB and SG Group Synergies
Jiří ŠPERL	Executive Director, Strategic Planning
Secretary of the Committee: Hana KEITA RIZMANOVÁ	

Credit Risk Management Committee (CRMC)

The Credit Risk Management Committee makes and proposes decisions regarding credit risk management principles and their implementation. A decision may be taken if at least 50% of all members are present. A consensus of all members is sought. If a consensus is not reached, the committee acts based on a simple majority of the members present with voting rights. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Leoš SOUČEK	Deputy Senior Executive Officer, Risk Management
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Officer, Distribution – Retail and Corporate
Charles-Pierre SERAIN	Executive Director, Marketing, Communication and Business Development
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Officer, Top Corporations
Libor LÖFLER	Executive Director, Strategy and Finance
Yvon PUYOU	Executive Director, Information Technology
Tomáš DOLEŽAL	Manager of Operational Risk
Dušan ORDELT	Manager of Credit Risk Approval
Lukáš VOBORSKÝ	Manager of Capital Markets Risks
Hana MITKOVOVÁ	Manager of Asset Valuation and Recovery
Adam FIEDLER	Advisor to Senior Executive Director, Risk Management
Pavel RACOCHA	Executive Director, Internal Audit
Secretary of the Committee: Petr ZDENĚK	

Investment Banking New Product Committee (IB NPC)

The Investment Banking New Product Committee makes and proposes decisions on new investment banking products in accordance with its statutes. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products and monitoring that these conditions are met. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer. If a product is not launched into the market within six months of approval, then the decision is void and the product must be resubmitted to the Committee for new approval.

Members	Position
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Officer, Top Corporations
Lukáš VOBORSKÝ	Manager of Capital Markets Risks
Dušan ORDELT	Manager of Credit Risk Approval
Michaela DINGOVÁ	Manager of Investment Banking Services
Bohumil ČUČELA	Manager of Accounting and Reporting
Lukáš WAGNER	Head of Investment Products
Tomáš SLABOCH	Manager of IT Application Services
Sylva FLORÍKOVÁ	Manager of Compliance
Jakub DOSTÁLEK	Manager of Tax
Tomáš FUCHS	Manager of ALM
Tomáš DOLEŹAL	Manager of Operational Risk
Secretary of the Committee: Lukáš VOBORSKÝ	

Corporate and Retail Banking New Product Committee (CRB NPC)

The Corporate and Retail Banking New Product Committee makes and proposes decisions on new products other than investment banking products in accordance with its statutes. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products and monitoring that these conditions are met. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer. If the product is not launched to the market within six months of approval, then the decision is void and the product must be resubmitted to the Committee for new approval.

Members	Position
Leoš SOUČEK	Deputy Senior Executive Officer, Risk Management
Charles-Pierre SERAIN	Executive Director, Marketing, Communication and Business Development
Marcela KRÁLOVÁ	Specialist, Compliance
Tomáš DOLEŹAL	Manager of Operational Risk
Patrice BEGUE	Executive Director, Retail Banking
Iveta OCÁSKOVÁ	Executive Director, Corporate Banking
Yvon PUYOU	Executive Director, Information Technology
Radek BASÁR	Deputy Executive Director, Marketing, Communication and Business Development
Martin KADORÍK	Deputy Executive Director, Transaction and Payment Services
Karel MATĚJKA	Deputy Executive Director, Project Organisation and Management
Adam FIEDLER	Advisor to Senior Executive Director, Risk Management
Guillaume CHAMBON	Deputy Executive Director, Strategy and Finance
Miloslav SODOMKA	Deputy Executive Director, Top Corporations
Secretary of the Committee: Marcela KRÁLOVÁ	

Operational Risk Committee (ORC)

The Operational Risk Committee makes and proposes decisions regarding operational risks and safety. For a decision to be taken, at least 50% of all members must be present. A consensus of all members is sought. If a consensus is not reached, the committee acts based upon a simple majority of those members present having voting rights. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Peter PALEČKA	Member of the Board of Directors, Senior Executive Officer, Corporate Secretary
Tomáš DOLEŽAL	Manager of Operational Risk
Sylva FLORÍKOVÁ	Manager of Compliance
Karel ŠTOIDL	Deputy Executive Director, Support Services
Martin PARUCH	Deputy Senior Executive Officer, Network Management Support
Guillaume CHAMBON	Deputy Executive Director, Strategy and Finance
Martin KADORIK	Deputy Executive Director, Transaction and Payment Services
Ondřej HERCOG	Head of IT Security and Operational Risk Management
Markéta NOVOTNÁ	Manager of Risk Supervision and Prevention
David KUBĚJ	Manager of Investment Banking Global Strategy and Development
Jiří MIFEK	Manager of HR Services Centre
Iva ŠTĚPÁNKOVÁ	Manager of Legal Services
Markéta ZEMANOVÁ	Head of Top Corporations Business Divisions Support
Jiří PETRŽÍLKA	Manager of Project Portfolio Management
Vladimír ČESKÝ	Manager of Internal Audit
Radek BASÁR	Deputy Executive Director, Marketing, Communication and Business Development
Michaela DINGOVÁ	Manager of Investment Banking Services
Secretary of the Committee: Dušan PAMĚTICKÝ	

Compliance Committee (COC)

The Compliance Committee provides consultancy in the area of compliance risk management, and it provides a platform for exchange of views regarding risk compliance management, development of regulations, investigations by regulatory institutions and serious compliance failures. Each member of the Committee has the right to express his or her opinion and recommendation for the case at hand. Decisions are made based on a consensus of all members.

Members	Position
Peter PALEČKA	Member of the Board of Directors, Senior Executive Officer, Corporate Secretary
Sylva FLORÍKOVÁ	Manager of Compliance
Tomáš CHOUTKA	Deputy Manager of Compliance
Tomáš DOLEŽAL	Manager of Operational Risk
Pavel RACOCHA	Executive Director, Internal Audit
Secretary of the Committee: Eliška SALABOVÁ	

Security Committee (SecCom)

The Security Committee approves the strategy for security of KB's information systems, approves the Group's security management and proposes a portfolio of priority security projects relating to information security, physical security, personnel security and information technology security. A decision may be taken if more than 50% of all of all permanent members with voting rights are present. The committee acts based on a simple majority of the members present with voting rights. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Officer, Chief Administrative Officer
Karin GUBALOVÁ	Head of Information Security
Yvon PUYOU	Executive Officer, Information Technology
Yann BOUVIER	Manager of IT Security
Tomáš DOLEŽAL	Manager of Operational Risk
Vladimír ČESKÝ	Manager of Internal Audit
František KUBALA	Manager of Project Implementation
Tomáš FÍLA	Manager of Operational Services
Petr NOVÁK	Manager of Information Management
Martin PARUCH	Deputy Senior Executive Officer, Network Management Support
Mojmír PROKOP	Manager of Multichannels
Andrea MOJŽÍŠOVÁ	Advisor to Senior Executive Director, Risk Management
Radek BASÁR	Deputy Executive Director, Marketing, Communication and Business Development
David KUBĚJ	Manager of Investment Banking Global Strategy and Development
Michaela DINGOVÁ	Manager of Investment Banking Services
Jiří VANĚK	Manager of Risk Management Information Systems
Libor LÖFLER	Executive Director, Strategy and Finance
Jiří MIFEK	Manager of HR Services Centre
Karel ŠTOIDL	Deputy Executive Director, Support Services
Secretary of the Committee: Karin GUBALOVÁ	

Credit Committee (CrCo)

The Credit Committee monitors and assesses both past and expected developments in KB's credit portfolio based on the analysis of risk indicators, including to monitor credit risk in the subsidiaries and affiliates. It is an advisory body to the Chief Executive Officer.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Leoš SOUČEK	Deputy Senior Executive Officer, Risk Management
Jean Luc PARER	Representative of SG - IBFS
Giovanni Luca SOMA	Representative of SG - IBFS
Alain CONUS	Representative of SG - IBFS
Bernard HUBERT	Representative of SG - RISQ
Secretary of the Committee: Leoš SOUČEK	

Business Management Committee (BusCom)

The Committee was established in order to manage businesses other than retail banking. It was created to ensure that business profitability is enhanced while effectively allocating resources to these business activities and safeguarding the Bank's robust liquidity. A decision may be taken if more than 50% of all members are present. A consensus is sought. If a consensus is not reached, the committee acts based on a simple majority of those members present having voting rights. If a majority is not reached, the decision is made by the chairman of the Committee.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Officer, Top Corporations
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Officer, Distribution – Retail and Corporate
Aurélien VIRY	Member of the Board of Directors, Senior Executive Officer, Risk Management
Libor LÖFLER	Executive Director, Strategy and Finance
Secretary of the Committee: Hana KEITA RIZMANOVÁ	

Card Committee (CACO)

The Committee was established in order to manage KB's business activities related to payment cards, including card acquisitions, ATMs and issuing cards to KB Group clients. A consensus of all members is sought. If a consensus is not reached, each member of the committee has one vote and the committee acts based on a simple majority of the members present. In the event of a tie, the chairman has the deciding vote.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Officer, Chief Administrative Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Officer, Distribution – Retail and Corporate
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Officer, Top Corporations
Libor LÖFLER	Executive Director, Strategy and Finance
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Charles-Pierre SERAIN	Executive Director, Marketing, Communication and Business Development
Secretary of the Committee: Jiří PŘIBYL	

Changes in committees during 2013

In 2013, the Board of Directors decided in April to establish the Card Committee and in May to abolish the Group Communication Committee.

Information about Special Rules for the Election and Recall of Members of the Board of Directors

Members of the Board of Directors of Komerční banka are elected by the Supervisory Board upon nomination by its Remuneration and Personnel Committee. A nominee must receive an absolute majority of votes of all Supervisory Board members. Members of the Board of Directors are elected to terms of four years. Only persons fulfilling the conditions for serving as a member of a Board of Directors as specified by the Commercial Code and by the Banking Act may become members of the Board of Directors. The professional qualifications, trustworthiness and experience of the members of the Board of Directors are assessed by the Czech National Bank.

The Supervisory Board has the right to decide at any time to recall a member of the Board of Directors. The decision is carried if approved by an absolute majority of its members. The Supervisory Board's decision is based on a proposal of the Supervisory Board's Remuneration and Personnel Committee.

Information about Special Powers of the Members of the Board of Directors, Especially about Authorisations under Sections 161a and 210 of the Commercial Code

The Board of Directors of Komerční banka is the statutory body that decides upon all matters concerning the Bank with the exception of those matters falling within the powers of the General Meeting or of the Supervisory Board. It is within the Board of Directors' exclusive powers to:

a) convene the General Meeting and implement its resolutions;
b) submit to the General Meeting for its approval the ordinary, extraordinary and consolidated financial statements and the interim financial statements along with a proposal for distribution of profit or covering of losses (the same must be available to shareholders for inspection at least 30 days prior to the date of the General Meeting);

c) submit to the General Meeting proposals for amendments and changes in the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
d) submit to the General Meeting a report on the Bank's business activities and the state of the Bank's property and to do so at least once for each accounting period;
e) decide to confer and revoke power of procuration;
f) decide upon the appointment, removal and remuneration of selected managers of the Bank;
g) approve acts in connection with the realisation of security instruments for claims of the Bank whose value exceeded CZK 100,000,000 as at the date of the claim's origin and whose presumed realisation value is lower than 50% of the value of the securitising instrument as ascertained upon the conclusion of the loan agreement;
h) submit to the Supervisory Board for information quarterly and half-yearly financial statements;
i) decide upon acts which are outside the scope of the Bank's usual business relations;
j) define and regularly evaluate the Bank's overall strategy, including to establish the principles and targets for its fulfilment and to ensure the continuous and effective operation of the internal control system;
k) approve the Bank's annual plans and budgets as well as the strategic and annual plans of legal entities controlled by the Bank under the Banking Act;
l) conclude a contract with the auditor for performance of the statutory audit or, as the case may be, for provision of other services;
m) inform the Supervisory Board as to the day of the General Meeting no later than within the period specified by the Commercial Code for the convening of the General Meeting;
n) decide upon issuance of the Bank's bonds, with the exception of decisions on the issue of bonds for which the decision of the General Meeting is required by law;
o) decide upon an increase in share capital if so authorised by the General Meeting;
p) enter into a collective agreement;
q) decide upon providing loans or guarantees to persons with a special relationship to the Bank pursuant to the Banking Act;
r) approve the rules and the strategic and periodic plans for the activities of Internal Audit;
s) approve the annual reports of the Bank;
t) approve and regularly evaluate the security principles of the Bank, including the security principles for information systems;
u) decide upon establishing other funds and on the rules governing their creation and usage;
v) approve the Report on Relations among Related Entities in accordance with the Commercial Code;
w) approve and regularly evaluate the Bank's organisational structure;
x) approve the principles of the personnel and remuneration policy;
y) evaluate the overall functioning and effectiveness of the management and control system at least yearly;
z) approve and regularly evaluate the risk management strategy, the strategy relating to capital and to capital adequacy, as well as the information systems development strategy;
za) approve and regularly evaluate the principles of the internal control system, including the principles aiming to prevent any possible conflict of interests and the compliance principles; and
zb) discuss the audit report with the auditor.

In addition to the aforementioned, the Board of Directors shall in particular:
a) manage the activities of the Bank and conduct its business affairs;
b) ensure proper maintenance of the Bank's accounting, including the proper administrative and accounting processes;
c) exercise employer's rights;
d) exercise rights in respect to the Bank's property interests arising from the Bank's ownership holdings;
e) approve the acquisition or disposal of the Bank's fixed assets exceeding CZK 30,000,000 as a single case or as a total for related cases; and
f) approve the business continuity plan and the fire protection plan.

The General Meeting did not authorise the Board of Directors to make a decision on increasing registered capital. Based on the consent of the General Meeting held on 24 April 2013, Komerční banka was authorised to acquire its ordinary shares into treasury. The conditions and information on the acquisition of its own shares are provided in the Acquisition of Treasury Shares chapter of this annual report.

See page 17
Acquisition of Treasury Shares

Supervisory Board

The Supervisory Board is the supervisory authority of the Bank. It supervises the exercise of the Board of Directors' powers, the conduct of the Bank's business activities and the effectiveness and efficiency of the Bank's management and control system as a whole.

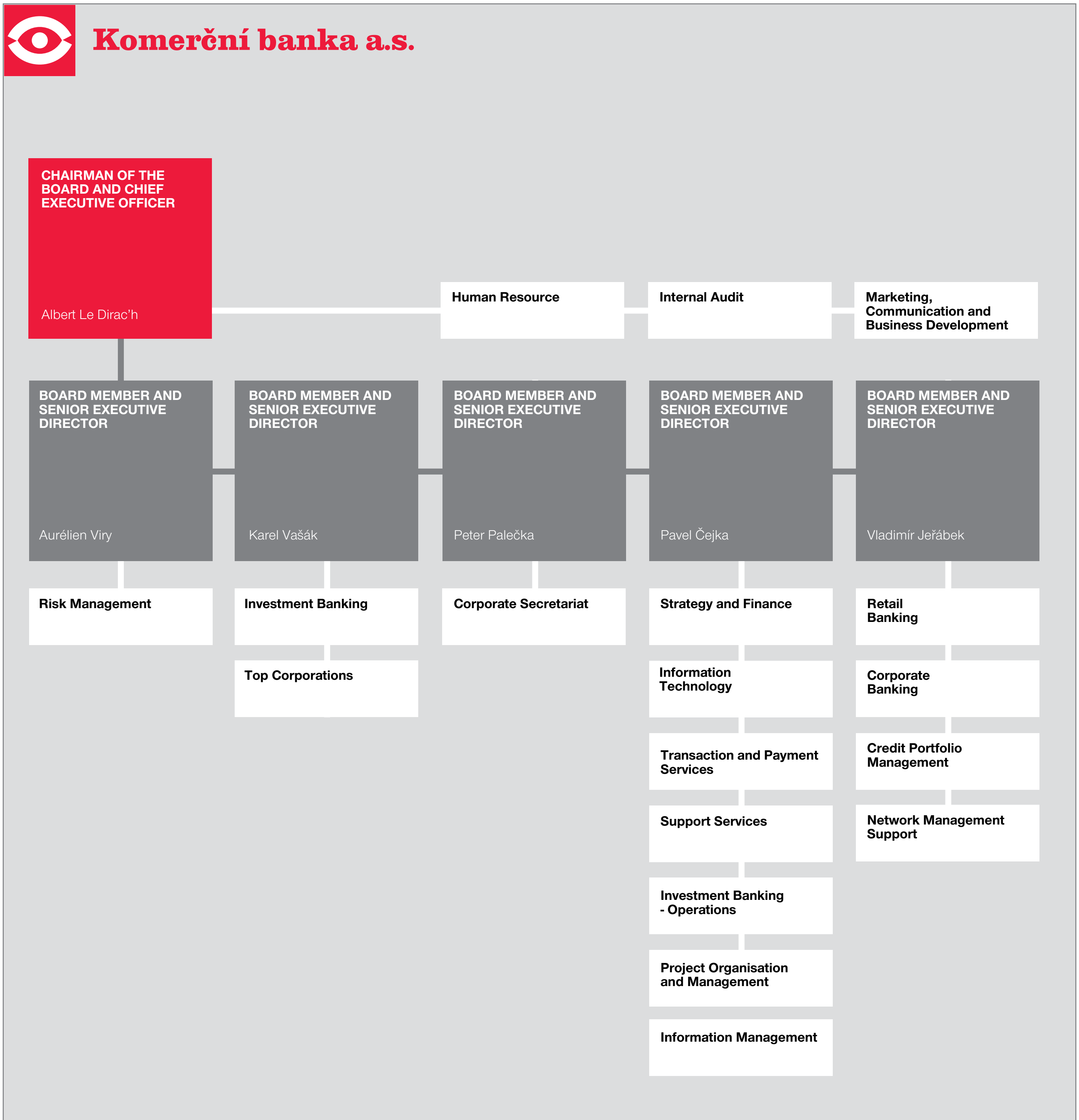
The Supervisory Board consists of nine members, who are individuals meeting the statutory requirements for becoming a member of the Bank's Supervisory Board. Two-thirds of them are elected by the General Meeting and one-third by the Bank's employees to terms of four years.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations or other sanctions have been filed against them. No bankruptcy, receivership or liquidation was declared in relation to the stated persons in the past 5 years.

Composition of the Supervisory Board

Jean-Luc Parer
Chairman of the Supervisory Board (appointed as a substitute member of the Supervisory Board from 27 September 2012 until 24 April 2013 and thereafter elected by the General Meeting as from 1 May 2013)

Organisational chart of Komerční banka (as at 31 December 2013)



Giovanni Luca Soma
Vice-Chairman of the Supervisory Board (since 1 May 2013)

Didier Alix
Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009, membership terminated as at 30 April 2013)

Jean-Louis Mattei
Vice-Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009, membership terminated as at 30 April 2013)

Laurent Goutard
Member of the Supervisory Board (since 1 May 2013)

Bernardo Sanchez Incera
Member of the Supervisory Board (elected as a substitute member of the Supervisory Board from 1 October 2010 until 21 April 2011 and thereafter elected by the General Meeting as from 22 April 2011)

Bořivoj Kačena
Member of the Supervisory Board (since 29 April 2008, re-elected on 30 April 2012)

Pavel Jelínek
Member of the Supervisory Board elected by KB's employees (since 1 June 2013)

Pavel Krejčí
Member of the Supervisory Board elected by KB's employees (since 26 May 1997, re-elected on 27 May 2001, 28 May 2005 and 29 May 2009 membership terminated as at 31 May 2013)

Petr Laube
Independent Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005, on 30 April 2009 and on 1 May 2013)

Dana Neubauerová
Member of the Supervisory Board elected by KB's employees (since 29 May 2009, re-elected on 1 June 2013)

Karel Přibil
Member of the Supervisory Board elected by KB's employees (since 29 May 2009)

Jean-Luc Parer
Graduate of the University of Commerce HEC and a Master's Graduate of Law. He began working at Société Générale in 1981 in the Inspection Department. From 1991 to 2001, he was head of structured financing within the Investment Banking Department. From 2001 to 2003, he participated in the development of debt financing, and from 2003 to 2005 he was responsible for supervising activities of SG on debt capital markets. In 2005, he became Deputy Director of Global Debt Financing, and in 2008 he was appointed Director of Capital Markets and Finance. In 2009, he became Director of Global Finance and Corporate and Investment Banking. Since 2012, he has been Director of International Retail Banking and a Member of the Supervisory Board and of the Audit Committee of Komerční banka. Since 2013, he has been Chairman of the Supervisory Board of KB.

Giovanni Luca Soma
MBA graduate of the University of Turin, Italy, and a graduate of LUISS University with a degree in business economics. Also holding qualifications to work as a certified auditor and as a certified public accountant. From 1984 to 1989, he was the manager of Arthur Young Consulting in Rome, Italy. From 1989 to 1994, he worked with Deloitte & Touche Consulting in Milan, Italy. Between 1994 and 1997, he served as Sales and International Services Director of Hyperion Software Inc. Between 1997 and 1998, he served as managing director of GE Capital Insurance and, subsequently between 1998 and 1999, as Corporate Sales Director for Italy in GE Capital. From 1999 to 2000, he served as CEO of Dial Italia (Barclays Group). Between 2000 and 2005 he served as CEO of ALD Automotive, between 2002 and 2008 as Group Regional Director and Deputy CEO of the ALD Automotive Group, and between 2008 and 2011 as CEO of the ALD Automotive Group. He currently serves as Chairman of the Board of Directors of ALD International, France (since 2011), as CEO of SG Consumer Finance, France (since 2010), and as Deputy Head of BHFM, International Retail Banking (since 2012). Since 2013, he has been a Member and Vice-Chairman of the Supervisory Board of KB.

Laurent Goutard
Graduate of four-year economics studies at the University of Paris-Dauphine and of the Paris Institute of Political Studies, faculty of public services, with a major in economics. In 1986, he joined Société Générale, working first at the General Inspection and then, between 1993 and 1996, as Deputy Managing Director for Large Corporations at the Paris-Opéra Branch. Between 1996 and 1998, he was Director of the Corporate Banking Division on the French territory. From 1998 to June 2004, he was a Member of the Board of Directors and Chief Executive Officer, later the Chairman of the Board of Directors of Société Générale Marocaine de Banques. In 2004, he became Vice-Chairman of the Board of Directors and in 2005 Chairman of the Board of Directors and CEO of Komerční banka. He served in that position until 2009 when he became French Network Director and Delegated Director for Retail Banking of Société Générale in France. Since 2011, he has served as French Network Director and Director for Retail Banking of Société Générale in France. Since 2013, he has been a Member of the Supervisory Board of Komerční banka.

Pavel Jelínek
Completed studies at the Secondary School of Economics in Chrudim. In 1993, he began working in Komerční banka in various positions in cash processing (as a warden, ATM operator, cashier, deputy manager of cash section). Beginning in 2002, he was commercial clerk, and later he was a relationship manager for individuals, a relationship manager for small businesses and a team leader. Until the end of 2013, he was relationship manager for top small business clients, and since 2014 he has been a relationship manager for corporations. He has been member of trade unions at KB since his arrival to KB. Since 1994, he has represented employees as chairman of the union's local unit in Pardubice, and at the same time he has been a member of the all-company committee of trade unions at KB. Since 2011, he has been member of the union's negotiating team for collective negotiation with the employer. Since 2013, he has been a Member of the Supervisory Board of Komerční banka.

Bořivoj Kačena
Graduate of the Czech Technical University in Prague (Faculty of Civil Engineering). In 1966, he started to work for Stavby silnic a železnic, n. p. (SSŽ), where he held various positions. From 1978, he worked in SSŽ as director of

its branch office 4, and from 1983 as director of the organisation "Investor of Transport Construction" for metro and urban road construction within the Prague Public Transit Company. He became director of the state enterprise SSŽ in November 1988 and its chief executive officer and Chairman of the Board of Directors in 1992. From 2007 to April 2008, he was the Chairman of the Board of Directors of SSŽ. Since 2008, he has been a Member of the Supervisory Board of Komerční banka.

Petr Laube
Graduate of the University of Economics, Prague, specialised in foreign trade. From 1974 to 1991, he worked in Polytechna, a foreign trade company for technical co-operation. From 1991 to 1992, he was at Deutsche Bank, A.G. in Nuremberg. Between 1992 and 1993, he worked for Lafarge Coppée, Paris, and since 1993 he has been chief executive officer and chairman of the Board of Directors of Lafarge Cement, a.s., Prague. From 2005, he served as director of the segment of electricity, gas, liquid fuels at SG&A at Lafarge, s.a., Paris. From January 2007, he was chief executive officer of Lafarge Cement, a.s., in Ukraine. He has been retired since December 2009. Since 2001, he has been a Member of the Supervisory Board of Komerční banka.

Dana Neubauerová
Completed studies at the Secondary School of Economics in Havlíčkuv Brod. She has been working in Komerční banka (formerly State Bank of Czechoslovakia) since 1984. She gradually passed through a number of positions from data acquisition to liquidation worker, and then from 1991 to 1998 she worked as head of a services department. From June 1998 to 2002, she worked as a commercial clerk for entrepreneurs and until 2006 as the bank advisers team leader. From 1 March 2006, she was appointed director of the Havlíčkuv Brod branch, and then was director of the Level 2 Havlíčkův Brod branch from 1 October 2008. She has been the director of the Level 2 Jihlava branch since 1 July 2009. She has been a union member since joining Komerční banka, and she served as chairwoman of the union's local unit in Havlíčkův Brod from 1990 to June 2008. Since 2009, she has been a Member of the Supervisory Board of Komerční banka.

Karel Přibil
Graduated from the Faculty of Education at Charles University in Prague, where in 1986 he defended his doctoral thesis. Since joining Komerční banka in 1993, he has worked in various positions at headquarters – first as a specialist officer, then in 1995 in internal services and from 2003 as a property administration specialist. From 1 March 2006, he has held the office of Chairman of the Trade Union Committee and been a member of other union bodies. He has been a union member since joining Komerční banka and chairman of the union's headquarters unit and a member of KB's Trade Union Committee since the mid-1990s. He also participates in collective bargaining. He has been a Member of the Supervisory Board of Komerční banka since 2009 and a member of the Supervisory Board of the Occupational Health Insurance Company since 2011.

Bernardo Sanchez Incera
Graduate in economic studies at the Institute of Political Studies in Paris and holder of an MBA from INSEAD in Fontainebleau. From 1984 to 1994, he worked first as manager of customer relations and deputy director for corporate clients of Credit Lyonnais La Défense and subsequently as Deputy to the CEO of Crédit Lyonnais Belgium. From 1994 to 1996, he served as CEO at Banca Jover in Spain and from 1996 to 1999 as CEO of Zara France. From 1999 to 2001, he was a member of the Board of Directors of Inditex. In the years 2001 to 2003, he was President for Europe of LVMH & Maroquinerie Mode within the LVMH Fashion Group, and in the years 2003 to 2004 he served as CEO of Vivarte. During 2004 to 2009, he served as CEO for the Monoprix supermarket chains. In 2009, he joined Société Générale, and since January 2010 he has been one of its chief executive officers responsible for international retail banking and specialised financial services. Since 2010, he has been a Member of the Supervisory Board of Komerční banka.

Activity Report of the Supervisory Board

Regular meetings of the Supervisory Board shall be held once per calendar quarter with the possibility of remote voting. A quorum of the Supervisory Board shall be constituted if at least five members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of all members of the Supervisory Board.

In 2013, the Supervisory Board held five regular meetings. The average meeting length was 57 minutes.

The Supervisory Board reviewed the Bank's separate and consolidated financial statements as at 31 December 2012 prepared under International Financial Reporting Standards (IFRS). The report of the external auditor, Ernst & Young Audit, s.r.o., was unqualified, and the Supervisory Board recommended that the General Meeting approve both financial statements as proposed by the Bank's Board of Directors.

The Supervisory Board also examined the Board of Directors' proposal for distribution of net profit for the 2012 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities for 2012 drawn up pursuant to Section 66a (9) of the Commercial Code and stated that based on the presented documents Komerční banka did not incur during the accounting period from 1 January 2012 to 31 December 2012 any damages resulting from the contracts and agreements made with related entities.

During 2013, the Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's management and control systems; concluded that the management and control systems are functional and effective. Moreover, it examined the 2012 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism and the annual compliance management report. KB Group's budget for 2013 was submitted for discussion to the Supervisory Board.

The Supervisory Board discussed the remuneration of the members of the Board of Directors and decided on the amounts of bonuses, the payment of which is subject to the principles (scheme) of deferred bonuses approved in 2012. The Supervisory Board also discussed developments in the areas of employee turnover, sickness rate and overtime. It discussed the annual analysis as to the handling of all complaints sent to KB and its Ombudsman. The Activity Report of the Board of Directors for 2012 also was presented to the Supervisory Board and it also discussed a proposal for re-election of a member of the Board of Directors.

The Supervisory Board regularly discussed the Bank's quarterly financial results, its position on the market with regard to development of the macroeconomic environment, and measures taken in the area of the Bank's bond portfolio. Furthermore, it discussed the proceedings of the Internal Audit and their results in individual periods of the year, and, at the same time, the Supervisory Board expressed its consent to the annual internal audit plan for 2014 and the strategic plan for 2014–2018. It duly investigated two complaints addressed to it and concurred in the conclusions drawn and measures taken by the Bank's Board of Directors. It was informed on the calling of the extraordinary General Meeting in order to approve the amendments in the Articles of Association related to the entering into force of new corporate law from 1 January 2014.

In the course of its activities, the Supervisory Board continued to rely on the opinion of its Remuneration and Personnel Committee and was informed of the issues discussed by the Audit Committee.

The Supervisory Board's Remuneration and Personnel Committee

The Remuneration and Personnel Committee is an advisory and recommending body of the Supervisory Board and has three members, one of whom is independent. The committee usually meets once per quarter and a quorum is constituted if a simple majority of all members of the committee are present at the meeting. Resolutions shall be adopted by an absolute majority of all its members.

The committee held three regular meetings in 2013. In-line with Articles of Association of the Bank, there was voted once not on the meeting. The average length of the sessions was 1.5 hours.

The committee discussed issues of the Bank's personnel policy, the deferred bonus scheme and remuneration of its employees. It provided recommendations to the Supervisory Board within the scope of its powers. It discussed development in the number of employees. Moreover, it discussed and provided its recommendations on the remuneration of KB managers who are also members of the Board of Directors, it was informed on implementation of the remuneration principles and on implementation of the principles recommended by Internal Audit (in relation to the recommendation of the Czech National Bank on remuneration). The Committee proposed re-election of a member of the Board of Directors. The committee was also informed on the progress and results of collective bargaining.

Audit Committee

The Audit Committee is a body of the Bank established by the General Meeting in accordance with Act No. 93/2009 Coll., on Auditors, and its powers are stipulated by that act and the Bank's Articles of Association.

The Audit Committee consists of three members, individuals, who meet the requirements for the performance of duties of a member of the Audit Committee set forth by legal regulations and by the Articles of Association. Audit Committee members shall be appointed by the General Meeting from the members of the Supervisory Board for the term of four years. One Audit Committee member shall be an independent member.

Composition of the Audit Committee

Petr Laube
independent Member of the Audit Committee (since 29 April 2009) and Chairman of the Audit Committee (since 30 September 2010, re-elected on 30 April 2013)

Jean-Louis Mattei
Member of the Audit Committee (appointed as a substitute member of the Audit Committee from 1 October 2010 until 21 April 2011 and thereafter elected by the General Meeting as from 22 April 2011, membership terminated as at 24 April 2013)

Jean-Luc Parer
Member of the Audit Committee (appointed as a substitute member of the Audit Committee from 27 September 2012 to 24 April 2013 and thereafter elected by the General Meeting as from 25 April 2013)

Giovanni Luca Soma
Member of the Audit Committee (since 25 April 2013)

Activity Report of the Audit Committee

The Audit Committee meets as a rule once per quarter, but at least four times in a calendar year. A quorum of the Audit Committee shall be constituted if a simple majority of all Audit Committee members attend the meeting. Decisions on all matters discussed by the Audit Committee must receive an absolute majority of votes to be carried. If the votes are equal, the chairperson shall cast the deciding vote. The person in question shall not vote in the proceedings with respect to the election and removal of Chairman and Vice-Chairman of the Audit Committee.

The Audit Committee held eight regular meetings in 2013. The average meeting length was 1 hour and 20 minutes.

The committee performed its monitoring activities and worked closely within the Bank, especially with Internal Audit, Strategy and Finance, Risk Management, and Compliance departments, but also with the external auditor, who kept it informed about the ongoing audit of the Bank.

The committee discussed KB Group's annual financial results for 2012, the consolidated and separate financial statements and notes thereto as at 31 December 2012 prepared under International Financial Reporting Standards (IFRS), and the proposal for distribution of net profit for 2012. It recommended that the Board of Directors submit to the General Meeting for approval a proposal to appoint Ernst & Young Audit, s.r.o., as the Bank's external auditor for 2013. KB Group's budget for 2013 was presented to the committee for discussion. The committee also regularly discussed Internal Audit's report on the status of corrective measures and was continuously informed about all of Internal Audit's investigations conducted in individual periods. The committee addressed an assessment of the compliance risk in the

2012 yearly report and also discussed the 2012 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism. The committee discussed the Management Letter prepared by the external auditor, Ernst & Young Audit, s.r.o., and a document concerning the evaluation activities of the external auditor. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2014, and the strategic plan for 2014–2018. It was provided with an independent external evaluation of the activities of the Bank's internal audit and it discussed the statutes of KB Group Internal Audit.

The Audit Committee regularly discussed at its meetings the Group's financial results for each quarter. Also discussed were the bond portfolio held by the Bank and related steps. Attention was also devoted to the capital adequacy of the Bank and the Group. In this context, the committee discussed the Bank's capital management strategy.

The committee was regularly informed about the Bank's functioning in the internal control area and the development of all associated risks. It was also provided with information about the credit risk profile of the Bank. It was also regularly apprised as to progress regarding corrective actions taken in the area of information security.

Emoluments and Benefits to the Board of Directors and Supervisory Board

In relation to his or her work in the Bank, no person with executive power has any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Chairman of the Board of Directors Albert Le Dirac'h and members of the Board of Directors Aurélien Viry and Karel Vašák have employment contracts signed with Société Générale S.A. and they are delegated to serve as the Bank's directors.

Principles of Remuneration for Members of the Board of Directors

The remuneration of the members of the Board of Directors is in accordance with the EU's Capital Requirements Directive III and its transposition into the Czech law by CNB Decree No. 123/2007 Coll. The amount of the remuneration for members of the Board of Directors is closely linked with the results of the Bank, taking into account the Bank's strategy, objectives and values, as well as what is an acceptable level of risk and long-term interests. The Supervisory Board decides on the amounts of remuneration based upon a proposal from the Supervisory Board's Remuneration and Personnel Committee.

The remuneration of the members of the Board of Directors consists of fixed and variable parts.

The fixed remuneration is paid monthly and is the same for all members of the Board of Directors, except for the Chairman.

The variable part of the remuneration (annual bonus) is not claimable, reflects the performance of the member of the Board during the year, and is closely linked with the results of the Bank. During the evaluation, the Supervisory Board and its Remuneration and Personnel Committee assess all relevant financial and business indicators, including the development of net profit, net banking income, costs and market shares. The variable part is structured as follows:

a) The non-deferred part constitutes 60% of the total amount of the annual bonus, of which 30% is paid in March of the year when the bonus was granted (year N), and the remaining 30% is transformed into a non-monetary instrument linked to the price of KB shares. This part is paid after a deferral period of nine months.

b) The deferred part constitutes 40% of the total amount of the annual bonus. The payment of the deferred part is distributed within three years. The first payment takes place in March of the year following the year when the bonus was granted (year N+1). The remaining two parts are again transformed into the non-monetary instruments linked to the price of KB shares. They vest in March of the years N+2 and N+3, respectively, and always are paid after a deferral period of nine months. The payment of the deferred part is made on a straight-line basis over three years (i.e. one-third is paid in each year). The settlement (payment) of the part of the bonus linked to the KB share price is in cash.

The reference price of the non-monetary instrument is determined as an arithmetic mean of the daily closing prices for KB shares on the Prague Stock Exchange (PSE) in the 20 days preceding the record date. The record date for determining the initial reference price of the non-monetary instrument was 29 March 2013, at which date the number of non-monetary instruments granted to members of the Board of Directors was computed. The next record date for determining the final amount to be paid as a respective part of the annual bonus according to the number of non-monetary instruments granted was 13 December 2013. Both record dates were fixed by the Remuneration and Personnel Committee of the Supervisory Board.

The annual bonus shall be forfeited in part or in full in the case that the member of the Board exposes the Bank to a level of risk which is not acceptable for the Bank, or that his or her conduct causes substantial damage to the Bank, or that he or she seriously violates the Bank's internal regulations (e.g. the Code of Conduct) or legal regulations. The bonus also may not be paid out in the case that it was granted upon the basis of intentionally incorrect or misleading information.

In addition to the compensation stated above, members of the Board of Directors with Czech citizenship are entitled to receive the following additional considerations:

- capital life insurance and
- contributions to pension savings.

The members of the Board of Directors also act as executive directors in charge of specific arms of the Bank on the basis of a management contract in accordance with the Labour Code. This contract entitles them to a basic salary and other compensation in lieu of salary. The amount of basic salary reflects the experience and responsibilities of individual members of the Board as well as a comparative study on remuneration in the financial sector. No additional remuneration is provided under the management contract. The aforementioned compensation paid to members of the Board of Directors for carrying out their managerial responsibilities is subject to approval by the Supervisory Board.

Members of the Board of Directors who fulfil the established terms and conditions are entitled:

- based upon the employment relationship with KB, and with the exception of KB employees temporarily delegated to the Czech Republic, to contributions from the employer to retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan;
- based upon the management function at KB, and under the same conditions as other KB managers, including KB employees temporarily delegated to the Czech Republic, to the following additional benefits: a company car (including for private use), a contribution to fuel costs for private use of the car, and an above-standard healthcare plan (Santé Silver Card); and
- based upon temporary delegation to the Czech Republic from other companies of the Société Générale Group, under standard and global conditions for foreign delegation of the SG Group, to additional benefits relating to long-term stay abroad (such as covering the cost of moving, accommodation, insurance including health and social insurance, tuition fees for children).

Komerční banka has not entered into any contracts with members of the Board of Directors which would grant them consideration upon termination of the functional or employment relationship with KB. Information on all monetary and in-kind payments to the members of the Board of Directors is given in the section of Information on Monetary and In-kind Income to Members of the Board of Directors and the Supervisory Board.

Principles of Remuneration for Members of the Supervisory Board

The remuneration to the members of the Supervisory Board consists of a fixed monthly part and a part dependent on the members' attendance at meetings. The amount of remuneration is set by decision of the General Meeting. In accordance with a resolution of the annual General Meeting held on 17 June 2004, remuneration for the members' attendance at Supervisory Board meetings is limited to a maximum of six meetings per year.

Moreover, members of the Supervisory Board elected by employees are entitled to a basic monthly salary and other compensation in lieu of salary according to their employment contract in accordance with the Labour Code as employees of the Bank.

Members of the Supervisory Board that fulfil the established terms and conditions are entitled:

- under the contract for employment, and under the same conditions as other KB employees, to contributions from the employer to retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan.

Komerční banka has not entered any contracts with members of the Supervisory Board which would grant them consideration upon termination of the functional or employment relationship with KB. Information on all monetary and in-kind payments to the members of the Supervisory Board is given in the following section.

Information on Monetary and In-kind Income to Members of the Board of Directors and the Supervisory Board

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, Komerční banka releases information on all monetary and in-kind income received during the 2013 financial reporting period by members (including former members) of the Board of Directors and the Supervisory Board from Komerční banka and from entities controlled by the Bank.

The data are published in the structure reflecting the Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):

(A) the total amount of remuneration paid or due to be paid for the services performed in the relevant financial year, including where appropriate the attendance fees fixed by the annual general shareholders meeting;
(B) remuneration and benefits received from any undertaking belonging to the same group (Note: KB Financial Group);
(C) remuneration paid in the form of profit sharing and/or bonus payments;
(D) any significant remuneration paid for special services outside the scope of the usual functions;
(E) remuneration paid to former members of the Board of Directors or Supervisory Board in connection with the termination of their activities; and
(F) the total estimated value of in-kind incomes considered as remuneration not included in the items covered in points (A) to (E).

The following tables present all emoluments paid to members of Komerční banka's Board of Directors and the Supervisory Board, including emoluments paid in 2013 to former members as deferred payments, in the structure described above. If no value is shown under a category, that means that no such payment was made to such member by Komerční banka or by entities controlled by it.

CZK	(A)	(B)	(C)	(D)	(E)	(F)	Total
BOARD OF DIRECTORS (8 CURRENT AND FORMER MEMBERS)	32,523,215	1,001,164	13,552,583	0	577,500	9,081,647	**56,736,109**

CZK	(A)	(B)	(C)	(D)	(E)	(F)	Total
SUPERVISORY BOARD (12 MEMBERS IN 2013)	4,882,493	59,115	186,576	300,000	0	110,057	**5,538,241**

Information on Shares and Share Options Held by Members of the Board of Directors and Supervisory Board and by Related Persons

The following table provides information on the numbers of shares issued by Komerční banka that were held as at 31 December 2013 by members of the Board of Directors and the Supervisory Board and persons close to them, as well as information on options and similar investment instruments whose values are connected to the price of KB shares and which were concluded by or on behalf of the listed persons.

31 December 2013	Shares	Options
BOARD OF DIRECTORS		
Members of the Board of Directors in 2013 (total)	3,800	0
SUPERVISORY BOARD		
Members of the Supervisory Board in 2013 (total)	2,949	0
CLOSE PERSONS (TOTAL)	0	0

No members of the Board of Directors or members of the Supervisory Board were contractual parties, directly or indirectly, for any option or similar contract concerning comparable investment instruments whose values are connected to KB shares.

Additional Information in Accordance with Section 118 (5) (f), (i), (j) and (k) of the Act on Capital Market Undertakings

Komerční banka is aware of no contracts made between its shareholders as a result of which the transferability of shares or of voting rights would become more complicated. Komerční banka has entered into no significant contracts which take effect, are altered or terminate if the person or entity in control of Komerční banka changes as a consequence of a takeover bid. Komerční banka has entered into no contract with a member of its Board of Directors or any employee stipulating an obligation for Komerční banka to perform in the event that such person would cease to serve as a member of the Board of Directors or cease to be employed in connection with a takeover bid. Komerční banka has established no programmes enabling the members of the Board of Directors and employees of the Bank to acquire the Bank's securities, options on these securities or other rights under preferential conditions.

Information about Special Rules on the Revision of the Bank's Articles of Association

If a revision of the Articles of Association of Komerční banka is to be on the agenda of the General Meeting, then the notice calling the General Meeting must at least generally describe the proposed changes and these proposed changes in the Articles of Association must be available for shareholders' inspection at the Bank's headquarters and on its website for the period established for convening of a General Meeting. Shareholders have a right to request a copy of the proposed Articles of Association at their own cost and risk. Shareholders are notified of these rights in the notice calling the General Meeting.

If a shareholder wishes to raise counterproposals to the proposed changes to the Articles of Association at the General Meeting, the shareholder is obliged to deliver the written wording of such proposal or counterproposal to the Bank no later than five business days prior to the General Meeting. The Board of Directors is obliged to publish a proposal so delivered along with its viewpoint with regard to it in the manner specified for the convening of the General Meeting, if possible, at least three days prior to the announced date of the General Meeting.

Decisions on changes in the Articles of Association are made by the General Meeting and carried by two-thirds of those votes of the attending shareholders upon a proposal of the Board of Directors, of the Supervisory Board or of one or more shareholders in accordance with the Commercial Code and Articles of Association. Decisions on changes in the Articles of Association must be recorded by notarial deed. Komerční banka is obliged to report to the Czech National Bank its intention to make changes in the Articles of Association relating to those particulars which must be stated in the Articles of Association based on a requirement set forth by the Commercial Code or by the Banking Act.

Information on Internal Control and Approach to Risks in the Process of Accounting and Preparing Financial Statements

The Bank uses a number of tools in several areas to ensure true and accurate presentation of facts in the accounting and proper compilation of financial statements. These begin with tools for proper recording of individual transactions, include various controls, and finally involve preparing the statements and their control.

The tools used for proper recording of transactions, events, trades and the like in accounting include, in particular, the selection of appropriate systems (applications) for their recording and processing, thorough testing during their implementation, maximum automation of all repetitive processes, and establishing and maintaining access rights to individual systems. Setting up systems, processes and controls is always formally governed by the Bank's internal regulations.

Compliance of those accounting methods employed with IFRS in particular is ensured by an independent department that regularly monitors developments in these standards and other regulatory rules, analyses effects ensuing therefrom, and implements the standards in co-operation with relevant departments. For more information on the rules used, see Notes to the Financial Statements, Note 3 “Principal accounting policies” and Note 43 “Risk management and financial instruments”.

The Bank utilises a system of defining responsibilities for individual ledger accounts (the so-called control system) under which a particular employee authorised to transact with the account and an employee responsible for account analysis are assigned to each account of the general ledger. The control over account analysis includes, in particular, the duty to specify at any time the account balance and to monitor its balance and movements, as well as responsibility for attending to the related documents. The control over account analysis also involves reconciliation of data in supporting systems relating to the data in the general ledger at specified regular intervals.

The area of control tools may be divided into two parts: control as to the accuracy of input data and follow-up control over the consistency and integrity of the functioning and accounting of the individual systems.

Control over the accuracy of input data is performed especially in the Distribution and Transaction and Payment Services arms within the first level of the control system which constitutes the basis of the Bank's internal control system. The first level of the control system establishes the control activities of the management employees so that there occurs oversight over operational risks arising from the activities of the relevant departments; monitoring of the quality, effectiveness and reliability of the established work procedures; verification of the employees' compliance with the applicable regulations and procedures; and determination of corrective measures in cases when deficiencies are identified.

Follow-up control is carried out in particular by an independent department of the Accounting and Reporting Division which expressly checks the data in the accounting by means of analytical procedures. The main analytical procedures may be classified as control over data consistency as at the current date with the development in the past, consistency between financial and non-financial data (numbers of transactions, trades, etc.), and consistency between the changes in the balance sheet and income statement. The changes in the development of individual items of the financial statements or directly in the general ledger accounts are regularly analysed, and these changes are subsequently reconciled to the changes in trades, prices for services provided and market data, or to changes attributable to one-off items.

An automated system is used to process most financial statements. In most cases, detailed data from source systems is used for their creation and this data is reconciled with the general ledger while at the same time the accuracy of the data in the general ledger is checked.

The effectiveness of internal controls is regularly evaluated by both internal and external audits.

Information on Remuneration of Auditors

The following remuneration was charged for services performed during 2013 by the auditors of KB and KB Group:

Type of service (CZK thousand, excl. VAT)	KB	KB Group
Statutory audit	15,416	22,793
Audit-related services	160	196
Legal and tax-related services	0	230
Other	259	341
Total	**15,835**	**23,560**

Report by the Supervisory Board

Throughout 2013, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s., ascertained the effectiveness of the management and control system and made its regular assessments.

Having checked the Bank's regular and consolidated financial statements for the period from 1 January 2013 to 31 December 2013, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements worked out on their basis present a full and accurate picture of the Bank's accounting and financial situation.

The Bank‘s auditor, company Ernst & Young Audit, s.r.o., performed an audit of the Bank's consolidated and unconsolidated financial statements worked out under the International Financial Reporting Standards (IFRS). The report was unqualified.

The Supervisory Board recommends that the general meeting approve the regular and consolidated financial statements and the distribution of profit for the year 2013 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2013 drawn up under S. 66a (9) of the Commercial Code, and states on the basis of the presented documents that, during the accounting period from 1 January 2013 to 31 December 2013, Komerční banka, a.s., did not suffer any harm resulting from the contracts and agreements made with the related entities.

Prague, 20 March 2014

On behalf of the Supervisory Board of Komerční banka, a.s.:

Jean-Luc Parer
Chairman of the Supervisory Board

Management Affidavit

To the best of our knowledge, we believe that this annual report gives a fair and true view of the Bank's and Group's financial position, business activities and results from the year 2013, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 4 April 2014

Signed on behalf of the Board of Directors:

Albert Le Dirac‘h
Chairman of the Board of Directors and Chief Executive Officer

Pavel Čejka
Member of the Board of Directors and Senior Executive Director

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Independent Auditor's Report to the Shareholders of Komerční banka, a.s.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Komerční banka, a.s.:

I. We have audited the consolidated financial statements of Komerční banka, a.s. and its subsidiaries ("the Company") as at 31 December 2013 presented in the annual report of the Company on pages 97 – 173, on which we have issued an audit report, dated 4 March 2014, which is presented on pages 95 – 96. We have also audited the separate financial statements of Komerční banka, a.s. ("the Company") as at 31 December 2013 presented in the annual report of the Company on pages 177 – 251, on which we have issued an audit report, dated 4 March 2014, which is presented on pages 175 – 176 (both referred to further as "financial statements").

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

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2013. 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 Komerční banka, a.s. for the year ended 31 December 2013 presented in the annual report of the Company on pages 252 - 264. As described in report on related parties, the Company prepared this report in accordance with Commercial Code. The management of Komerční banka, a.s. is responsible for the preparation 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 Komerční banka, a.s. for the year ended 31 December 2013 is materially misstated.

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

Michaela Kubýová
Michaela Kubýová
Auditor, License No. 1810

4 April 2014
Prague, Czech Republic

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

Consolidated Financial Statements Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union and Independent Auditor's Report as at 31 December 2013

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Komerční banka, a.s.:

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of the Group, see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

A member firm of Ernst & Young Global Limited
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has been incorporated in the Commercial Register administered by the Municipal Court in Prague,
Section C, entry no. 88504, under Identification No. 26704153.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Michaela Kubýová
Auditor, License No. 1810

4 March 2014
Prague, Czech Republic

A member firm of Ernst & Young Global Limited
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CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2013

Consolidated Income Statement

(CZKm)	Note	2013	Restated 2012
Interest income and similar income	5	32,230	35,992
Interest expense and similar expense	5	(11,025)	(14,025)
Dividend income	5	2	2
Net interest income and similar income		**21,207**	21,969
Net fee and commission income	6	7,077	6,971
Net profit/(loss) on financial operations	7	2,489	3,598
Other income	8	121	126
Net operating income		**30,894**	32,664
Personnel expenses	9	(6,728)	(6,785)
General administrative expenses	10	(4,666)	(4,994)
Depreciation, impairment and disposal of assets	11	(1,754)	(1,706)
Total operating expenses		**(13,148)**	(13,485)
Profit before allowances/provisions for loan and investment losses, other risk and income taxes		**17,746**	19,179
Allowances for loan losses	12	(1,733)	(1,846)
Allowances for impairment of securities	12	0	0
Provisions for other risk expenses	12	(6)	(25)
Cost of risk		**(1,739)**	(1,871)
Income from share of associated undertakings		208	121
Share of profit of pension scheme beneficiaries		(484)	(489)
Profit before income taxes		**15,731**	16,940
Income taxes	13	(2,825)	(2,708)
Net profit for the period	14	**12,906**	14,232
Profit attributable to the Non-controlling owners		378	278
Profit attributable to the Group's equity holders		12,528	13,954
Earnings per share/diluted earnings per share (in CZK)		**331.68**	369.44

Consolidated Statement of Comprehensive Income

(CZKm)	Note	2013	Restated 2012
Net profit for the period	14	**12,906**	14,232
Items that will not be reclassified to Income Statement			
Remeasurement of retirement benefits plan, net of tax		2	(11)
Items that may be reclassified subsequently to Income Statement			
Cash flow hedging			
- net fair value gain/(loss), net of tax		(3,112)	6,513
- transfer to net profit/(loss), net of tax		(2,976)	(2,002)
Foreign exchange gain/(loss) on translation of a foreign net investment		2	1
Net value gain/(loss) on available-for-sale financial assets, net of tax		(1,907)	6,036
Net value gain/(loss) on available-for-sale financial assets, net of tax (associated undertakings)		(14)	83
Other comprehensive income for the period, net of tax	40, 41, 42	**(8,005)**	10,620
Comprehensive income for the period, net of tax		**4,901**	24,852
Comprehensive income attributable to the non-controlling owners		380	278
Comprehensive income attributable to the Group's equity holders		4,521	24,574

The accompanying Notes are an integral component of this Consolidated Income Statement and Statement of Comprehensive Income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

(CZKm)	Note	31 Dec 2013	Restated 31 Dec 2012
ASSETS			
Cash and current balances with central banks	16	44,405	28,057
Financial assets at fair value through profit or loss	17	37,133	51,593
Positive fair value of hedging financial derivatives	43	18,249	26,068
Available-for-sale financial assets	18	141,200	141,791
Assets held for sale	19	84	86
Amounts due from banks	20	125,735	64,111
Loans and advances to customers	21	473,089	451,547
Revaluation differences on portfolios hedge items		7	0
Held-to-maturity investments	22	4,200	3,322
Current tax assets		82	20
Deferred tax assets	34	36	34
Prepayments, accrued income and other assets	23	3,280	3,577
Investments in associates	24	1,084	971
Intangible assets	25	3,772	3,913
Tangible assets	26	7,872	7,994
Goodwill	27	3,752	3,752
Total assets		**863,980**	786,836
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	28	17,530	19,589
Negative fair value of hedging financial derivatives	43	12,262	11,246
Amounts due to banks	29	49,680	38,902
Amounts due to customers	30	649,158	579,067
Revaluation differences on portfolios hedge items		(218)	16
Securities issued	31	22,417	19,624
Current tax liabilities		744	622
Deferred tax liabilities	34	3,496	5,473
Accruals and other liabilities	32	11,228	10,742
Provisions	33	1,144	1,016
Subordinated debt	35	0	0
Total liabilities		**767,442**	686,298
Share capital	36	19,005	19,005
Share premium and reserves		74,654	78,764
Non-controlling equity		2,879	2,769
Total shareholders' equity		**96,538**	100,538
Total liabilities and shareholders' equity		**863,980**	786,836

The accompanying Notes are an integral component of this Consolidated Statement of Financial Position.

These Consolidated Financial Statements were approved by the Board of Directors on 4 March 2014.

Signed on behalf of the Board of Directors:

Albert Le Dirac'h
Chairman of the Board of Directors
and Chief Executive Office

Pavel Čejka
Member of the Board of Directors
and Senior Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY YEAR ENDED 31 DECEMBER 2013

(CZKm)	Share capital	Capital and reserve funds and retained earnings	Remeasurement of retirement benefits plan	Cash flow hedging	Translation of a foreign net investment	Available-for-sale financial assets	Total	Non-controlling interest	Total, including non-controlling interest
Balance at 31 December 2011	**19,005**	**48,368**	**0**	**9,760**	**2**	**2,082**	**79,217**	**2,633**	**81,850**
Changes in accounting policies	0	(29)	0	0	0	0	(29)	0	(29)
Balance at 1 January 2012	**19,005**	**48,339**	**0**	**9,760**	**2**	**2,082**	**79,188**	**2,633**	**81,821**
Treasury shares, other	0	89	0	0	0	0	89	1	90
Payment of dividends	0	(6,082)	0	0	0	0	(6,082)	(143)	(6,225)
Transactions with owners	**0**	**(5,993)**	**0**	**0**	**0**	**0**	**(5,993)**	**(142)**	**(6,135)**
Profit for the period	0	13,954	0	0	0	0	13,954	278	14,232
Other comprehensive income for the period, net of tax	0	83**	(11)	4,511	1	6,036	10,620	0	10,620
Comprehensive income for the period	**0**	**14,037**	**(11)**	**4,511**	**1**	**6,036**	**24,574**	**278**	**24,852**
Balance at 31 December 2012	**19,005**	**56,383**	**(11)**	**14,271**	**3**	**8,118**	**97,769**	**2,769**	**100,538**
Treasury shares, other	0	111	0	0	0	0	111	1	112
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)	(271)	(9,013)
Transactions with owners	**0**	**(8,631)**	**0**	**0**	**0**	**0**	**(8,631)**	**(270)**	**(8,901)**
Profit for the period	0	12,528	0	0	0	0	12,528	378	12,906
Other comprehensive income for the period, net of tax	0	(14)**	2	(6,090)	2	(1,907)	(8,007)	2	(8,005)
Comprehensive income for the period	**0**	**12,514**	**2**	**(6,090)**	**2**	**(1,907)**	**4,521**	**380**	**4,901**
Balance at 31 December 2013	**19,005**	**60,266**	**(9)**	**8,181**	**5**	**6,211**	**93,659**	**2,879**	**96,538**

Note: * Capital and reserve funds and retained earnings consist of statutory reserve funds in the amount of CZK 3,621 million (2012: CZK 3,854 million), other funds created from profit in the amount of CZK 1,049 million (2012: CZK 793 million), share premium and purchased treasury shares in the amount of CZK -427 million (2012: CZK -478 million), net profit from the period in the amount of CZK 12,528 million (2012: CZK 13,954 million) and retained earnings in the amount of CZK 43,495 million (2012: CZK 38,260 million).
** This amount represents the gain from revaluation of available-for-sale financial assets (the impact of the consolidation of an associated company using the equity method).

The accompanying Notes are an integral component of this Consolidated Statement of Changes in Shareholders' Equity.

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2013

(CZKm)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	28,735	31,288
Interest payments	(15,757)	(8,162)
Fee and commission receipts	8,710	8,861
Fee and commission payments	(1,863)	(1,803)
Net income from financial operations	6,709	(1,282)
Other income receipts	(29)	164
Cash payments to employees and suppliers, and other payments	(11,288)	(11,299)
Operating cash flow before changes in operating assets and operating liabilities	**15,217**	17,767
Amount due from banks	(64,678)	43,108
Financial assets at fair value through profit or loss	14,045	(16,591)
Loans and advances to customers	(22,062)	(19,543)
Other assets	1,157	(348)
(Increase)/decrease in operating assets	**(71,538)**	6,626
Amounts due to banks	13,921	(3,367)
Financial liabilities at fair value through profit or loss	(1,366)	(4,524)
Amounts due to customers	70,705	17,935
Other liabilities	141	(2,320)
Increase/(decrease) in operating liabilities	**83,401**	7,724
Net cash flow from operating activities before taxes	27,080	32,117
Income taxes paid	(2,796)	(1,907)
Net cash flows from operating activities	**24,284**	30,210
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received	80	1
Purchase of held-to-maturity investments	(891)	0
Maturity of held-to-maturity investments*	158	159
Purchase of available-for-sale financial assets	(20,113)	(29,884)
Sale and maturity of available-for-sale financial assets *	22,649	26,401
Purchase of tangible and intangible assets	(1,542)	(2,846)
Sale of tangible and intangible assets	34	49
Net cash flow from investment activities	**375**	(6,120)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(8,657)	(6,026)
Paid dividends (non-controlling interest)	(271)	(143)
Purchase of treasury shares	0	0
Securities issued	3,671	1,559
Securities redeemed*	(2,526)	(1,688)
Repayment of subordinated debt*	0	(6,002)
Net cash flow from financing activities	**(7,783)**	(12,300)
Net increase/(decrease) in cash and cash equivalents	**16,876**	11,790
Cash and cash equivalents at the beginning of the year	26,391	14,642
FX differences on cash and cash equivalents at beginning of year	100	(41)
Cash and cash equivalents at the end of the year (see Note 37)	**43,367**	26,391

Note: * The amount also includes coupons received and paid.

The accompanying Notes are an integral component of this Consolidated Cash Flow Statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

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1 Principal activities

The Financial Group of Komerční banka, a.s. (henceforth the "Group") consists of Komerční banka, a.s. (the "Bank") and ten subsidiaries and associated undertakings. The parent company of the Group is the Bank which is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

I. Providing loans, advances and guarantees in Czech crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions;
VII. Investment banking.

The Bank generates a substantial proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its foreign branch Komerční banka Bratislava, a.s., pobočka zahraničnej banky and in Belgium through its subsidiary Bastion European Investments S.A.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2012: 60.35%) of the Bank's issued share capital.

The main activities of subsidiary companies of the Bank as at 31 December 2013:

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
KB penzijní společnost, a.s.	100.0	100.0	Pension fund	Prague
Modrá pyramida stavební spořitelna, a.s.	100.0	100.0	Building society	Prague
Protos uzavřený investiční fond, a.s.	89.64	100.0	Investments	Prague
Factoring KB, a.s.	100.0	100.0	Factoring	Prague
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels
KB Real Estate, s.r.o.	100.0	100.0	Ancillary banking services	Prague
NP 33, s.r.o.	100.0	100.0	Ancillary banking services	Prague
VN 42, s.r.o.	100.0	100.0	Ancillary banking services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Leasing	Prague
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice

The main activities of associated undertakings of the Bank as at 31 December 2013:

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Komerční pojišťovna, a.s.	49.0	49.0	Insurance	Prague
Czech Banking Credit Bureau, a.s.	20.0	20.0	Data collection for credit risk assessments	Prague

2 Events for the year ended 31 December 2013

Change in the Chief Executive Officer and Chairman of the Board of Directors of the Bank
Henri Bonnet, the Chief Executive Officer and Chairman of the Board of Directors, retired from his position in the Bank as at 1 August 2013. The Supervisory Board of the Bank elected Albert Le Dirac'h a member of the Board of Directors with effect from 2 August 2013. The Board of Directors of the Bank subsequently elected Albert Le Dirac'h Chairman of the Board of Directors and appointed him Chief Executive Officer with effect from the same date.

Dividends declared in respect of the year ended 31 December 2012
At the General Meeting held on 24 April 2013, the shareholders approved a dividend for the year ended 31 December 2012 of CZK 230 per share before tax. The dividend was declared in the aggregate amount of CZK 8,742 million and the remaining balance of the net profit was allocated to retained earnings. Moreover, the Group paid out CZK 271 million in dividends to non-controlling owners (ESSOX s.r.o.: CZK 211 million; SG Equipment Finance Czech Republic s.r.o.: CZK 60 million).

Changes in the Bank's Financial Group
In January 2013, based on the new legislation issued on 28 December 2011, a revision of the pension system started to be processed in the Czech Republic. Under Act No. 427/2011 Coll. the Supplementary Pension Saving Act the Bank's fully owned subsidiary Penzijní fond Komerční banky, a.s., was transformed into KB Penzijní společnost, a.s., with its registered office at Náměstí Junkových 2772/1, Stodůlky, 155 00, Prague 5 and registered capital of CZK 300 million as at 1 January 2013. In accordance with the requirements of the pension reform, the net assets of the Penzijní fond Komerční banky, a.s. were divided between pension scheme participants and pension fund shareholders. The net assets of pension scheme participants were allocated to a newly created Transformed fund, which is closed for new participants. However, similarly as before, KB Penzijní společnost will remain responsible for management of the Transformed fund, be entitled to up to 15% of the profit in addition to the regular asset under management fee and will need to guarantee the positive results for participants as well as positive equity of the Transformed fund. Transformed fund is fully consolidated in the Consolidated Financial Statements of Komerční banka, a.s.

In May 2013 the shareholder's equity in Bastion European Investments S.A. was decreased by EUR 2.7 million (CZK 77 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

In August 2013, the Bank established two new companies VN 42, s.r.o. with shareholders' equity of CZK 1 million and NP 33, s.r.o. with shareholders' equity of CZK 1 million. Both companies were established in connection with management of the Bank's own buildings. In November 2013, the share capital of VN 42, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 1,990 million and the share capital of NP 33, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 845 million. The difference between cost of investment booked in Separate Financial Statement and amount of non-monetary contribution into share capital represents positive revaluation to the fair value of buildings at the date of increase of share capital.

In September 2013, the shareholders' equity of KB Penzijní společnost, a.s. was increased by CZK 100 million in the form of increasing other capital funds.

3 Principal accounting policies

The principal accounting policies adopted in the preparation of these Consolidated Financial Statements are set out below.

3.1 Statement of compliance with IFRS

The Consolidated Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2013.

The Consolidated Financial Statements include a Statement of Financial Position, a Statement of Comprehensive Income presented in two constituent statements (a Consolidated Income Statement and a Consolidated Statement of Comprehensive Income), a Statement of Changes in Shareholders' Equity, a Cash Flow Statement, and Notes to the Consolidated Financial Statements containing accounting policies and explanatory disclosures.

The presented Consolidated Financial Statements for the year ended 31 December 2013 are based on the current best estimates. The management of the Group believes that they present a true and fair view of the Group's financial results and financial position using all relevant and available information at the financial statements date.

3.2 Underlying assumptions of the Consolidated Financial Statements

3.2.1 Accrual basis
The Consolidated Financial Statements are prepared on an accrual accounting basis, i.e. the effects of transactions and other events are recognised when they occur and are reported in the Consolidated Financial Statements for the period to which they relate.

The exception is the Cash Flow Statement, which is prepared on a cash basis, i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates.

3.2.2 Going concern
The Consolidated Financial Statements are prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The Group has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

3.2.3 Offsetting
Unless required or permitted under IFRS, assets and liabilities or income and expenses are not offset.

3.2.4 Reporting period
The Group reports for a 12-month period which is identical to the calendar year.

3.3 Basis of preparation

3.3.1 Presentation currency
The Consolidated Financial Statements are presented in Czech crowns (hereafter only ''CZK''), which represent the Group's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

3.3.2 Historical cost
The Consolidated Financial Statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and hedging derivatives and hedge items in fair value hedge accounting, whose items are measured at fair value.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell; or (ii) carrying amount just before reclassification into *'Assets held for sale'*.

3.3.3 Use of estimates
The presentation of Consolidated Financial Statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the financial statements date and they specifically relate to the determination of:
- fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, hedging derivatives or available-for-sale financial assets (refer to Note 3.5.5);
- the value of intangible assets except Goodwill (refer to Note 3.5.9);
- the amount of impairment of assets (refer to Notes 3.5.5, 3.5.9, 3.5.10);
- provisions recognised under liabilities (refer to Note 3.5.11);
- initial value of goodwill for each business combination (refer to Note 3.5.10); and
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7).

Information about the key assumptions concerning the future and other key sources of estimation uncertainty at the financial statements date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

3.3.4 Basis of consolidation
The Consolidated Financial Statements incorporate the financial statements of the Bank and of its subsidiaries. A subsidiary is an entity over which the Bank has control, i.e. it directly or indirectly owns more than half the voting rights or it has the power to govern the entity in another way. Subsidiaries are consolidated using the full method of consolidation from the date when the Bank obtains control to the date when the Bank ceases to exercise control over such entity.

The financial statements of the consolidated subsidiaries used to prepare the Consolidated Financial Statements were prepared as at the Bank's financial statements date and using consistent accounting policies. The assets and liabilities of foreign subsidiaries and branches are translated into the Bank's presentation currency at the rate of exchange as at the Bank's financial statements date, and their items of income and expense are translated at the monthly average exchange rates for the respective month of a given transaction. Exchange differences arising on translation are taken directly to a separate component of equity. The consolidation principles are unchanged as against the previous year. All intragroup transactions, balances, income and expenses were eliminated in full.

Investments in associates are presented in the Consolidated Financial Statements using the equity method. An associate is an entity in which the Bank has significant influence, i.e. it directly or indirectly owns 20% to 50% of the voting rights, but it does not have control. Equity accounting involves recognising in the Consolidated Income Statement and in Consolidated Statement of Comprehensive Income the Group's share of the associates' profit or loss for the period and comprehensive income for the period. The Group's interest in the associates is carried in the Consolidated Statement of Financial Position at an amount that reflects its share of net assets of the associates and includes goodwill on acquisition.

3.4 Adoption of new and revised IFRS

3.4.1 Standards and interpretations not yet adopted by the European Union

The European Commission decides on the applicability of IFRS issued by IASB within the European Union by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

As at the issuance date of these Consolidated Financial Statements, IFRS as adopted by the European Union does not differ from IFRS, except for provisions of IAS 39 prohibiting fair value hedge accounting applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the European Union (i.e. in the European Union this hedging is permitted).

In addition, the European Commission has not approved the following effective standards and interpretations, and/or their amendments:
- IFRS 9 Financial Instruments
- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – amendment: Mandatory Effective Date and Transition
- IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IAS 39 Financial Instruments: Recognition and Measurement – amendment: Hedge Accounting
- Annual Improvements to IFRS 2010-2012 Cycle
- Annual Improvements to IFRS 2011-2013 Cycle
- IAS 19 Employee Benefits – amendment: Defined Benefit Plans: Employee Contributions
- IFRIC 21 Levies

3.4.2 Standards and interpretations adopted in the current period

Discussed here are standards that were adopted with effect from 2 January 2012 to 1 January 2013 inclusive. They have no impact in the current period (and/or prior period) with the exception of IAS 19 Employee Benefits and IFRS 13 Fair Value Measurement.

The impact of the application of the revised standard IAS 19 related to elimination of the "corridor approach" on recognised provisions amounts to CZK 48 million (before deferred tax). This amount is recognised in accordance with the transition guidance of the revised standard and the treatment is described in paragraph 3.6 Changes in accounting policies and reclassifications.

The impact of the application of the new standard IFRS 13 related to adjustments to fair values of derivatives for counterparty credit risk is a loss of CZK 113 million. The amount is recognised in profit or loss for the period in accordance with the transition guidance of the standard. IFRS 13 also requires additional disclosures in the notes to the financial statements that are provided in the individual notes relating to the assets and liabilities whose fair values were determined. For the hierarchy of fair values refer to Note 43(J).

Standard	Impact/Comments
IAS 1 Presentation of Financial Statements – amendment "Presentation of Items of Other Comprehensive Income"	The amendment requires that items in other comprehensive income are grouped on the basis of whether they may be subsequently reclassified from other comprehensive income to profit or loss. Moreover, a new title of "Income Statement and Statement of Comprehensive Income" is used for the statement containing all items of income and expense.
IAS 19 Employee Benefits – revised Defined Benefit Plans	The revised standard requires immediate recognition of defined benefit cost and improves presentation and disclosure.
IFRS 1 First-time Adoption of IFRS – amendment: "Government Loans"	The amendments add an exception to the retrospective application of IFRS to require that first-time adopters apply the requirements in IFRS 9 and IAS 20 prospectively to government loans existing at the date of transition to IFRS.
IFRS 7 Financial Instruments: Disclosures – amendment: "Disclosures – Offsetting Financial Assets and Financial Liabilities"	The amendment requires disclosure of information that will enable users of entity Financial Statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.
IFRS 13 Fair Value Measurement – new standard	The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).
Annual Improvements to IFRS 2012 – new standard	Annual Improvements amend five standards in the total of 6 points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – new interpretation	The interpretation addresses recognition of production stripping costs as an asset ("stripping activity asset") and its initial and subsequent measurement.

3.4.3 Issued standards and interpretations not applied for the current period

The standards and interpretations or their amendments described below are in effect. However, they do not apply to reporting periods beginning on 1 January 2013 and the Group has decided not to early adopt. The Bank has decided not to early adopt the standards and interpretations which were already adopted by the European Commission.

Concurrently, the Group does not anticipate that their application will significantly impact the Group's financial position and financial performance for the reporting period, with the exception of IFRS 9 Financial Instruments which supersedes a component of the existing standard IAS 39 relating to the classification and derecognition of financial assets and financial liabilities. And potentially with the exception of new standard IFRS 10 Consolidated Financial Statements which review is still running in relation to the consolidation of Transformovaný fond KB Penzijní společnosti, a.s.

The application of the requirements of IFRS 9 will primarily mean that non-equity instruments classified in the portfolio of available-for-sale financial assets will be remeasured to profit or loss rather than to other comprehensive income. With respect to equity instruments classified in this portfolio, the Group will have to decide upon the first-time application of the standard whether it will remeasure these to profit or loss or whether it will use the possibility to recognise changes in their fair value in other comprehensive income

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	The standard initially covered only the classification and measurement of financial assets for which it has newly introduced two portfolios – financial assets subsequently measured at amortised cost and financial assets subsequently measured at fair value. Financial assets subsequently measured at fair value are remeasured to profit and loss except for equity instruments for which the entity irrevocably opts for the possibility to recognise changes in the fair value in other comprehensive income upon first-time recognition or first-time application. Derivatives embedded in financial assets are no longer separated according to the standard. In October 2010, the requirements in IAS 39 for the classification and measurement of financial liabilities and for the derecognition of financial assets/liabilities were carried forward unchanged to the standard. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk. In December 2011, the Board issued the amendment that postponed the mandatory effective date of IFRS 9 to 1 January 2015. In November 2013, the IASB added to IFRS 9 requirements related to hedge accounting. These requirements align hedge accounting more closely with risk management, resulting in more useful information to users of financial statements. They also establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39. This amendment also removed mandatory the date of application of IFRS 9. However, the standard is available for application.	To be determined when the outstanding phases are finalised
IAS 27 Separate Financial Statements – revised standard	The revised standard does not change current requirements related to Separate Financial Statements.	1 January 2013*
IAS 28 Investments in Associates and Joint Ventures – revised standard	The revised standard results from the new standard on joint ventures and incorporates the accounting for them. In the Consolidated Financial Statements joint ventures will be newly consolidated using only the equity method.	1 January 2013*
IFRS 10 Consolidated Financial Statements – new standard	The new standard is based on current consolidation requirements stipulated in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. However, this standard presents a revised definition of control – assessing all three elements of control (power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of returns) so that a single control model can be applied to all entities. The consolidation conclusion is not expected to change for most straightforward entities. Although the standard newly sets out a framework for asset manager entities to use when interpreting IFRS 10 to determine whether control exists, IFRS 10 does not provide "bright lines" and requires consideration of many factors and entities judgement.	1 January 2013*
IFRS 11 Joint Arrangements – new standard	The new standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures and it improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement and by eliminating a choice of accounting treatment.	1 January 2013*
IFRS 12 Disclosure of Interests in Other Entities – new standard	The new standard enhances disclosures to be published about consolidated and unconsolidated entities.	1 January 2013*

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – amendment: "Transitional Guidance"	The amendments explain that the "date of initial application" in IFRS 10 (resp. IFRS 11 and IFRS 12) means "the beginning of the annual reporting period in which the standard is applied for the first time". It also requires the investor to adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different when applying IFRS 10 as compared with applying IAS 27/SIC-12. The relief from retrospective application of IFRS 10 apply to an investor's interests in investees that were disposed of during a comparative period, such that consolidation would not occur in accordance with either IAS 27/SIC-12 or IFRS 10 at the date of initial application.	1 January 2013*
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – amendment "Investment Entities"	The amendments define an investment entity, introduce an exception to consolidating particular subsidiaries for investment entities and require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities.	1 January 2014
IAS 32 Financial Instruments: Presentation – amendment "Offsetting Financial Assets and Financial Liabilities"	The amendment explains the criterion that an entity "currently has a legally enforceable right to set off the recognised amounts" newly added into application guidance.	1 January 2014
IAS 36 Impairment of Assets – amendment "Recoverable Amount Disclosures for Non-Financial Assets"	The amendment requires additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014
IAS 39 Financial Instruments: Recognition and Measurement – amendment "Novation of Derivatives and Continuation of Hedge Accounting"	The amendment specifies the novation of derivatives and provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument arises as a result of new laws or regulations.	1 January 2014
IFRIC 21 Levies	This Interpretation addresses the accounting for a liability to pay a levy.	1 January 2014
Annual Improvements to IFRS 2010-2012 Cycle – new standard	Annual Improvements amend seven standards in the total of eight points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
Annual Improvements to IFRS 2011-2013 Cycle – new standard	Annual Improvements amend four standards with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
IAS 19 Employee Benefits – amendment "Defined Benefit Plans: Employee Contributions"	The amendment defines principles for recognition of employee contributions within defined benefit plans distinguishing the procedure for contributions the amounts of which are not dependent upon the length of service and those the amounts of which are so dependent.	1 July 2014

Note: * The European Commission has approved these standards for reporting periods beginning on or after 1 January 2014 and it permitted their early application.

3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2013

The Group did not make use of the possibility for voluntary earlier application of standards or interpretations in the reporting period beginning 1 January 2013.

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency

The Group's functional currency (i.e. the currency of the primary economic environment in which the Group operates) is the Czech crown.

The Group has a branch in the Slovak Republic and a subsidiary, Bastion European Investments S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency at the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only “BA”) for the respective foreign currency. Depending on the functional currency the BA means the Czech National Bank (hereafter only “CNB”) for the Czech crown and the European Central Bank (hereafter only “ECB”) for the euro.

At the end of the reporting period all items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:

I. foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
II. non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction;
III. non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses related to the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses of the period in which they occur and are presented in the line *‘Net profit/(loss) on financial operations’*.

However, where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments. In Other Comprehensive Income, foreign exchange rate differences related to the fair value revaluation of debt instruments classified as available-for-sale (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation are also recognised.

For consolidation purposes the results and financial position of entities whose functional currency is different from the Group's presentation currency are translated into this currency using the following procedures:

(i) assets and liabilities are translated using the closing rate (exchange rate announced by CNB at the end of the reporting period);
(ii) income and expenses presenting profit or loss are translated using the average rate for the period (monthly average of exchange rates announced by CNB during the period);
(iii) all resulting exchange differences are recognised in other comprehensive income and presented in the line *’Share premium and reserves’*.

3.5.2 Recognition of income and expenses

3.5.2.1 Net interest income and similar income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Income Statement in the lines *‘Interest income and similar income’* and *‘Interest expense and similar expense’* using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late fee income is recognised at the date of its payment and presented in the line *‘Interest income and similar income’*.

Dividend income is recognised when the Group's right to receive a dividend payment is established and is presented in the line ‘*Dividend income’*.

3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Group distinguishes the following three categories of fees:

– fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line *‘Interest income and similar income’*;
– fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line *‘Net fee and commission income’*;
– fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line *‘Net fee and commission income’*.

3.5.2.3 Net profit/(loss) on financial operations

In the line *‘Net profit/(loss) on financial operations’* is recognised interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

This line also includes realised and unrealised gains/losses on securities held for trading, security derivatives, currency, interest rate and trading commodity derivatives, foreign exchange transactions, foreign assets and liabilities retranslation to functional currency, and realised gains/losses on available-for-sale financial assets.

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

In preparing its Cash Flow Statement for the period, the Group includes into cash and cash equivalents the cash and current balances with central banks at the beginning and end of the period and current amounts due from and to banks.

3.5.4 Fair value and hierarchy of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of asset or liability measured at fair value. The hierarchy of fair values has the following three levels:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. The significant input information is that information which has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the statement of financial position at the end of each reporting period), the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

3.5.5 Financial instruments

3.5.5.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, an acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date according to its categorisation into an individual portfolio, i.e. either in profit or loss or in other comprehensive income.

All purchases and sales of financial instruments that do not meet the “regular way” settlement criterion in the marketplace concerned are treated as financial derivatives. The Group recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Group recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished, i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires.

3.5.5.2 Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is initially recognised, the Group measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *'Accruals and other liabilities'*. The guarantees are subsequently measured as at the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss (in the Statement of Financial Position in the line *'Accruals and other liabilities'*), and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *'Provisions'*). The premium received is recognised in the Income Statement in the line '*Net fee and commission income'* on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Income Statement in the line *'Allowances for loan losses'*.

3.5.5.3 "Day 1" profit or loss

When determining whether fair value at initial recognition equals the transaction price, the Group takes into account factors specific to the transaction and to the asset or liability.

The Group trades no financial instruments on an inactive market. On active markets the Group trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a "Day 1" profit or loss).

3.5.5.4 Financial assets and liabilities classification and subsequent measurement

Financial assets and liabilities held by the Group are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Group's intention as at the acquisition date, and pursuant to the Group's financial instrument investment strategy as follows:

I. Financial assets and liabilities at fair value through profit or loss;
II. Held-to-maturity investments;
III. Loans and receivables;
IV. Available-for-sale financial assets;
V. Financial liabilities at amortised cost.

The Group does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the so-called "Fair Value Option").

(i) Financial assets and liabilities at fair value through profit or loss

The Group designates as financial assets at fair value through profit or loss securities held for trading and derivatives that are assets, i.e. financial instruments acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices. These financial assets are recognised in the Statement of Financial Position in the line *'Financial assets at fair value through profit or loss'*.

Securities designated as held for trading include equity and debt securities, treasury bills, bills of exchange and participation certificates.
The trading derivative financial instruments used by the Group include currency and commodity forwards, currency and interest rate swaps, derivatives on securities and emission allowances and options.

Financial liabilities at fair value through profit or loss include liabilities from securities sold and trading derivatives that are liabilities and are recognised in the Statement of Financial Position in the line *'Financial liabilities at fair value through profit or loss'*.

Unrealised gains and losses, as well as realised gains and losses arising from the fair value measurement of financial assets and liabilities, interest and dividends are recognised as income in the Income Statement in the line *'Net profit/(loss) on financial operations'*. These financial assets are not tested for impairment because the change of fair value is recognised directly in profit or loss.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that is an integral components of the effective interest rate. The amortisation is included in '***Interest income and similar income' i***n the Income Statement. When an impairment of assets is identified, the Group recognises allowances in the Income Statement in the line ***'Allowance for impairment of securities'***.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than due to a significant decrease of a client's creditworthiness, changes in tax laws, business combination or sale of a part of the business (segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for held-to-maturity investments to calculate the capital adequacy), the entire portfolio would have to be reclassified as '***Available-for-sale financial assets'***. Furthermore, the Group would be prohibited from classifying any financial asset as ***'Held-to-maturity investments'*** for the following two years.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:
- assets that the Group intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Group upon initial recognition designates as at fair value through profit or loss;
- assets that the Group upon initial recognition designates as available-for-sale; or
- assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (e.g. asset-backed securities or a fixed rate interest-only strip created in a securitisation and subject to prepayment risk), which are classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in the line ***'Interest income and similar income'*** in the Income Statement. When the impairment of assets is identified, the Group recognises allowances in the Income Statement in the line ***'Allowance for loan losses'***.

Financial assets designated as loans and receivables are reported in the Statement of Financial Position in the line ***'Amounts due from banks'*** or in the line ***'Loans and advances to customers'***, as appropriate.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. This portfolio comprises equity securities and debt securities, asset-backed securities and participation certificates.

Available-for-sale financial assets are subsequently measured at fair value and at the end of each reporting period tested to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. Unrealised gains or losses from the fair value measurement of these assets are recognised within Other Comprehensive Income in the line ***'Net value gain on available-for-sale financial assets, net of tax'***) until their sale, maturity or impairment as well as fair value changes arising from changes in foreign exchange rates. Gains or losses from changes in foreign exchange rates on debt instruments are recognised in the Income Statement in the line ***'Net profit/(loss) on financial operations'*** except for exchange gains or losses related to fair value revaluation that are recognised within Other Comprehensive Income. When the available-for-sale financial asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in the line ***'Net profit/(loss) on financial operations'***.

Accrued interest income for debt securities is recognised in the Income Statement line ***'Interest income and similar income'***. Dividend income arising from equity securities is recognised when the right for dividends is established and reported in the Income Statement in the line ***'Dividend income'***.

(v) Financial liabilities at amortised cost

Financial liabilities at amortised cost include non-derivative financial liabilities with fixed or determinable payments and are recognised according to the type of counterparty in the lines ***'Amounts due to central banks'***, ***'Amounts due to banks'*** , '***Amounts due to customers'***, ***'Subordinated debt'*** and ***'Securities issued***'.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expenses are recognised in the Income Statement in the line ***'Interest expense and similar expense'***.

In the event of the repurchase of its own debt securities, the Group derecognises these securities, i.e. the item *'Securities issued'* is decreased. Gains and losses arising as a result of repurchasing the Group's own debt securities are recognised as at the date of their repurchase in the Income Statement in the line *'Net interest income'* as an adjustment to the interest paid from own bonds.

3.5.5.5 Reclassification of financial assets

The Group does not reclassify any financial assets into the '*Financial assets at fair value through profit or loss portfolio after initial recognition'*. In rare circumstances, if non-derivative financial asset at fair value through profit or loss are no longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and are classified into the '*Available-for-sale financial assets'*, or *'Held-to-maturity investments'* portfolio.

The Group may also reclassify a non-derivative trading asset out of the *'Financial assets at fair value through profit or loss'* portfolio and into the *'Loans and receivables'* portfolio if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain circumstances, the Group may also reclassify financial assets out of the *'Available-for-sale financial assets'* portfolio and into the *'Loans and receivables'* portfolio. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Group may reclassify financial assets or a significant amount out of the '*Held-to-maturity investments'* portfolio into the *'Available-for-sale financial assets'* portfolio or *'Loans and receivables'* portfolio, without triggering the "tainting rules", in cases when the given assets are near to maturity, the Group has received almost the whole original principal of the given financial asset or there has occurred a unique and exceptional event that is out of the Group's control and the Group could not have expected it. Such unique cases include a significant decrease of a client's creditworthiness, changes in tax laws or in legislative requirements, a business combination or the sale of a part of the business (segment), a significant increase in regulatory capital requirements or a significant increase in risk weights for held-to-maturity investments used in calculating the capital adequacy.

For a financial asset reclassified out of the *'Available-for-sale financial assets'* portfolio, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. Reclassification is at the election of management and is determined on an instrument-by-instrument basis.

3.5.5.6 Determination of financial instrument's fair value and its hierarchy

For determination and categorisation of a financial instrument's fair value, the Group treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there is no active market for the financial asset, the Group uses other values that are observable, directly or indirectly, from the markets for its measurement, e.g.

I. quoted prices for similar assets or liabilities in active markets;
II. quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); and
IV. inputs derived principally from or corroborated by observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset/liability, the Group uses for fair value measurement inputs that are available but not directly observable within a market and which in the Group's view reflect presumptions about assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market) . The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and they are adjusted for the credit risk of the counterparty or the Group's own credit risk, as appropriate.

3.5.5.7 Effective interest rate method

The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of a financial instrument.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expenses over the relevant period.

3.5.5.8 Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to realise the collateral. The renegotiation generally involves extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Group to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows discounted by the loans' original effective interest rates.

3.5.5.9 Impairment of financial assets

At the end of each reporting period, the Group assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Group and proving the deterioration of a debtor's (issuer's) financial health, breach of contract (default in interest or principal payment), high probability of bankruptcy or other financial reorganisation, or proving a measurable decrease in the estimated future cash flow due to adverse changes in industry conditions.

In addition to the aforementioned events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment in which the issuer operates and the significant or prolonged decline in the fair value of the instrument below its cost. The determination of what constitutes a significant or prolonged decline is a matter of circumstances that requires application of the Group management's judgment. As indicators of possible significant or prolonged decline, the Group regards unrealised loss in respect of instrument acquisition cost or the fact that the quoted price of the instrument has been below its carrying amount during every trading date for several months. Furthermore, the Group considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

If there is objective evidence that an impairment loss on a financial instrument has been incurred, the Group calculates an impairment loss and recognises it in the respective item in the Income Statement.

For a financial asset classified in portfolios carried at amortised cost (i.e. *'Held-to-maturity investments'* and *'Loans and receivables'* portfolios), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. Estimations of future cash flows for loans are based on expected cash flows from economic activities of the client and possible realisation of loan collateral.

The Group assesses all significant impaired credit exposures on an individual basis. The remaining insignificant impaired exposures are assessed using statistical models based on a collective approach (refer to Note 43(A)). Assets that are not identified for impairment on an individual basis are included in the collective assessment of impairment.

For the purpose of assessing impairment, financial assets are grouped on the basis of the Group's internal credit rating system, which considers credit risk characteristics such as client type, asset type, classification degree, obligor rating, collateral, past-due status and other relevant factors.

The future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group, i.e. by use of the Expected Loss (EL) or Expected Loss Best Estimate (ELBE) statistical models. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating the future cash flow are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account, the creation of which is recognised in the Income Statement in the line *'Allowance for loan losses'* or *'Allowance for impairment of securities*'. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is correspondingly reversed.

When it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Group in respect of such loans, loss loans are written off and recognised in the line *'Allowance for loan losses'*. Subsequent recoveries are credited to the Income Statement in *'Allowance for loan losses'* if previously written off. If the Group collects a higher amount than that written off subsequent to the write-off of the loan, the difference is reported through *'Interest income and similar income'*.

For a '*Available-for-sale financial assets'* and in the case of objective evidence of their impairment, a cumulative loss that had been recognised in Other Comprehensive Income is reclassified to the Income Statement and recognised in the line *'Allowance for impairment of securities'* for debt instruments and in the line *'Net profit/(loss) on financial operations'* for equity instruments. The amount of the loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed, with the amount of the reversal recognised in the Income Statement. The Group cannot reverse any impairment loss recognised in the Income Statement for an equity instrument.

3.5.5.10 Repurchase agreements

The Group accounts for contracts to sell and buy back financial instruments (so-called "repos" or "reverse repos") based on their substance as the receiving or granting of a loan with a corresponding transfer of financial instruments as collateral.

Under repurchase transactions ("repos"), the Group only provides securities held in the portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* or in the *'Available-for-sale financial assets'* portfolio that are recorded in the Statement of Financial Position in the same lines. The corresponding liability arising from a loan received is recognised in the lines *'Amounts due to banks'* or *'Amounts due to customers'*, as appropriate.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line *'Amounts due from banks'* or *'Loans and advances to customers'*.

The Group is allowed to provide securities received in reverse repo transactions as collateral or sell them in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan received is included in *'Amounts due to banks'* or *'Amounts due to customers'*, as appropriate. The Group has the obligation to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Group as interest which is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Group derecognises from the off-balance sheet evidence the security acquired under the reverse repo transaction and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

3.5.5.11 Derivatives and hedge accounting

A derivative is a financial instrument or other contract having all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other market variable;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

At the inception of a financial derivative contract, the Group designates the derivative instrument as either held for trading or hedging.

Derivatives designated as held for trading are classified into a portfolio of '*Financial assets or financial liabilities at fair value through profit or loss'* based on whether the fair value is positive or negative (refer to 3.5.5.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Group uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- there is compliance with the Group's risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;

– the hedge is expected to be highly effective at inception and throughout the period;
– the effectiveness of the hedge can be reliably measured; and
– changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

I. a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Income Statement line '*Net profit/(loss) on financial operations*'. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Income Statement line *'Net profit/(loss) on financial operations'*.

On this basis, the Group hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rate and debt instruments classified as available-for-sale) and interest rate risk of selected portfolios of building savings. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

Changes in the fair value of a derivative that is designated and qualified as a cash flow hedge and that proves to be highly effective in relation to hedged risk are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and they are transferred to the Income Statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the Income Statement. The ineffective portion of the hedge is charged directly to the Income Statement in the line *'Net profit/(loss) on financial operations'*.

On this basis, the Group hedges the interest rate risk and foreign currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

The Group additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investments S.A. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives representing economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 43(C).

3.5.5.12 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if, and only if, all of the following conditions are met:
– the embedded derivative as a separate instrument meets the definition of a derivative;
– the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
– the host contract is not measured at fair value with fair value changes recognised in the Income Statement.

3.5.6 Assets held for sale

The line *'Assets held for sale'* represents assets for which the Group expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Group expects that the sale of assets will be completed, the market situation permitting, within one year from the date of the asset's classification as '*Assets held for sale'*.

Assets held for sale are measured at the lower of:

- the carrying amount of a respective asset at the date of its classification as *'Assets held for sale'*; or
- fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, whose estimates are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as '*Assets held for sale'* are no longer depreciated.

The Group recognises an impairment loss on assets held for sale in the line *'Depreciation, impairment and disposal of assets'* if their selling price less estimated costs to sell is lower than their carrying value. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the asset classification as held for sale or before the reclassification into the line *'Assets held for sale'* (i.e. during the period when the asset had been held for supplying the Group's services or for administrative purposes).

3.5.7 Income tax

3.5.7.1 Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the Statement of Financial Position date.

Current income tax is recognised in the Income Statement, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Group does not offset current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts or intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

3.5.7.2 Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values presented in the Statement of Financial Position. Deferred income tax is determined using tax rates enacted or substantially enacted for the periods in which the Group expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Income Statement, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income (as deferred income tax related to changes in the fair value of available-for-sale financial assets or in relation to a cash flow hedge).

The Group offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and receivables, hedging derivatives and available-for-sale financial assets.

3.5.8 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Group as lessor</u>

Operating leases

The Group presents assets that are the subject of an operating lease in the appropriate lines in the Statement of Financial Position in accordance with the nature of these assets and uses for them accounting policies applied to the relevant asset class.

Rental income from operating leases is recognised as the Group's income on a straight-line basis over the term of the relevant lease and is presented in the line *'Other income'*.

Finance leases
When assets held are subject to a finance lease, the net investment in the lease is recognised as *'Loans and advances to customers'* while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the term of the lease, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and is presented in the line *'Interest income and similar income*'.

The Group as lessee
Operating lease
Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line *'General administrative expenses'*. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

Finance leases
At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line in the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Group uses the same accounting policies for these assets as for its own property presented in the same line as the leased asset. If the legal ownership of the asset held under finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Group divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Income Statement as *'Interest expense and similar expense'*. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

3.5.9 Tangible and intangible assets (except goodwill)
Intangible assets include principally software and internally generated intangible assets. Tangible assets include plant, property and equipment that are held by the Group for supplying the Group's services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets less accumulated depreciation and increased by technical improvements. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Group capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following expiration of the lease set out in the lease contract. The Group estimates no residual value for other assets. Depreciation is reported in the Income Statement line *'Depreciation, impairment and disposal of assets'*.

The Group does not depreciate land, works of art, or tangible and intangible assets in the course of construction and technical improvements unless these are brought into a condition fit for use.

During the reporting period, the Group used the following useful lives in years:

	2013	2012
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the Group	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
- Heating, air-conditioning, windows, doors	20	20
- Lifts, electrical installations	25	25
- Facade	30	30
- Roof	20	20
- Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 4
Licences – software	4	4
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Group assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economical or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Group estimates the recoverable amount of the asset concerned, i.e. the higher amount of its fair value less costs to sell in comparison with the asset's carrying value. If the asset's carrying amount is greater than its recoverable amount, the Group reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line '*Depreciation, impairment and disposal of assets*'.

Repairs and maintenance are charged directly to the Income Statement when they occur.

3.5.10 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired before 2010 it represents the excess of the acquisition cost (including acquisition related costs) for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired from 2010 it represents the difference between the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the identifiable net assets of the subsidiary's on the one hand and the net of the identifiable assets and the liabilities assumed on the other. Acquisition related costs are recognised in profit or loss.

Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of possible impairment losses.

The Group tests goodwill for impairment on a regular annual basis at 30 September, or more frequently if there is indication that the goodwill may be impaired. If the recoverable amount of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying value, the Group recognises an impairment of the cash-generating unit which is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or on a pro-rata basis).

For the purpose of calculating the recoverable amount, the Group calculates the value in use as the present value of the future cash flow to be generated by the cash-generating unit from its continuing use in the business. The Group estimates future cash flow on the basis of the medium-term financial plan of the cash-generation unit that is approved by management. Cash flows represent income after tax of cash-generating units available for distribution to owners. The discount rate used is the cost of capital calculated using the capital asset pricing model. This method is based on the risk-free interest rate grossed up by a risk premium determined according to the underlying activities of the cash-generating unit. As all subsidiaries are located in the Czech Republic and their functional currency is the Czech crown, no other premium is added. For the period beyond the medium-term financial plan, the projected cash flow is calculated as a perpetuity based on constant cash flows consisting the net operating income after taxes and including growth rate derived from the medium-term financial plan. Key assumptions used in the preparing the financial plan are consistent with market estimations (GDP, interest rate, inflation) and with past experience.

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

3.5.11 Provisions

Provisions are recognised when and only when:
– the Group has a present obligation (legal or constructive) as a result of a past event;
– it is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
– a reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

Among others, the Group recognises provisions for credit-related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit-related commitments into which the Group enters in the normal course of its business and that are recorded off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit-related commitments are created on the same basis as are allowances for loan portfolios (refer to Note 33).

3.5.12 Employee benefits

3.5.12.1 General

The Group provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or if they are entitled to receive a disability pension but only if they were employed within the Group for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line *'Provisions'*. The changes in provisions are disaggregated into three components that are presented as follows:

I. service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line *'Personnel expenses'*;
II. the interest expense on the net benefit liability is presented in the line *'Personnel expenses'*;
III. other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line '*Remeasurement of retirement benefits plan, net of tax*'.

The use of a provision is presented in the line '*Personnel expenses*'.

The Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions as incurred in the line *'Personnel expenses'* (refer to Note 9).

The Group has the following share plans and deferred compensation schemes:

3.5.12.2 Deferred bonus payments

In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU) the Group implemented a new compensation scheme for employees whose professional activities have a material impact on the risk profile of the Group. For employees identified as targeted by the CRD III regulation, the performance-linked remuneration is split into two components: (i) a non-deferred component which is paid in the following year; and (ii) a deferred component which is spread over three years. The amounts of both components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:
– in the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the condition is is based on the profitability of the Société Générale Group;
– in the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the condition is based on the profitability of the Komerční banka Group. Moreover, for employees of investment banking there is a condition that the Group's net investment banking operating income is higher than zero.

Indexed bonuses qualify for cash-settled. share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Société Générale S.A. or Komerční banka, a.s. multiplied by numbers of granted shares and it is spread over the vesting period.

The amount of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s. shares multiplied by their price fixed as the volume-weighted average of the last twenty closing trading prices prior to the first business day following the end of the applicable retention period.
Deferred cash bonuses (i.e. bonuses paid to employees more than twelve months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line *'Personnel expenses'.*

3.5.12.3 Free share plan
In November 2010, the Group awarded all its employees rights to forty free shares of Société Générale S.A. upon the achievement of two performance conditions and completing a specific period of service that is recognised as equity-settled share-based payment. The rights are measured at their fair value calculated using the arbitrage model as at the grant day. Their fair value is spread over the vesting period and recognised in the lines *'Personnel expenses'* and *'Share premium and reserves'* under Shareholders' Equity. At the end of each accounting period, the number of these instruments is recalculated taking into account performance and service conditions and the overall cost of the plan as originally determined is adjusted. Social security, health insurance contributions and contributions to retirement pension insurance costs related to granted rights to free shares are recognised in the lines *'Personnel expenses'* and *'Provisions'*.

The shares will be allotted in two tranches:
- the first tranche will account for 40% of the planned allocation (i.e. 16 shares) and it is contingent on Société Générale S.A. Group's achieving a positive net income in 2012 (the initial criterion of at least 10% return of equity, net of tax was changed by decision of the Société Générale Board of Directors based on agreement of the General Shareholders' Meeting held on 22 May 2012). The Group's employees will receive those shares on 31 March 2015;
- the second tranche will account for 60% of the planned allocation (i.e. 24 shares) and it is contingent on customer satisfaction increasing between 2010 and 2013 in Société Générale S.A. Group's three core businesses (French Networks, International Retail Banking, Corporate and Investment Banking). The Group's employees will receive those shares on 31 March 2016.

3.5.13 Share capital
Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity at the time in which they are approved by the Group's shareholders.

Treasury shares
When the Group acquires its own equity instruments, the consideration paid, and including any attributable transaction costs, is recognised as a deduction from the line *'Share premium and reserves'* under Shareholders' Equity. Gains and losses on sales of treasury shares are recognised in equity and presented as well in the line *'Share premium and reserves'*.

3.5.14 Contingent assets, contingent liabilities and off-balance sheet items
In addition to transactions giving rise to the recognition of assets and liabilities in the Statement of Financial Position, the Group enters into transactions under which it generates contingent assets and liabilities. The Group maintains contingent assets and liabilities as off-balance sheet items. The Group monitors these transactions inasmuch as they represent a substantial proportion of its activities and materially impact the level of risks to which the Group is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset/liability is defined as a possible asset/liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Group's control.

A contingent liability is also a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody and fiduciary activities and related obligations to return these to customers (e.g. Assets under Management).

Off-balance sheet items include also notional values of interest and foreign currency instruments as forwards, swaps, options and futures. More information regarding derivative operations is presented in 3.5.5.11 Derivatives and hedge accounting.

3.5.15 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Group).

The Group has the following operating segments:

- *Retail Banking:* includes the provision of products and services to individuals, i.e. predominantly current and savings accounts, term deposits, building savings, pension insurance overdrafts, credit card loans, personal loans and mortgages;
- *Corporate Banking:* includes the provision of products and services to corporate entities, i.e. current accounts, term deposits, revolving loans, business loans, mortgages, leasing, foreign currency and derivative products, syndicated and export financing, and guarantee transactions;
- In*vestment Banking:* involves trading in financial instruments;
- *Other:* consists of the head office of the Group.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. However, the management of the Group believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Group is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expenses of individual operating segments are reported not separately but on a net basis.

In addition, the Group monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Group does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Group's financial accounting records.

The Group has no client or group of related parties for which the income from transactions would account for more than 10% of the Group's total income.

3.5.16 Regulatory requirements

The Group is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances to cover credit risk associated with the Group's clients, as well as with its liquidity, interest rate and foreign currency positions.

3.6 Changes in accounting policies and reclassifications

Since 1 January 2013, the Group has changed the presentation of certain items in the Financial Statements arising from the revision of the standard IAS 19 Employee Benefits or to refinements in reporting of stated items. Comparative information has been restated to reflect the presentation of the current period. A reconciliation of the categories is shown in the tables below.

Reconciliation of categories in the Income Statement for the year ended 31 December:

(CZKm)	As reported 2012	After restatement 2012	Reference
Interest expense and similar expense	35,972	**35,992**	4
Interest expense and similar expense	(14,027)	**(14,025)**	2
Net fee and commission income	7,018	**6,971**	2, 3, 4
Personnel expenses	(6,786)	**(6,785)**	1
General administrative expenses	(5,019)	**(4,994)**	3

1. The impact of applying the revised standard IAS 19 Employee Benefits was a decrease in '*Personnel expenses'* by CZK 1 million;
2. Income from penalties for early withdrawals of term deposits in the amount of CZK 2 million was reclassified from *'Net fee and commission income'* to *'Interest expense and similar expense'*;
3. Fees related to provided banking services in the amount of CZK 25 million were reclassified from *'General administrative expenses'* to *'Net fees and commissions income'*;
4. Income from late fees in the amount of CZK 20 million was reclassified from *'Net fee and commission income'* to *'Interest income and similar income'*.

Reconciliation of categories in the Statement of Financial Position as at 31 December:

(CZKm)	As reported 31 Dec 2012	After restatement 31 Dec 2012	As reported 31 Dec 2011	After restatement 31 Dec 2011	Reference
Deferred tax liabilities	5,482	**5,473**	3,097	**3,090**	1
Provisions	968	**1,016**	1,067	**1,103**	1
Share premium and reserves	78,803	**78,764**	60,212	**60,183**	1

The impact of applying the revised standard IAS 19 Employee Benefits was an increase of *'Provisions'* by CZK 48 million (2011: CZK 36 million), a decrease of *'Deferred tax liabilities'* by CZK 9 million (2011: CZK 7 million), a decrease of *'Retained earnings'* in '*Share premium and reserves'* by CZK 29 million (2011: CZK 29 million), a decrease in Other Comprehensive Income under *'Remeasurement of retirement benefits plan, net of tax'* by CZK 11 million (2011: CZK 0 million) and an increase of *'Net profit for the period'* by CZK 1 million (2011: CZK 0 million).

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net interest income and similar income	12,385	13,071	6,807	6,512	123	55	1,892	2,331	**21,207**	21,969
Net fee and commission income	4,751	4,836	2,161	2,321	(41)	(51)	206	(135)	**7,077**	6,971
Net profit/(loss) on financial operations	856	1,315	1,211	1,360	319	526	103	397	**2,489**	3,598
Other income	98	94	(18)	(30)	163	133	(122)	(71)	**121**	126
Net banking income	**18,090**	19,316	**10,161**	10,163	**564**	663	**2,079**	2,522	**30,894**	32,664

Since 1 January 2013, the Group has changed the method for an allocation of revenues from products of Investment banking between individual segments. Comparative information have been restated to reflect the presentation of the current period.

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs and income tax only for selected segments rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest and, in assessing the performance of segments and deciding on allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis, i.e. reduced by interest expense.

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rates conditions, including the liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Group's income is primarily (more than 98%) generated on the territory of the Czech Republic.

5 Net interest income and similar income

Net interest income and similar income comprise the following:

(CZKm)	2013	2012
Interest income and similar income	32,230	35,992
Interest expense and similar expense	(11,025)	(14,025)
Dividend income	2	2
Net interest income and similar income	**21,207**	21,969
Of which net interest and similar income from		
– loans and advances	18,861	21,107
– held-to-maturity investments	147	180
– available-for-sale financial assets	4,221	4,725
– financial liabilities at amortised cost	(5,108)	(6,106)

'Interest income and similar income' includes interest on substandard, doubtful and loss loans due from customers of CZK 570 million (2012: CZK 566 million) and interest on securities of CZK 0 million (2012: CZK 70 million) that have suffered impairment. During the year ended 31 December 2012, the Group derecognised these securities and the Group does not register any receivables related to these securities.

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 9,001 million (2012: CZK 10,036 million) and *'Interest expenses and similar expense'* includes interest expenses from hedging financial derivatives of CZK 5,917 million (2012: CZK 7,975 million). Net interest income from these derivatives amounts to CZK 3,084 million (2012: CZK 2,061 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2013	2012
Transactions	4,212	4,315
Loans and deposits	2,911	3,097
Others	1,564	1,400
Total fee and commission income	**8,687**	8,812
Transactions	(1,013)	(1,008)
Loans and deposits	(327)	(267)
Others	(270)	(566)
Total fee and commission expenses	**(1,610)**	(1,841)
Total net fee and commission income	**7,077**	6,971

The line *'Others'* includes mainly fees and commissions from trade finance and investment banking. The line comprises fee income arising from trust and other fiduciary activities in the amount of CZK 69 million (2012: CZK 67 million) and fee expense for these services in the amount of CZK 44 million (2012: CZK 48 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises the following:

(CZKm)	2013	2012
Net realised gains/(losses) on securities held for trading	(206)	146
Net unrealised gains/(losses) on securities held for trading	68	238
Net realised gains/(losses) on securities available-for-sale	64	908
Net realised and unrealised gains/(losses) on security derivatives	293	123
Net realised and unrealised gains/(losses) on interest rate derivatives	94	(162)
Net realised and unrealised gains/(losses) on trading commodity derivatives	27	44
Net realised and unrealised gains/(losses) on foreign exchange from trading	875	988
Net realised gains/(losses) on foreign exchange from payments	1,274	1,313
Total net profit/(loss) on financial operations	**2,489**	3,598

In the year ended 31 December 2013, the line *'Net realised gains/(losses) on securities available-for-sale'* includes a net gain from the sale of Italian government bonds in the amount of CZK 64 million (refer to Note 18).

In the year ended 31 December 2012, the line '*Net realised gains/(losses) on securities available-for-sale'* includes a net gain from the sale of the equity investment in Českomoravská záruční a rozvojová banka, a.s. in the amount of CZK 830 million, a net loss from the sale of Greek and Portuguese government bonds in the amount of CZK 380 million, and a net gain from the sale of Italian government bonds in the amount of CZK 11 million (refer to Note 18).

A gain of CZK 1,187 million (2012: a loss CZK 1,442 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the loss arising from the retranslation of hedged loan receivables and available-for-sale financial assets reported in the same line.

A gain of CZK 1 million (2012: a loss of CZK 0 million) on the fair value of cross currency swaps for foreign currency risk hedging is included in *'Net realised and unrealised gains/(losses) on foreign exchange from trading'.* This amount matches the loss arising from the retranslation of hedged foreign currency assets reported in the same line.

8 Other income

The Group reports *'Other income'* in the amount of CZK 121 million (2012: CZK 126 million). In both years 2013 and 2012, '*Other income'* was predominantly composed of the property rental income and income from intermediation.

9 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2013	2012
Wages, salaries and bonuses	4,798	4,883
Social costs	1,930	1,902
Total personnel expenses	**6,728**	6,785
Physical number of employees at the end of the period*	8,703	8,820
Average recalculated number of employees during the period*	8,604	8,758
Average cost per employee (CZK)	**781,992**	774,720

Note: * Calculation according to the methodology of the Czech Statistical Office.

'Social costs' include costs of CZK 88 million (2012: CZK 88 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 45 million (2012: CZK 45 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include a charge in the amount of CZK 0 million (2012: CZK 10 million) and the release and use of a provision for restructuring in the amount of CZK 10 million (2012: CZK 0 million) relating to a project to reorganise the distribution network (refer to Note 33).

Indexed bonuses
In 2013, the total amount relating to bonuses indexed on the Société Générale share price and the Komerční banka share price recognised in *'Personnel expenses'* was CZK 36 million (2012: CZK: 27 million) and the total amount of CZK 40 million (2012: CZK 27 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Group. Net income from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 9 million (2012: CZK 1 million). The total number of Société Générale shares according to which bonuses indexed on the Société Générale share price are calculated is 12,461 shares (2012: 16,934 shares). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 15,137 shares (2012: 9,487 shares).

The changes in the numbers of shares were as follow:

	2013		2012	
(shares)	SG shares	KB shares	SG shares	KB shares
Balance as at 1 January	**16,934**	**9,487**	24,852	0
Paid out during the period	(4,473)	(4,314)	(7,918)	0
New guaranteed number of shares	0	9,964	0	9,487
Balance as at 31 December	**12,461**	**15,137**	16,934	9,487

Free shares
The share price at the granting date was established to be EUR 34.55 for the first tranche and EUR 33.15 for the second tranche. The total number of free shares granted for both tranches is 311,920 shares (2012: 320,320 shares). In 2013, the total amount relating to the free shares program recognised in 'Personnel expenses' is CZK 52 million (2012: CZK 51 million) and from the granting date a cumulative amount of CZK 155 million (2012: CZK 103 million) is recognised as '*Share premium'* in equity.

10 General administrative expenses

General administrative expenses comprise the following:

(CZKm)	2013	2012
Insurance	120	117
Marketing and representation	650	718
Sale and banking products expenses	323	342
Other employees expenses and travelling	143	145
Real estate expenses	1,188	1,302
IT support	984	877
Equipment and supplies	173	252
Telecommunications, postage and data transfer	347	421
External consultancy and other services	597	665
Other expenses	141	155
Total general administrative expenses	**4,666**	4,994

'General administrative expenses' include the release and use of a provision for restructuring in the amount of CZK 0 million (2012: CZK 9 million) relating to the change in the legal status of Komerční banka Bratislava, a.s. to that of a foreign branch of the Bank (refer to Note 33).

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise the following:

(CZKm)	2013	2012
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,758	1,694
Impairment and disposal of fixed assets	(4)	12
Total depreciation, impairment and disposal of assets	**1,754**	1,706

12 Cost of risk

Allowance for loan losses and provisions for other credit commitments

'Allowances for loan losses' in the total amount of CZK 1,733 million (2012: CZK 1,846 million) include a net loss from allowances and provisions for loans losses in the amount of CZK 2,009 million (2012: CZK 2,297 million), a net gain from loans written off and transferred in the amount of CZK 271 million (2012: CZK 426 million) and a net gain from allowances for other receivables in the amount of CZK 5 million (2012: net gain CZK 25 million).

The movements in allowances and provisions were as follow:

(CZKm)	2013	2012
Balance at 1 January	**(18,232)**	(17,211)
Charge of allowances and provisions for loan losses		
– individuals	(2,827)	(3,105)
– corporates*	(5,234)	(4,606)
Release and use of allowances and provisions for loans losses		
– individuals	2,121	1,910
– corporates*	3,931	3,504
Impact of loans written off and transferred	1,378	1,154
Foreign exchange rate differences attributable to provisions	(246)	122
Balance at 31 December	**(19,109)**	(18,232)

Note: * This item also includes allowances and provisions for loans granted to individual entrepreneurs.

The balance of allowances and provisions as at 31 December 2013 and 2012 comprises:

(CZKm)	2013	2012
Allowances for loans to customers (refer to Note 21)	(18,520)	(17,733)
Allowances for other loans to customers (refer to Note 21)	(18)	(17)
Provisions for guarantees and other credit related commitments (refer to Note 33)	(571)	(482)
Total	**(19,109)**	(18,232)

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 153 million as at 31 December 2013 (2012: CZK 153 million). During the year ended 31 December 2012, the Group derecognised a provision of CZK 5,278 million due to the replacement of Greek government bonds held by the Group and the related foreign exchange differences from provisions against securities denominated in foreign currencies of CZK 288 million (refer to Note 18).

Provisions for other risk expenses

The net loss of '*Provisions for other risk expenses'* of CZK 6 million (2012: CZK 25 million) mainly consists of the charge for provisions of CZK 12 million (2012: CZK 261 million) and the release and use of provisions of CZK 6 million (2012: CZK 260 million) for legal disputes, together with the net costs incurred by the Group as a result of the outcome of legal disputes of CZK 0 million (2012: CZK 24 million).

Additional information on the provisions for other risk expenses is provided in Note 33.

13 Income taxes

The major components of corporate income tax expense are as follow:

(CZKm)	2013	2012
Tax payable – current year, reported in profit or loss	(2,869)	(2,737)
Tax paid – prior year	13	(3)
Deferred tax (refer to Note 34)	44	18
Hedge of a deferred tax asset against foreign currency risk	(13)	14
Total income taxes	**(2,825)**	(2,708)
Tax payable – current year, reported in equity	0	0
Total tax expense	**(2,825)**	(2,708)

The items explaining the difference between the Group's theoretical and effective tax rate are as follow:

(mil. Kč)	2013	2012
Profit before tax	**15,731**	16,940
Theoretical tax calculated at a tax rate of 19% (2012: 19%)	2,913	3,140
Tax on pre-tax profit adjustments	(82)	78
Non-taxable income	(1,558)	(1,403)
Expenses not deductible for tax purposes	1,629	1,050
Use of tax losses carried forward	(15)	(16)
Tax allowance	(3)	(3)
Tax credit	1	(76)
Hedge of a deferred tax asset against foreign currency risk	13	(14)
Movement in deferred tax	(44)	(18)
Tax losses	39	20
Impact of various tax rates of subsidiary undertakings	(31)	(30)
Tax effect of share of profits of associated undertakings	(24)	(23)
Income tax expense	**2,838**	2,705
Prior period tax expense	(13)	3
Total income taxes	**2,825**	2,708
Tax payable on available-for-sale financial assets reported in equity*	0	0
Total tax expense	**2,825**	2,708
Effective tax rate	17.96%	15.99%

Note: * This amount represents the tax payable on unrealised gains from the revaluation of available-for-sale financial assets which are revalued through equity under IFRS.

Non-taxable income primarily includes dividends, tax-exempt interest income and the release of non-tax deductible allowances and provisions. Expenses not deductible for tax purposes primarily include the recognition of non-tax deductible allowances and provisions and non-tax deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to the Czech Accounting Standards (CAS). Tax credit arises from interest income on bonds issued by EU states.

The corporate tax rate for the year ended 31 December 2013 is 19% (2012: 19%). The Group's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax-exempt income or income subject to a final withholding tax rate.

As at 31 December 2013, the Group records unused tax losses in the amount of CZK 158 million, of the Slovak tax losses in the amount of CZK 0 (2012: CZK 77 million). As at 31 December 2012 tax losses were Slovak tax losses from previous years, applicable only for Slovak corporate tax paid by the Slovak branch of the Group.

These tax losses can be used in the following time frame:

(CZKm)	1 year	2 years	3 years	4 years	5 years
In the amount of	16	1	0	0	141

Further information about deferred tax is presented in Note 34.

14 Distribution of net profit

For the year ended 31 December 2013, the Group generated a net profit of CZK 12,906 million (2012: CZK 14,232 million). Distribution of profits for the year ended 31 December 2013 will be approved by the general meetings of the Group companies.

The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 230 per share (2012: CZK 230 per share), which represents a total amount of CZK 8,742 million. The proposal is subject to the Supervisory Board's review and subsequently to the approval of the General Shareholders' meeting.

In accordance with a resolution of the General Shareholders' meeting, held on 24 April 2013, the aggregate balance of the net profit of CZK 14,232 million for the year ended 31 December 2012 was allocated as follows: CZK 8,742 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. Since 2008, the reserve fund has corresponded to the level required by the Commercial Code and the Articles of Association of the Bank, i.e. 20% of the Bank's share capital.

Further, the Group paid out dividends to non-controlling owners in the total amount of CZK 271 million (2012: CZK 143 million), of which CZK 211 million (2012: CZK 94 million) was paid to the non-controlling owners of ESSOX s.r.o. and CZK 60 million (2012: CZK 49 million) was paid to the non-controlling owners of SG Equipment Finance Czech Republic s.r.o.

15 Earnings per share

Earnings per share of CZK 331.68 (2012: CZK 369.44 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 12,528 million (2012: CZK 13,954 million) by the number of shares in issue, that is, 38,009,852, decreased by the average number of treasury shares held by the Bank during the period 238,672 pieces (2012: 238,672 pieces).

16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Cash and cash equivalents	7,188	6,452
Current balances with central banks	37,217	21,605
Total cash and current balances with central banks	**44,405**	28,057

Obligatory minimum reserves in the amount of CZK 5,892 million (2012: CZK 1,134 million) are included in '*Current balances with central banks'* and they bear interest. As at 31 December 2013, the interest rate was 0.05% (2012: 0.05%) in the Czech Republic and 0.25% (2012: 0.75%) in the Slovak Republic.

17 Financial assets at fair value through profit or loss

As at 31 December 2013 and 2012, the *'Financial assets at fair value through profit or loss'* portfolio includes only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Group has not designated any other financial assets as *'Financial assets at fair value through profit or loss*'.

(CZKm)	31 Dec 2013	31 Dec 2012
Securities	20,778	33,962
Derivative financial instruments	16,355	17,631
Total financial assets at fair value through profit or loss	**37,133**	51,593

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 43(C).

Trading securities comprise the following:

	31. 12. 2013		31. 12. 2012	
(CZKm)	Fair value	Cost*	Fair value	Cost*
Emission allowances	**381**	**407**	813	855
Fixed income debt securities	6,278	6,241	8,505	8,309
Variable yield debt securities	3,340	3,337	1,939	1,927
Bills of exchange	373	372	1,852	1,839
Treasury bills	10,406	10,410	20,853	20,836
Total debt securities	**20,397**	**20,360**	33,149	32,911
Total trading securities	**20,778**	**20,767**	33,962	33,766

Note: * Acquisition cost for shares, participation certificates and emission allowances amortised acquisition cost for debt securities.

The Group's portfolio of trading securities includes treasury bills issued by the Czech Ministry of Finance at fair value of CZK 10,406 million (2012: CZK 20,853 million).

As at 31 December 2013, the portfolio of trading securities includes securities at fair value of CZK 9,504 million (2012: CZK 11,013 million) that are publicly traded on stock exchanges and securities at fair value of CZK 11,274 million (2012: CZK 22,949 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Emission allowances at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Emission allowances		
– Other currencies	381	813
Total emission allowances	**381**	813

Emission allowances at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Emission allowances issued by:		
– Foreign financial institutions	381	813
Total emission allowances	**381**	813

Debt trading securities at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Variable yield debt securities		
– Czech crowns	1,984	1,837
– Other currencies	1,356	102
Total variable yield debt securities	**3,340**	1,939
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	16,522	27,798
– Other currencies	535	3,412
Total fixed income debt securities	**17,057**	31,210
Total trading debt securities	**20,397**	33,149

Debt trading securities at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Debt trading securities issued by:		
– State institutions in the Czech Republic	16,876	28,575
– Foreign state institutions	1,334	2,503
– Financial institutions in the Czech Republic	1,952	114
– Foreign financial institutions	182	93
– Other entities in the Czech Republic	49	1,864
– Other foreign entities	4	0
Total trading debt securities	**20,397**	33,149

Bonds issued by foreign state institutions designated as financial assets at fair value through profit or loss:

(CZKm) Country of Issuer	31 Dec 2013 Fair value	31 Dec 2012 Fair value
Italy	0	13
Poland	66	129
Slovakia	1,268	2,361
Total	**1,334**	2,503

Of the debt securities issued by state institutions in the Czech Republic, CZK 6,063 million (2012: CZK 7,651 million) consist of securities eligible for refinancing with the CNB.

18 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

(CZKm)	31 Dec 2013		31 Dec 2012	
	Fair value	Cost*	Fair value	Cost*
Shares and participation certificates	**2**	**2**	2	2
Fixed income debt securities	118,595	108,872	122,911	109,001
Variable yield debt securities	22,603	22,222	18,878	18,238
Total debt securities	**141,198**	**131,094**	141,789	127,239
Total available-for-sale financial assets	**141,200**	**131,096**	141,791	127,241

Note: * Acquisition cost for shares and participation certificates amortised acquisition cost for debt securities.

As at 31 December 2013, the *'Available-for-sale financial assets'* portfolio includes securities at fair value of CZK 141,198 million (2012: CZK 135,254 million) that are publicly traded on stock exchanges and securities at fair value of CZK 2 million (2012: CZK 6,537 million) that are not publicly traded.

Shares and participation certificates available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Shares and participation certificates		
– Other currencies	2	2
Total shares and participation certificates available-for-sale	**2**	2

Shares and participation certificates available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Shares and participation certificates available-for-sale issued by:		
– Non-banking foreign entities	2	2
Total shares and participation certificates available-for-sale	**2**	2

In 2012, the Group sold its equity investment in Českomoravská záruční a rozvojová banka, a.s. The net gain from the sale for the Group was CZK 830 million (refer to Note 7). The acquisition cost had been CZK 60 million.

Debt securities available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Fixed income debt securities		
– Czech crowns	90,930	100,105
– Other currencies	27,665	22,806
Total fixed income debt securities	**118,595**	122,911
Variable yield debt securities		
– Czech crowns	17,562	17,009
– Other currencies	5,041	1,869
Total variable yield debt securities	**22,603**	18,878
Total debt securities available-for-sale	**141,198**	141,789

Debt securities available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Debt securities available-for-sale issued by:		
– State institutions in the Czech Republic	98,198	96,859
– Foreign state institutions	17,384	24,251
– Financial institutions in the Czech Republic	20,757	17,057
– Foreign financial institutions	3,375	2,522
– Other entities in the Czech Republic	499	502
– Other foreign entities	985	598
Total debt securities available-for-sale	**141,198**	141,789

Debt securities available-for-sale issued by foreign state institutions comprise the following:

(CZKm)	31 Dec 2013		31 Dec 2012	
Country of Issuer	Fair value	Cost*	Fair value	Cost*
EFSF	566	561	1,040	1,029
EIB	1,436	1,250	2,503	2,250
Italy	0	0	7,907	7,580
Poland	5,930	5,431	6,223	5,545
Slovakia	9,452	8,840	6,578	5,950
Total	**17,384**	**16,082**	24,251	22,354

Note: * Acquisition cost for shares and participation certificates amortised acquisition cost for debt securities.

Of the debt securities issued by state institutions in the Czech Republic, CZK 83,634 million (2012: CZK 85,460 million) consist of securities eligible for refinancing with the CNB.

During the year ended 31 December 2013, the Group acquired bonds with a nominal value of CZK 18,567 million. This amount comprised bonds issued by State institutions in the Czech Republic in the amount of CZK 10,505 million and bonds of Foreign state institutions in the amount of EUR 117 million (a CZK equivalent of CZK 3,039 million), bonds of Financial institutions in the Czech Republic in EUR in the amount of EUR 145 million (a CZK equivalent of CZK 3,757 million) and in CZK in the amount of CZK 200 million, and bonds of Financial institutions in other countries with a nominal value of EUR 10 million (a CZK equivalent of CZK 258 million) and USD 41 million (a CZK equivalent of CZK 809 million). During 2013, the Group had regular repayment of debt securities at maturity in the aggregate nominal amount of CZK 8,888 million and EUR 75 million (a total CZK equivalent of CZK 10,810 million), of which CZK 7,888 million were issued by State institutions in the Czech Republic, CZK 1,922 million by Foreign state institutions and CZK 1,000 million by Financial institutions in other countries.

During the year ended 31 December 2012, the Group acquired bonds with a nominal value of CZK 25,685 million. This amount comprised bonds issued by State institutions in the Czech Republic in the amount of CZK 24,631 million, bonds of financial institutions in EUR in the amount of EUR 30 million (a CZK equivalent of CZK 754 million) and bonds of other institution in the nominal value of CZK 300 million. During 2012, the Group had regular repayment of debt securities at maturity in the aggregate nominal amount of CZK 8,931 million, EUR 35 million and USD 76 million (a total

CZK equivalent of CZK 10,191 million), of which CZK 6,330 million were issued by State institutions in the Czech Republic, CZK 2,410 million by Foreign state institutions, CZK 201 million by Financial institutions and CZK 1,250 million by other entities in the Czech Republic.

During the year ended 31 December 2013, the Group sold Italian government bonds in the nominal amount of CZK 7,470 million. The net gain from the sale was CZK 64 million (refer to Note 7).

During the year ended 31 December 2012, the Group sold Portuguese government bonds in the nominal value of EUR 10 million, i.e. in CZK equivalent of CZK 253 million. The net loss from the sale was CZK 23 million. The Group also sold Italian government bonds in the nominal value of EUR 10 million and USD 10 million, i.e. in a total in CZK equivalent of CZK 450 million. The net gain from the sale was CZK 11 million (refer to Note 7). The Group also sold Czech state bonds in the nominal value of CZK 4,391 million and bonds of other institutions in nominal value of CZK 400 million.

Greece

During the first quarter of 2012, the Group decided to participate in the exchange of the Greek government bonds. Subsequently, the Group has decided to realise the divestment of all new Greek government bonds and GDP warrants with a negative impact of CZK 357 million, which was booked as '*Net profit/(loss) on financial operations*' (refer to Note 7).

19 Assets held for sale

As at 31 December 2013, the Group reported assets held for sale at a carrying amount of CZK 84 million (2012: CZK 86 million) mainly comprising equipment which was obtained by taking possession of leasing collateral.

20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Current account with other banks	1,710	5,913
Debt securities	10,055	7,929
Loans and advances to banks	12,631	8,559
Advances due from the Czech National Bank (reverse repo transactions)	87,001	22,900
Term placements with other banks	14,338	18,810
Total amounts due from banks, gross	**125,735**	64,111
Allowances for amounts due from banks (refer to Note 12)	0	0
Total amounts due from banks, net	**125,735**	64,111

Advances due from the Czech National Bank and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair value of which is as follows:

(CZKm)	31 Dec 2013	31 Dec 2012
Treasury bills	85,325	22,514
Debt securities issued by state institutions	2,517	2,683
Shares	0	278
Investment certificates	82	77
Total	**87,924**	25,552

Securities acquired as loans and receivables

As at 31 December 2013, the Group maintains in its portfolio bonds at an amortised cost of CZK 10,055 million (2012: CZK 7,929 million) and a nominal value of CZK 9,898 million (2012: CZK 7,773 million), of which CZK 5,863 million (2012: CZK 5,658 million) is comprised of a bonds issued by the parent company Société Générale S. A., and acquired by the Group under initial offering and normal market conditions in 2006 and 2010. The bond with the nominal value of CZK 3,273 million (2012: CZK 3,068 million) is denominated in EUR, bears floating interest and will mature in 2026. During the year ended 31 December 2013, there was a partial repayment of the nominal value of this bond in the amount of EUR 2.7 million (an equivalent of CZK 77 million) (2012: EUR 2.4 million, an equivalent of CZK 61 million). The other bond in nominal value of CZK 2,000 million issued by the parent company Société Générale S. A., which was held on this portfolio, was repaid during 2012. Additionally, the Group holds in this portfolio three issues of securities placed by Financial institutions with an aggregate nominal value of CZK 2,115 million (2012: CZK 2,115 million). During the year ended 31 December 2013, the Group acquired bonds with a nominal value of EUR 70 million (equivalent to CZK 1,811 million) issued by Financial institutions in the Czech Republic.

21 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Loans to customers	489,305	466,439
Bills of exchange	302	421
Forfaits	1,458	1,776
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**491,065**	468,636
Debt securities	461	461
Other amounts due from customers	101	200
Total loans and advances to customers, gross	**491,627**	469,297
Allowances for loans to customers		
– individuals	(7,125)	(6,794)
– corporates*	(11,395)	(10,939)
Total allowances for loans to customers (refer to Note 12)	(18,520)	(17,733)
Allowances for other amounts due from customers (refer to Note 12)	(18)	(17)
Total allowances for loans and other amounts due from customers	**(18,538)**	(17,750)
Total loans and advances to customers, net	**473,089**	451,547

Note: * This item includes loans granted to individual entrepreneurs.

As at 31 December 2013, loans and advances to customers include interest due of CZK 1,365 million (2012: CZK 1,482 million), of which CZK 655 million (2012: CZK 714 million) relates to overdue interest.

As at 31 December 2013, loans provided to customers under reverse repurchase transactions in the amount of CZK 124 million (2012: CZK 218 million) are collateralised by securities with a fair values of CZK 66 million (2012: CZK 120 million).

As at 31 December 2013, the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	453,974	205,790	248,184	0	453,974	0%
Watch	9,570	3,778	5,792	(844)	8,726	15%
Substandard	7,048	3,369	3,679	(1,482)	5,566	40%
Doubtful	2,048	674	1,374	(943)	1,105	69%
Loss	18,425	1,148	17,277	(15,251)	3,174	88%
Total	**491,065**	**214,759**	**276,306**	**(18,520)**	**472,545**	

As at 31 December 2012, the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers) was comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	430,523	196,175	234,348	0	430,523	0%
Watch	11,121	4,587	6,534	(806)	10,315	12%
Substandard	6,450	3,251	3,199	(1,317)	5,133	41%
Doubtful	2,569	720	1,849	(1,099)	1,470	59%
Loss	17,973	1,136	16,837	(14,511)	3,462	86%
Total	**468,636**	**205,869**	**262,767**	**(17,733)**	**450,903**	

Set out below is a breakdown of loans by sector (excluding Debt securities and Other amounts due from customers):

(CZKm)	31 Dec 2013	31 Dec 2012
Food industry and agriculture	17,254	17,595
Mining and extraction	4,863	1,482
Chemical and pharmaceutical industry	6,639	6,009
Metallurgy	9,039	9,649
Automotive industry	5,113	2,941
Manufacturing of other machinery	9,524	8,518
Manufacturing of electrical and electronic equipment	3,237	3,638
Other processing industry	8,601	9,208
Power plants, gas plants and waterworks	26,285	21,925
Construction industry	9,865	10,792
Retail	10,473	12,519
Wholesale	29,086	28,137
Accommodation and catering	1,014	1,056
Transportation, telecommunication and warehouses	21,918	19,462
Banking and insurance industry	18,780	21,713
Real estate	32,858	28,023
Public administration	35,539	34,228
Other industries	22,898	22,088
Individuals	218,079	209,653
Total loans to customers	**491,065**	468,636

The majority of loans (more than 87%) were provided to entities on the territory of the Czech Republic.

Set out below is an analysis of the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position:

	31 Dec 2013			31 Dec 2012		
(CZKm)	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***
Guarantees of state and governmental institutions	4,899	2,964	2,947	4,492	2,713	2,696
Bank guarantee	16,572	13,860	13,735	17,935	15,301	15,194
Guaranteed deposits	8,531	8,489	8,046	8,747	8,180	7,951
Pledge of real estate	353,233	223,472	161,127	343,009	211,676	152,229
Pledge of movable assets	15,886	2,614	2,568	20,433	3,002	2,936
Guarantee by legal entity	18,441	11,381	10,868	21,842	13,425	12,908
Guarantee by individual (natural person)	4,685	533	501	5,420	608	572
Pledge of receivables	28,972	508	47	27,657	424	72
Insurance of credit risk	15,351	14,571	14,571	11,804	11,213	11,213
Other	1,202	617	349	841	414	98
Nominal value of collateral	**467,772**	**279,009**	**214,759**	462,180	266,956	205,869

Note: * The nominal value of the collateral is determined based on internal rules of the Group (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of declining market prices, the risk of insolvency, etc.
*** The applied collateral value is the discounted collateral value reduced up to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 11% of total pledges on real estate (2012: 10%).

Debt securities designated as loans and receivables

As at 31 December 2013, the Group holds in its portfolio debt securities at an amortised cost of CZK 461 million (2012: CZK 461 million) and in the nominal value of CZK 450 million (2012: CZK 450 million). During 2013 and 2012, there were no purchases, sales nor redemptions.

Loans and advances to customers – restructured

(CZKm)	31 Dec 2013	31 Dec 2012
Individuals	1,528	1,277
Corporates*	4,690	5,447
Total	**6,218**	6,724

Note: * This item includes loans granted to individual entrepreneurs.

Leasing

Within the Group, ESSOX s.r.o. and SG Equipment Finance Czech Republic s.r.o. engage in providing lease services. Assets leased under lease arrangements at ESSOX s.r.o. primarily include new passenger and utility vehicles with an average lease instalment period of 67 months (2012: 41 months), technology with an average lease instalment period of 41 months (2012: 27 months). At SG Equipment Finance Czech Republic s.r.o. leased assets primarily include trucks, tractors and buses with an average lease instalment period of 67 months (2012: 61 months), agricultural vehicles and machines with an average lease instalment period of 56 months (2012: 50 months), machine technology with an average lease instalment period of 60 months (2012: 53 months), air transport equipment with an average lease instalment period of 98 months (2012: 95 months), hardware and software technology with an average lease instalment period of 53 months (2012: 48 months) and real estate with an average lease instalment period of 12 years (2012: 12 years).

Loans and advances to customers – leasing

(CZKm)	31 Dec 2013	31 Dec 2012
Due less than 1 year	4,492	4,465
Due from 1 to 5 years	6,899	6,310
Due over 5 years	782	706
Total	**12,173**	11,481

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2013	31 Dec 2012
Due less than 1 year	417	435
Due from 1 to 5 years	551	544
Due over 5 years	74	79
Total	**1,042**	1,058

As at 31 December 2013, the provisions recognised against uncollectible lease receivables amount to CZK 828 million (2012: CZK 848 million).

Trade finance losses

During 1999, the Group incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Group. As at 31 December 2013, the Statement of Financial Position included loans to this client in the amount of CZK 1,390 million (2012: CZK 1,331 million) which were fully provided for. The increase in the balance between 2013 and 2012 arises from a foreign exchange rate difference. The Group did not report any off-balance sheet receivables from this client in 2013 and 2012. The Group is continuing to take action in all relevant jurisdictions to recover its funds.

22 Held-to-maturity investments

Held-to-maturity investments comprise the following:

	31 Dec 2013		31 Dec 2012	
(CZKm)	Carrying value	Cost*	Carrying value	Cost*
Fixed income debt securities	4,200	4,071	3,322	3,211
Total held-to-maturity investments	**4,200**	**4,071**	3,322	3,211

Note: * Amortised acquisition cost.

As at 31 December 2013, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 4,200 million (2012: CZK 3,322 million) that are publicly traded on stock exchanges.

Fixed income debt securities held-to-maturity comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Fixed income debt securities		
– Czech Crowns	4,006	3,143
– Foreign currencies	194	179
Total fixed income debt securities	**4,200**	3,322

Fixed income debt securities held-to-maturity, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Fixed income debt securities issued by:		
– State institutions in the Czech Republic	4,006	3,143
– Foreign state institutions	194	179
Total fixed income debt securities	**4,200**	3,322

Debt securities held-to-maturity issued by foreign state institutions comprise the following:

Country of Issuer	31 Dec 2013		31 Dec 2012	
(CZKm)	Fair value	Cost*	Fair value	Cost*
France	198	193	189	177
Total	**198**	**193**	189	177

Note: * Amortised acquisition cost.

During 2013, the Group acquired bonds with a nominal value of CZK 760 million (2012: CZK 0 million) issued by state institutions in the Czech Republic. During 2013 and 2012, there were no redemptions at maturity.

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Prepayments and accrued income	377	263
Settlement balances	405	598
Receivables from securities trading	22	19
Other assets	2,476	2,697
Total prepayments, accrued income and other assets	**3,280**	3,577

As at 31 December 2013, the item *'Other assets'* included receivables of CZK 713 million (2012: CZK 910 million) from the state budget consisting of contributions to participants in the construction savings scheme and to holders of pension insurance policies, provisions for operating receivables for other debtors in the amount of CZK 240 million (2012: CZK 251 million), as well as advances provided and receivables for other debtors.

24 Investments in associates

Investments in associates comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Investments in associated undertakings	1,084	971
Total investments in associates	**1,084**	971

The following companies are associated undertakings of the Group as at 31 December 2013:

(CZKm)	%	31 Dec 2013		31 Dec 2012	
Associates		Net book value	Share of net assets	Net book value	Share of net assets
Komerční pojišťovna, a.s.	49	482	1,084	482	971
Czech Banking Credit Bureau, a.s.*	20	0	0	0	0
Total investments in associates		**482**	**1,084**	482	971

Note: * The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

(CZKm)				31 Dec 2013
Associates	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	41,252	38,813	571	424
Czech Banking Credit Bureau, a.s.	32	28	109	3

(CZKm)				31 Dec 2012
Associates	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	33,564	31,446	550	247
Czech Banking Credit Bureau, a.s.	24	30	112	3

Additional information about the Group's equity investments is presented in Notes 1 and 2.

25 Intangible assets

The movements in intangible assets were as follow:

(CZKm)	Internally generated assets	Software	Other intangible assets	Acquisition of assets	Total Cost
Cost					
At 1 January 2012	8,117	2,216	112	699	11,144
Additions	943	193	(36)	1,104	2,204
Disposals/transfers	(144)	(18)	0	(1,125)	(1,287)
Foreign exchange rate difference	0	(1)	0	0	(1)
At 31 December 2012	8,916	2,390	76	678	12,060
Additions	842	145	0	979	1,966
Disposals/transfers	(287)	(37)	(8)	(1,008)	(1,340)
Foreign exchange rate difference	0	2	0	0	2
At 31 December 2013	**9,471**	**2,500**	**68**	**649**	**12,688**
Accumulated amortisation and allowances					
At 1 January 2012	(5,696)	(1,526)	(74)	0	(7,296)
Additions	(813)	(205)	21	0	(997)
Disposals	128	17	0	0	145
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	1	0	0	1
At 31 December 2012	(6,381)	(1,713)	(53)	0	(8,147)
Additions	(793)	(289)	(17)	0	(1,099)
Disposals	288	36	8	0	332
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(2)	0	0	(2)
At 31 December 2013	**(6,886)**	**(1,968)**	**(62)**	**0**	**(8,916)**
Net book value					
At 31 December 2012	2,535	677	23	678	3,913
At 31 December 2013	**2,585**	**532**	**6**	**649**	**3,772**

During the year ended 31 December 2013, the Group reflected CZK 199 million (2012: CZK 143 million) invested into research and development through a charge to *'Operating expenses'*.

26 Tangible assets

The movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total Cos
Cost					
At 1 January 2012	287	10,998	5,287	364	16,936
Reallocation from/to assets held for sale	0	20	0	0	20
Additions	73	1,274	489	1,778	3,614
Disposals/transfers	(3)	(176)	(363)	(1,838)	(2,380)
Foreign exchange rate difference	0	0	(1)	0	(1)
At 31 December 2012	357	12,116	5,412	304	18,189
Reallocation from/to assets held for sale	0	23	0	0	23
Additions	1	295	254	570	1,120
Disposals/transfers	0	(152)	(317)	(597)	(1,066)
Foreign exchange rate difference	0	1	2	0	3
At 31 December 2013	**358**	**12,283**	**5,351**	**277**	**18,269**
Accumulated depreciation and allowances					
At 1 January 2012	0	(5,600)	(4,402)	0	(10,002)
Reallocation of accumulated depreciation of assets held for sale	0	(6)	0	0	(6)
Additions	0	(361)	(336)	0	(697)
Disposals	0	145	350	0	495
Impairment charge	0	12	2	0	14
Foreign exchange rate difference	0	0	1	0	1
At 31 December 2012	0	(5,810)	(4,385)	0	(10,195)
Reallocation of accumulated depreciation of assets held for sale	0	14	0	0	14
Additions	0	(363)	(297)	0	(660)
Disposals	0	144	304	0	448
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(1)	(3)	0	(4)
At 31 December 2013	**0**	**(6,016)**	**(4,381)**	**0**	**(10,397)**
Net book value					
At 31 December 2012	357	6,306	1,027	304	7,994
At 31 December 2013	**358**	**6,267**	**970**	**277**	**7,872**

As at 31 December 2013, the Group recognised allowances against tangible assets of CZK 1 million (2012: CZK 1 million). These allowances primarily included allowances charged in respect of buildings and improvements of leased assets.

27 Goodwill

Goodwill by companies as at 31 December 2013 was as follows:

(CZKm)	31 Dec 2013	31 Dec 2012
Modrá pyramida stavební spořitelna, a.s.	3,388	3,388
ESSOX s.r.o.	163	163
SG Equipment Finance Czech Republic s.r.o.	201	201
Total goodwill	**3,752**	3,752

28 Financial liabilities at fair value through profit or loss

As at 31 December 2013 and 2012, the '*Financial liabilities at fair value through profit or loss*' portfolio includes only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Group has not designated any other financial liabilities as *'Financial liabilities at fair value through profit or loss'*.

(CZKm)	31 Dec 2013	31 Dec 2012
Sold securities	1,196	2,481
Derivative financial instruments	16,334	17,108
Total financial liabilities at fair value through profit or loss	**17,530**	19,589

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 43(C).

29 Amounts due to banks

Amounts due to banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Current accounts	2,747	7,578
Amounts due to banks	46,933	31,324
Total amounts due to banks	**49,680**	38,902

The fair value of securities and treasury bills used as collateral for repurchase loans received from banks was CZK 6,978 million (2012: CZK 395 million) of which CZK 558 million (2012: CZK 175 million) were securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'* and CZK 6,420 million (2012: CZK 0 million) from the portfolio of *'Available-for-sale financial assets'*. The carrying amount of associated liabilities was CZK 6,760 million (2012: CZK 175 million).

The carrying amount of securities and loans to banks used as a pledge for loans received was CZK 0 million (2012: CZK 5,468 million).

30 Amounts due to customers

Amounts due to customers, by type of deposit, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Current accounts	365,388	329,238
Savings accounts	166,814	155,132
Term deposits	44,297	46,148
Depository bills of exchange	5,233	4,653
Amounts received from customers	24,547	6,498
Other payables to customers	42,879	37,398
Total amounts due to customers	**649,158**	579,067

The fair value of securities and treasury bills used as collateral for repurchase loans received from customers was CZK 24,461 million (2012: CZK 6,497 million), of which CZK 2,515 million (2012: CZK 0 million) were securities and treasury bills from the portfolio of '*Financial assets at fair value through profit or loss*'. The carrying amount of associated liabilities was CZK 2,571 million (2012: CZK 0 million).

Amounts due to customers, by type of customer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Private companies	211,033	186,639
Other financial institutions, non-banking entities	31,773	10,308
Insurance companies	2,285	14,404
Public administration	1,325	1,273
Individuals	229,621	256,341
Individuals – entrepreneurs	60,057	23,030
Government agencies	83,980	64,676
Other	12,251	11,757
Non-residents	16,833	10,639
Total amounts due to customers	**649,158**	579,067

31 Securities issued

Securities issued comprise mortgage bonds of CZK 22,417 million (2012: CZK 19,624 million). The Group issues mortgage bonds to fund its mortgage activities.

Debt securities according to their remaining time to maturity break up as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
In less than one year	0	0
In one to five years	14,862	13,370
In five to ten years	1,011	400
In ten to twenty years	0	0
More than twenty years	6,544	5,854
Total debt securities	**22,417**	19,624

During the year ended 31 December 2013, the Group repurchased mortgage bonds with aggregate nominal volume of CZK 641 million (2012: CZK 104 million) million and increased the nominal volume in issue by CZK 3,447 million (2012: CZK 1,440 million).

The debt securities detailed above include the following bonds and notes issued by the Group:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2013 CZKm	31 Dec 2012 CZKm
HZL Komerční banky, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% of the value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	1,910	2,200
HZL Komerční banky, a.s., CZ0002000664	4.40%	CZK	21 Oct 2005	21 Oct 2015	11,191	11,169
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	6,544	5,855
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,011	400
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,761	0
Total debt securities					**22,417**	19,624

Note: Six-month PRIBOR was 48 bps as at 31 December 2013 (2012: 67 bps).
Three-month PRIBID was 5 bps as at 31 December 2013 (2012: 18 bps).
The value of the interest rate swap CZK sale average for ten years as at 31 December 2013 was 207 bps (2012: 137 bps).

32 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Accruals and deferred income	253	260
Settlement balances and outstanding items	6	0
Payables from securities trading and issues of securities	1,548	1,407
Payables from payment transactions	4,609	4,579
Other liabilities	4,812	4,496
Total accruals and other liabilities	**11,228**	10,742

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 21 million (2012: CZK 20 million).

'Other liabilities' mainly include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).

33 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Provisions for contracted commitments (refer to Note 9 and 12)	573	524
Provisions for other credit commitments (refer to Note 12)	571	482
Provision for restructuring (refer to Note 9 and 10)	0	10
Total provisions	**1,144**	1,016

In 2013, the Bank adjusted a provision for restructuring in respect to the project for reorganisation of the distribution network. The change in the provisioning amount includes the full release and use of the provision reflecting the expenses incurred in 2013. The release and use of the provision is reported in the Income Statement line *'Personnel expenses'* (refer to Note 9).

In 2012, the Group created a provision for restructuring in respect of the project for reorganisation of the distribution network. The Group also adjusted the amount of the provision for restructuring in respect of the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Group. The change in the provisioning amount includes the full release and use of the provision reflecting the expenses incurred in 2012. The charge, release and use of provisions is reported in the Income Statement lines *'Personnel expenses'* (refer to Note 9) and *'General administrative expenses'* (refer to Note 10).

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements and the retirement benefits plan.

Set out below is an analysis of the provision for other credit commitments:

(CZKm)	31 Dec 2013	31 Dec 2012
Provision for off-balance sheet commitments	385	409
Provision for undrawn loan facilities	186	73
Total (refer to Note 12)	**571**	482

Movements in the provisions for contracted commitments and for restructuring were as follow:

(CZKm)	Retirement benefits plan	Provisions for loyalty and jubilee bonuses	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance at 1 January 2012	**96**	**2**	**343**	**9**	**450**
Changes in accounting policies	36	0	0	0	**36**
Additions	20	0	293	10	**323**
Disposals	(11)	0	(270)	(9)	**(290)**
Accrual	6	0	0	0	**6**
Remeasurement	13	0	0	0	**13**
Foreign exchange difference	0	0	(4)	0	**(4)**
Balance at 31 December 2012	**160**	**2**	**362**	**10**	**534**
Additions	10	1	75	0	**86**
Disposals	(12)	0	(30)	(10)	**(52)**
Accrual	4	0	0	0	**4**
Remeasurement	(2)	0	0	0	**(2)**
Foreign exchange difference	0	0	3	0	**3**
Balance at 31 December 2013	**160**	**3**	**410**	**0**	**573**

34 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised.

Deferred tax assets are as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	14	17
Difference between accounting and tax net book value of assets	17	13
Leases	5	0
Remeasurement of retirement benefits plan – equity impact (refer to Note 40)	1	0
Revaluation of hedging derivatives – equity impact (refer to Note 41)	3	5
Revaluation of available-for-sale financial assets – equity impact (refer to Note 42)	0	3
Other temporary differences	(4)	(4)
Net deferred tax assets	**36**	34

Deferred tax liabilities are as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Banking provisions and allowances	267	254
Allowances for assets	1	1
Non-banking provisions	169	165
Difference between accounting and tax net book value of assets	(772)	(787)
Leases	(178)	(77)
Remeasurement of retirement benefits plan – equity impact (refer to Note 40)	2	2
Revaluation of hedging derivatives – equity impact (refer to Note 41)	(1,918)	(3,355)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 4242)	(1,127)	(1,627)
Other temporary differences	60	(49)
Net deferred tax liabilities	**(3,496)**	(5,473)

Movements in the net deferred tax assets/(liabilities) were as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Balance at the beginning of the period	**(5,439)**	(3,077)
Changes in accounting policies	0	7
Movement in the net deferred tax – profit and loss impact (refer to Note 13)	44	18
Movement in the net deferred tax – equity impact (refer to Note 40, 41 and 42)	1,935	(2,387)
Balance at the end of the period	**(3,460)**	(5,439)

35 Subordinated debt

In 2012, the Bank repaid its subordinated debt. The nominal value of the subordinated debt received by the Bank at the end of 2006 was CZK 6,000 million, and it had been issued by the Bank's parent company, Société Générale S.A. The subordinated debt bore a floating rate linked to one-month PRIBOR and had a 10-year maturity with the Bank's option for early repayment after five years and thereafter as of any interest payment date. In December 2011, the Bank announced its intention to repay the subordinated debt which had been subject to negotiation and approval by, among others, the Czech National Bank as the regulator. Due to the positive result of these negotiations and the Bank 's capital position, the subordinated debt was repaid on 27 January 2012. Since repayment of the subordinated debt, the Bank has all its regulatory capital in the form of Tier 1 capital, i.e. the highest quality capital from the point of view of capital regulation.

36 Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary bearer shares in dematerialised form with a nominal value of CZK 500 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, Czech Stock Exchange. Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 513/1991 Coll., the Commercial Code, as amended. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The exclusion of voting rights can occur only on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from four years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Global depository receipts ("GDRs") were issued for shares of the Bank administered by The Bank of New York Mellon and which are held on its asset account at the Central Securities Depository. In principle, GDRs bear the same rights as do shares of the Bank and they may be reconverted into shares. One GDR represents one third of one share of the Bank. The GDRs program was launched at the end of June 1995. In issuing the first tranche, the Bank marked its entry into the international capital markets; a second tranche followed in 1996. From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as at 31 December 2013 was 236,361 pieces (2012: 236,361 pieces).

Set out below is a summary of the entities that hold more than 3% of the Bank's issued share capital as at 31 December 2013:

Name of the entity	Registered office	Ownership (%)
SOCIÉTÉ GÉNÉRALE S.A.	29 Bld Haussmann, Paris	60.35
CHASE NOMINEES LIMITED	25 Bank Street, Canary Wharf, London	5.26
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	4.47

Société Générale S.A., being the only entity with a qualified holding in the Bank as well as the ultimate parent company, is a French joint-stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and following the French Commercial Code, as well as its Articles of Association.

As at 31 December 2013, the Group held 238,672 treasury shares at a cost of CZK 726 million (2012: CZK 238,672 treasury shares at a cost of CZK 726 million).

Capital management

The Group manages its capital adequacy to ensure its sufficient level while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel II capital adequacy regulation as at 31 December 2013 currently in force, and in addition to the usual reporting of the capital adequacy ratio (Pillar 1) the Group has to meet the requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Group has selected methods close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

Since the introduction of Basel II regulation, the Group has regularly simulated future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Group's profit or have implications resulting in deterioration in the Group's risk profile.

The Group compiles hypothetical macroeconomic scenarios on the basis of which are estimated medium-term impacts on earnings and on transactions' risk profiles. On this basis, the Group acquires views as to the changing volume of the risk-weighted assets, financial results, and, while also taking into account the outlook for dividend payments, the level of the Group's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining Group's dividend policy, which is the primary tool for capital adequacy management in such situation that Group´s capital is entirely classified as core Tier 1 capital.

The Group's capital principally consists of the following balances: share capital, reserve funds and undistributed profit (as at 31 December 2013 the Group had no subordinated debt as it had been repaid as at 27 January 2012).

The Group did not purchase its own shares into treasury during 2013 and as at 31 December 2013 the Group holds a total amount of 238,672 treasury shares at a total cost of CZK 726 million which were bought in previous years (as at 31 December 2012: 238,672 treasury shares at a total cost of CZK 726 million). The purchase of treasury shares was approved by the Bank's General Meeting to manage the capital adequacy of the Group.

The Group continuously monitors and evaluates the forthcoming changes in regulatory requirements affecting the capital and capital adequacy (together known as Basel III and on the European level as CRR/CRD IV, and effective from the year 2014), and it analyses their potential impact within the capital planning process.

The Czech National Bank, as the local regulatory authority, oversees the Group's compliance with the capital adequacy ratio both on a separate and consolidated bases. During the past year, the Group complied with all regulatory requirements. Moreover, the Group regularly prepares the regulatory report on Pillar 2 and submits it to the CNB.

(CZKm)	31 Dec 2013	31 Dec 2012
Tier 1 capital	61,722	56,295
Tier 2 capital	0	0
Items deductible items from Tier 1 and Tier 2	(2,635)	(2,611)
Total regulatory capital	**59,087**	53,684

37 Composition of cash and cash equivalents as reported in the Cash Flow Statement

(CZKm)	31 Dec 2013	31 Dec 2012	Change in the year
Cash and current balances with central banks (refer to Note 16)	44,405	28,057	16,348
Amounts due from banks – current accounts with other banks (refer to Note 20)	1,710	5,913	(4,203)
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts (refer to Note 29)	(2,747)	(7,578)	4,831
Cash and cash equivalents at the end of the year	**43,367**	26,391	**16,976**

38 Commitments and contingent liabilities

Legal disputes
The Group conducted a review of legal proceedings outstanding against it as at 31 December 2013. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 285 million (2012: CZK 289 million) for these legal disputes (refer to Note 33). The Group has also recorded a provision of CZK 49 million (2012: CZK 44 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2013, the Group conducted a review of legal proceedings filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees
Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Group makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Capital commitments
As at 31 December 2013, the Group had capital commitments of CZK 266 million (2012: CZK 199 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit
Documentary letters of credit are written irrevocable commitments by the Group on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions. The Group records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments and overdrafts and approved overdraft loans
Principal off-balance sheet exposures include undrawn overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditioned commitment the Group distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. Irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts and approved overdraft loans results from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon the customers´ maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts and approved overdraft loans, the Group recognises a provision when required (according to a customer's creditworthiness) in accordance with the same algorithm as for loans.

From 2013, the Group does not report revocable unutilised overdrafts. Comparative amounts for 2012 are restated.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Non-payment guarantees including commitments to issued non-payment guarantees	40,593	35,235
Payment guarantees including commitments to issued payment guarantees	12,894	10,296
Committed facilities and unutilised overdrafts	12,869	15,506
Undrawn credit commitments	44,075	39,243
Unutilised overdrafts and approved overdraft loans	14,067	19,993
Unutilised limits under framework agreements to provide financial services	8,740	9,516
Open customer/import letters of credit uncovered	719	517
Stand-by letters of credit uncovered	1,982	551
Confirmed supplier/export letters of credit	169	131
Total commitments and contingencies	**136,108**	130,988

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and taking into account the collateral obtained. As at 31 December 2013, the Group recorded provisions for these risks in the amount of CZK 571 million (2012: CZK 482 million). Refer to Note 33.

Set out below is a breakdown of financial commitments and contingencies by sector:

(CZKm)	31 Dec 2013	31 Dec 2012
Food industry and agriculture	9,041	4,659
Mining and extraction	2,315	1,417
Chemical and pharmaceutical industry	2,771	1,450
Metallurgy	4,194	4,215
Automotive industry	2,101	723
Manufacturing of other machinery	7,008	7,503
Manufacturing of electrical and electronic equipment	2,270	1,910
Other processing industry	2,247	2,509
Power plants, gas plants and waterworks	7,501	10,921
Construction industry	32,081	30,058
Retail	3,937	3,710
Wholesale	7,881	8,538
Accommodation and catering	323	303
Transportation, telecommunication and warehouses	5,587	6,383
Banking and insurance industry	2,229	4,695
Real estate	2,511	1,771
Public administration	5,547	9,404
Other industries	19,718	15,268
Individuals	16,846	15,551
Total commitments and contingencies	**136,108**	130,988

The majority of commitments and contingencies originate on the territory of the Czech Republic.

Set out below is an analysis of the types of collateral held in support of financial commitments and contingencies:

(CZKm)	31 Dec 2013			31 Dec 2012		
	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***
Guarantees of state and governmental institutions	214	197	197	359	333	333
Bank guarantee	1,994	840	747	2,329	1,215	1,123
Guaranteed deposits	2,322	2,307	2,169	1,913	1,882	1,776
Pledge of real estate	7,796	4,553	3,630	6,772	3,890	3,118
Pledge of movable assets	221	20	11	84	8	8
Guarantee by legal entity	6,650	4,495	4,424	5,526	2,786	2,655
Guarantee by individual (natural person)	21	2	2	29	1	1
Pledge of receivables	1,909	0	0	1,764	0	0
Insurance of credit risk	2,233	2,102	2,102	4,315	4,087	4,087
Other	233	163	118	5	4	4
Total nominal value of collateral	**23,593**	**14,679**	**13,400**	23,096	14,206	13,105

Note: * The nominal value of the collateral is determined based on internal rules of the Group (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of declining market prices, the risk of insolvency, etc.
*** The applied collateral value is the discounted collateral value reduced up to the actual balance of the collateralised exposure.

39 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As at 31 December 2013, the Group was controlled by Société Générale S.A. which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions were carried out on an arm's length basis.

Amounts due to and from the Group companies

As at 31 December 2013, the Group had deposits of CZK 475 million (2012: CZK 906 million) due to the associate, Komerční pojišťovna, a.s. The positive fair value of financial derivatives in relation to the associate Komerční pojišťovna, a.s. amounted to CZK 1,698 million (2012: CZK 506 million) and the negative fair value to CZK 2 million (2012: CZK 117 million).

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 1,000 million (2012: CZK 387 million) and interest expense on financial derivatives amounted to CZK 635 million (2012: CZK 385 million). Interest expense from deposits amounted to CZK 69 million (2012: CZK 64 million), fee income of the Group arising from intermediation amounted to CZK 324 million (2012: CZK 273 million) and fee expense amounted to CZK 56 million (2012: CZK 0 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

(CZKm)	31 Dec 2013	31 Dec 2012
ALD Automotive Czech Republic, s.r.o.	3,182	2,848
ESSOX SK s.r.o.	0	0
Succursale Newedge UK	7	5
SG Express bank	1	3
Rosbank	1	87
SG Bruxelles	21	20
SG Private Banking /Suisse/ S.A.	0	2
Belrosbank	0	11
SGA Société Générale Acceptance	3,345	3,142
SG London	238	262
SG Paris	12,834	18,038
SG New York	3	0
BRD Roumani	116	3
SG Warsaw	68	499
Total	**19,816**	24,920

Principal balances owed to the Société Générale Group entities include:

(CZKm)	31 Dec 2013	31 Dec 2012
SG Istanbul	10	0
Rosbank	6	0
Investiční kapitálová společnost KB	55	76
SG Cyprus LTD	127	0
BRD Roumani	5	1
ESSOX SK s.r.o.	13	25
SG New York	1	2
SG Private Banking /Suisse/ S.A.	276	100
SG Amsterdam	32	42
SGBT Luxemburg	1,869	3,213
SG Paris	30,381	15,758
SG London	2	0
Pema Praha	11	19
SG Warsaw	34	26
Splitska Banka	27	2
Credit du Nord	4	6
SG Lebanon	0	90
SG Frankfurt	178	1
Inter Europe Conseil	2	2
SG Zürich	0	1
Total	**32,033**	19,364

Amounts due to and from Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading (refer to Note 20) and issued bonds.

As at 31 December 2013, the Group also carried off-balance sheet exposures to Société Générale Group entities, of which off-balance sheet notional assets and liabilities amounted to CZK 221,835 million (2012: CZK 185,921 million) and CZK 209,495 million (2012: CZK 176,887 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As at 31 December 2013 and 2012, the Group also carried other amounts due to and from Société Générale Group entities which are not significant.

During the year ended 31 December 2013, the Group had total income of CZK 20,225 million (2012: CZK 27,436 million) and total expenses of CZK 22,861 million (2012: CZK 27,674 million) in relation to Société Générale Group entities. That income includes interest income from debt securities issued by Société Générale Group, income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise expenses those of interbank deposits, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

Remuneration and amounts due from the members of the Board of Directors, Supervisory Board and Directors' Committee

Remuneration paid to the members of the Board of Directors, Supervisory Board and Directors' committee during the years was as follows:

(CZKm)	2013	2012
Remuneration to the Board of Directors members*	52	52
Remuneration to the Supervisory Board members**	5	5
Remuneration to the Directors' Committee members***	66	61
Total	**123**	118

Note: * Remuneration to the Board of Directors members includes amounts paid during the year ended 31 December 2013 to the current and former directors under mandate and management contracts, exclusive of bonuses for 2013 but including bonuses for 2012. Amounts for expatriate members of the Board of Directors include remuneration exclusive of bonuses for 2013 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Group´s employees under a collective bargaining agreement. The remuneration of expatriate members of the Board of Directors does not include accommodation-related services.
** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2013 to the current and former members of the Supervisory Board. Amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Group´s employees under a collective bargaining agreement.
*** Remuneration to the Directors' committee members comprise the sum of compensation and benefits paid in 2013 under management contracts or under expatriate relocation contracts in respect of expatriates. This item does not reflect any compensation provided to the Board of Directors members (as that is reflected in the remuneration to the Board of Directors members). All the Board of Directors members are members of the Directors' Committee. The remuneration also includes benefits arising to the Group´s employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2013, the total balance reflects his/her aggregate annual remuneration.

	31. 12. 2013	31. 12. 2012
Number of the Board of Directors members	6	6
Number of the Supervisory Board members	9	9
Number of the Directors' Committee members*	17	17

Note: * These figures include all members of the Board of Directors, who are also members of the Directors' Committee.

As at 31 December 2013, the Group recorded an estimated payable (including indexed bonuses) of CZK 28 million (2012: CZK 21 million) for Board of Directors bonuses.
In respect of loans and guarantees as at 31 December 2013, the Group recorded receivables from loans granted to members of the Board of Directors, Supervisory Board and Directors' Committee totalling CZK 11 million (2012: CZK 5 million). During 2013, draw-downs of CZK 12 million (2012: CZK 0 million) were made under the loans granted. During 2013, loan repayments amounted to CZK 9 million (2012: CZK 2 million).
The increase of loans in 2013 is affected by new members of the Supervisory Board and the Directors' Committee already having loans in the amount of CZK 3 million (2012: CZK 0 million).

40 Movements in the remeasurement of retirement benefits plan in the Shareholders' Equity

(CZKm)	2013	2012
Remeasurement of retirement benefits plan at 1 January	(13)	0
Deferred tax asset/(liability) at 1 January	2	0
Balance at 1 January	**(11)**	0
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	2	(13)
Deferred tax	0	2
	2	(11)
Remeasurement of retirement benefits plan at 31 December	(11)	(13)
Deferred tax asset/(liability) at 31 December (refer to Note 34)	2	2
Balance at 31 December	**(9)**	(11)

41 Movements in the revaluation of hedging instruments in the Shareholders' Equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate line of equity in the hedging reserve.

(CZKm)	2013	2012
Cash flow hedge fair value at 1 January	17,621	12,049
Deferred tax asset/(liability) at 1 January	(3,350)	(2,289)
Balance at 1 January	**14,271**	9,760
Movements during the year		
Gains/(losses) from changes in fair value	(3,850)	8,045
Deferred tax	736	(1,532)
	(3,114)	6,513
Transferred to interest income/expense	(3,669)	(2,472)
Deferred tax	698	471
	(2,971)	(2,001)
Transferred to personnel expenses	(6)	(1)
Deferred tax	1	0
	(5)	(1)
Cash flow hedge fair value at 31 December	10,096	17,621
Deferred tax asset/(liability) at 31 December (refer to Note 34)	(1,915)	(3,350)
Balance at 31 December	**8,181**	14,271

42 Movements in the revaluation of available-for-sale financial assets in the Shareholders' Equity

(CZKm)	2013	2012
Reserve from fair value revaluation at 1 January	9,753	2,387
Deferred tax /income tax asset/(liability) at 1 January	(1,635)	(305)
Balance at 1 January	**8,118**	2,082
Movements during the year		
Gains/(losses) from changes in fair value	(2,343)	8,274
Deferred tax/income tax	388	(1,282)
	(1,955)	6,992
(Gains)/losses from the sale	(64)	(908)
Deferred tax/income tax	112	(48)
	48	(956)
Reserve from fair value revaluation at 31 December	7,345	9,753
Deferred tax /income tax asset/(liability) at 31 December (refer to Note 34)	(1,135)	(1,635)
Balance at 31 December	**6,211**	8,118

Unrealised gains from Available-for-sale financial assets recognised in the equity of the Transformovaný fond KB Penzijní společnosti, a.s. (at the end of 2012 Penzijní fond Komerční banky, a.s.) in the amount of CZK 971 million as at 31 December 2013 (31 December 2012: CZK 1,198 million) were included within the available-for-sale reserve. When an Available-for-sale financial assets are disposed of, the gain or loss on the disposal is posted to the Income Statement. In accordance with the Czech law 85% of the total pension fund profit for the year is distributed to pension plan holders.

43 Risk management and financial instruments

(A) Credit risk

Assessment of borrower's credit rating

The assessment of credit risk is based on quantitative and qualitative criteria, which leads to a rating assignment. The Group uses several types of ratings, depending on the type and profile of the counterparty and the types of transactions. As a result, specific ratings are assigned to both the Group's clients and to specific clients transactions. The same rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

In 2013, the Group focused especially on three core areas: (1) updating selected credit risk models in order to optimally reflect the current macroeconomic situation and to set the goals of the Group; (2) increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management; and (3) continually increasing the knowledge of credit risk in business departments via special training.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the ensuing periods and thus optimisation of the Group's credit risk management tools and more accurate estimation of expected future losses.

(a) Business clients and municipalities

For entrepreneurs, corporate clients and municipalities, the Group uses the obligor rating (expressed on the 22 grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating to assess the quality of available guarantees and collaterals and to evaluate the potential loss from counterparty transactions. These models are also used for regular updates of Expected Loss (EL) and Unexpected Loss (UL) for all client exposures reported in accordance with the Basel II requirements.

For large and medium-sized clients, the obligor rating is the combination of the financial rating based primarily on the data in the financial statements and an economic rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the Group. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour in the Group (behavioural rating).
In the municipalities segment, the obligor rating is the combination of the financial rating based on the data in the financial statements and an economic rating acquired through the assessment of non-financial information relating to the specific municipality.

During 2013, the Group increased the predictive power of its rating models for business clients (extension of the scope of the economic rating model to the client segment with annual turnover above CZK 40-100 million) and updated the behavioural rating model for small business clients and for municipalities.

(b) Ratings for banks and sovereign
For banks, other financial institutions (namely insurance companies, brokers and funds) and for sovereigns (central banks and central governments), the Group uses the economic rating models developed by Société Générale.

(c) Ratings for individual clients
The Group uses two types of ratings with the aim to evaluate the default risk for individuals: (1) the application rating, which results from an evaluation of clients' personal data, data on the behaviour in the Group, and data available from external registers; and (2) a behavioural rating which is based on the evaluation of the information on the clients' behaviour in the Group. The application rating is primarily used for active applications of clients for funding, while the behavioural rating (which includes the calculation of pre-approved limits for simple products with low exposure) is used for active offers of funding by the Group. The behavioural rating of clients is concurrently used for regular updates of the probability of default of all client exposures reported in accordance with the Basel II requirements.

Pursuant to the back-testing of the rating and LGD models and the results of stress testing, in 2013, the Group updated its LGD model for mortgages, implemented a new statistical model for loan loss provisioning according to the new Société Générale standardised methodology, and pursued a review of the pricing process for all loan products provided to individuals with the aim to optimise criteria for their approval and to update the setting of standard risk costs representing the valuation of the anticipated cost of risk.

(d) Internal register of negative information
The Group maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and thus contributes substantially to protecting the Group from risky entities.

(e) Credit bureaus
The evaluation of data from credit bureaus was one of the principal factors impacting the assessment of applications for client funding, and especially so in the retail client segments. Among other things, the Group focused during the year on optimising the rules for reflecting information from credit bureaus in the approval process, and particularly with respect to the behavioural rating and individual assessment of applications for funding.

(f) Credit fraud prevention
The Group uses an automated system for the detection of individual credit frauds and also for coordinated reactions to credit fraud attacks. The system is fully integrated with the Group's main applications and it will be fully applied at the Group level.

Credit concentration risk
Credit concentration risk is the risk of such excess losses related to credit transactions, as could in particularly difficult circumstances jeopardise the financial stability of the Group. The Group's credit concentration risk is actively managed as a part of overall credit risk management using standard tools (valuation, setting internal limits, reporting, use of risk mitigation techniques, and simulation). The Group maintains its objective not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. A system of internal limits is established so that the Group complies with regulatory limits set in respect of concentration risk. Refer to Notes 21 and 38 for quantitative information about credit concentration risk.

The Group's maximum credit exposure as at 31 December 2013:

	Total exposure			Applied collateral		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**37,217**	**x**	**37,217**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**37,133**	**x**	**37,133**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**18,249**	**x**	**18,249**	**0**	**x**	**0**
Available-for-sale financial assets	**141,200**	**x**	**141,200**	**0**	**x**	**0**
Amounts due from banks	**125,735**	**1,770**	**127,505**	**87,898**	**298**	**88,196**
Loans and advances to customers	**491,627**	**134,338**	**625,965**	**214,759**	**13,102**	**227,861**
– Individuals	218,079	16,774	**234,853**	151,384	1,523	**152,907**
of which: Mortgage loans	148,563	6,626	**155,189**	120,991	1,441	**122,432**
Consumer loans	21,429	2,254	**23,683**	2,709	6	**2,715**
Constructions savings scheme loans	40,515	1,029	**41,544**	27,009	68	**27,077**
– Corporates**	272,986	117,564	**390,550**	63,375	11,579	**74,954**
of which: Top corporate clients	109,108	70,879	**179,987**	29,027	6,338	**35,365**
– Debt securities	461	x	**461**	0	x	**0**
– Other amounts due from customers	101	x	**101**	0	x	**0**
Revaluation differences on portfolios hedge items	**7**	**x**	**7**	0	x	**0**
Held-to-maturity investments	**4,200**	**x**	**4,200**	0	x	**0**
Total	**855,368**	**136,108**	**991,476**	302,657	13,400	**316,057**

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis net of the impact of allowances.

The Group's maximum credit exposure as at 31 December 2012:

(CZKm)	Total exposure			Applied collateral		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**21,605**	**x**	**21,605**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**51,593**	**x**	**51,593**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**26,068**	**x**	**26,068**	**0**	**x**	**0**
Available-for-sale financial assets	**141,791**	**x**	**141,791**	**0**	**x**	**0**
Amounts due from banks	**64,111**	**4,370**	**68,481**	**21,459**	**157**	**21,616**
Loans and advances to customers	**469,297**	**126,618**	**595,915**	**205,869**	**12,948**	**218,817**
– Individuals	209,653	15,429	**225,082**	143,185	1,180	**144,365**
of which: Mortgage loans	134,812	4,566	**139,378**	110,525	1,059	**111,584**
Consumer loans	21,129	80	**21,209**	2,328	28	**2,356**
Constructions savings scheme loans	134,812	1,285	**47,128**	30,240	88	**30,328**
– Corporates**	258,983	111,189	**370,172**	62,684	11,768	**74,452**
of which: Top corporate clients	97,066	62,668	**159,734**	32,068	5,257	**37,325**
– Debt securities	461	x	**461**	0	x	**0**
– Other amounts due from customers	200	x	**200**	0	x	**0**
Revaluation differences on portfolios hedge items	**0**	**x**	**0**	0	x	**0**
Held-to-maturity investments	**3,322**	**x**	**3,322**	0	x	**0**
Total	**777,787**	**130,988**	**908,775**	227,328	13,105	**240,433**

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis net of the impact of allowances.

Classification of receivables

The Group classifies its receivables arising from financial activities into five categories in accordance with CNB regulation No. 123/2007. The Standard and Watch categories represent non-default while Substandard, Doubtful and Loss represent default. The classification reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring). The classification of individuals reflects also the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel II principles.

The structure of the credit portfolio according to the classification is regularly reported to the CNB and to investors.

Characteristics of receivables that are not classified

Pursuant to the regulation issued by the CNB, the Group does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Allowances for receivables

Depending on the client segment, materiality, risk profile and specificity of the receivables, provisions are calculated either (i) according to statistical models which are developed in conformity with the Basel II requirements and in compliance with IFRS and are regularly updated based on the latest loss observations and new risk drivers reflecting the phase of the business cycle; or (ii) taking into account the present value of expected future cash flows while considering all available information, including the estimated value of collateral and the expected duration of the recovery process.

All significant, individually material impaired credit exposures (i.e. classified as Watch, Substandard, Doubtful or Loss according to the CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committee or, whenever required, by recovery specialists.

In November 2013, models used for the calculation of allowances were harmonised with Société Générale standards and updated in order to reflect changes in internal risk processes, results of back-tests and the macroeconomic situation. The Group also performs regular back-testing of provisioning models to carefully monitor their quality and to identify their potential deterioration in a timely manner.

The following table shows the split of classified customer loans based on the type of assessment:

	31 Dec 2013		31 Dec 2012	
(CZKm)	Individually	Statistical model	Individually	Statistical model
Individuals	5,671	8,715	5,358	8,807
Corporates*	20,288	2,417	21,296	2,652
Total	**25,959**	**11,132**	26,654	11,459

Note: * This item includes loans granted to individual entrepreneurs.

As at 31 December 2013, the Group reported the following loans not past due and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	Loans not past due	1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
– standard	124,719	0	0	0	0	0	0	**124,719**
– watch	1,016	0	0	0	0	0	0	**1,016**
Total	**125,735**	**0**	**0**	**0**	**0**	**0**	**0**	**125,735**
Customers								
– standard	449,133	4,743	75	23	0	0	4,841	**453,974**
– watch	1,028	16	78	26	0	0	120	**1,148**
Total	**450,161**	**4,759**	**153**	**49**	**0**	**0**	**4,961**	**455,122**

As at 31 December 2012, the Group reported the following loans not past due and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	Loans not past due	1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
– standard	63,519	0	0	0	0	0	0	**63,519**
– watch	592	0	0	0	0	0	0	**592**
Total	**64,111**	**0**	**0**	**0**	**0**	**0**	**0**	**64,111**
Customers								
– standard	424,850	5,557	65	16	3	2	5,643	**430,493**
– watch	1,812	22	26	16	0	0	64	**1,876**
Total	**426,662**	**5,579**	**91**	**32**	**3**	**2**	**5,707**	**432,369**

The amount of the collateral used in respect of past due loans not impaired was CZK 6,006 million (2012: CZK 6,274 million).

Loan collateral

The Group uses collateral as one of its techniques for mitigating credit risk. The Group defines general risk management principles connected with collateralisation of the exposure to clients. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Group's business lines.

The Group has fully implemented in its internal system the rules for assessing of collateral's eligibility according to CNB regulation No. 123/2007. In compliance with the CNB validation the Group uses the Advanced Internal Ratings-Based (AIRB) approach. For clients of the Slovak branch, the Group uses the Standardized (STD) approach for assessing of collateral eligibility.

The recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Group uses independent valuations performed or supervised by a dedicated specialised department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB regulation No. 123/2007.

The Group (except for the Slovak branch) uses the on-line connection to the Real Estate Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and regular monitoring of selected events that may put the Group's pledge right to real estate at risk.

Real estate collateral valuation

Activities related to the valuation of real estates obtained as collaterals for commercial and retail loans are independent from the Group's business processes. The valuation process is managed and controlled by a specialised internal department which co-operates with various external valuation experts.

In 2013, together with the principal activity involving real estate valuation, the Group focused especially upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Group monitors both the residential real estate market and the commercial real estate market. An integral component of that monitoring is the revaluation of selected real estates depending on the Basel II requirements. As a result of the statistical monitoring of market prices for residential real estates, revaluation occurs regularly.

Recovery of receivables from borrowers

As a result of the negative economic development and thus the worsened financial situation of corporate and retail clients, the Group continuously responded to changing market conditions that primarily resulted in extended periods of recovery, increased judicial enforcement, and an increase in the complexity of the recovery process (especially in relation to real estate collateral).

Given the size of the portfolio in recovery, the Group is continuously improving the efficiency and process of the recovery. These efforts also involve intensified and enhanced use of external recovery capacities, which take in approximately 15% of the total portfolio of exposures in recovery and 77% of the total number of clients in recovery. During 2013, the Group continued in regular sales of packaged uncollateralised retail receivables to selected investors so that the maximum achievable recovery rate is obtained. The main emphasis is on further automation of the recovery process.
The Group paid increased attention to the application of the new Insolvency Act and its impact on the process of collecting receivables from retail and corporate clients. The Group plays an active role in the insolvency process, from the position of secured creditor, creditors' committee member or representative of creditors, whether in bankruptcy proceedings or in reorganisations, which are used by the Group depending on the debtor's circumstances and the attitudes of other creditors.

Credit risk hedging instruments

The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Credit risk of financial derivatives

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Group may incur if the counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of the derivative product, the remaining time until the maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As at 31 December 2013, the Group posted a credit exposure of CZK 19,798 million (2012: CZK 18,313 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement cost at market rates as at 31 December 2013 of all outstanding agreements. The netting agreement and margin call agreement (ISDA/CSA, CMA) are taken into account where applicable.

The Group puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures for individual clients which could arise due to movements in market prices. On a daily basis, the Group monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that the limit breach is triggered by the deliberate action of a dealer ("active limit breach") such behaviour is penalised. The Board of Directors is informed about any breaches on a regular basis.

(B) Market risk

Segmentation of the Group's financial operations

For risk management purposes, the Group's activities are internally split into two books: the Market Book and the Structural Book. The Market

Book includes capital market transactions concluded by the Group's dealers for position-taking purposes or for accommodating customers' needs. The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions within the Structural Book, and other transactions not included in the Market Book.

Products generating market risk
Products that are traded by the Group and generate market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, forward rate agreements, interest rate futures), government and corporate bonds, emission allowances as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients).

Derivatives traded on the Market Book are used either for proprietary position-taking or for clients' purposes. The derivatives concluded on the Structured Book are used for structural risk hedging purposes.

With some clients, the Group is also trading more complex optional products to serve clients hedging needs. An example of such more complex products are e.g. structured products enabling clients to utilise these products' more sophisticated properties which cannot be substituted by simple (plain-vanilla) derivatives. The Group is not exposed to market risks (e.g. volatility risk, among others) associated with these derivatives, as these risks are immediately eliminated by concluding mirror deals having the opposite risk profile from those of the clients' deals ("back-to-back deals").

Market risk in the Market Book
The Group has established complex system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the open positions. The Group monitors compliance with all limits on a daily basis and if these are exceeded the Group takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure market risks inherent in the activities of the Market Book, the Group uses the Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using historical scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1% most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses out of the 250 considered scenarios.
The VaR for a one-day holding period with a confidence level of 99% was CZK -19 million as at 31 December 2013 (2012: CZK -14 million). The average Global VaR was CZK -17 million as at 31 December 2013 (2012: CZK -12 million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Exceedances should not occur more frequently than 1% of days within a given period. In 2013, 0.8% (2012: 1.6%) of the daily losses (actual or hypothetical) exceeded the 99% VaR. Post-crisis development in market conditions has resulted in the emergence of some new market factors that currently are not fully covered by the existing VaR model. Work on a project for improving the VaR calculation by implementing a more sophisticated VaR model is presently underway in co-operation with Société Générale, and its implementation by the Group is planned for 2014.

In addition, the Group performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to all open positions in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Greek crisis in 2010) or from a hypothetical crisis that could negatively influence the positions.

Additional specific metrics such as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

Market risk in the Structural Book
The Group manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Group uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk (hereafter only "EaR") for net interest income. The EaR indicator shows the maximum departure of the planned net interest income level from the initial value that is attributable to the movements in interest rates over a one-year time horizon and at the 99% confidence level.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Group's sensitivity to a change in market interest rates is measured upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 1% p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates occurred. As at 31 December 2013, the CZK interest rate risk sensitivity was CZK -1,014 million (2012: CZK -154 million), the EUR sensitivity was CZK -141 million (2012: CZK -19 million), the USD sensitivity was CZK -5 million (2012: CZK -21 million) and for other currencies it was CZK -49 million (2012: CZK -30 million) for the hypothetical assumption of 1% change in market interest rates. The Group is limited by this indicator and the level of the limit is determined to be approximately 2% of capital.

In order to hedge against interest rate risk within the Structural Book, the Group uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

(C) Financial derivatives

The Group operates a system of market risk and counterparty limits which are designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading are as follow:

	31 Dec 2013 Notional value		31 Dec 2012 Notional value		31 Dec 2013 Fair value		31 Dec 2012 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	553,479	553,479	444,566	444,566	9,189	9,485	13,341	13,576
Interest rate forwards and futures*	48,414	48,414	31,011	31,011	9	4	7	8
Interest rate options	6,873	6,873	4,519	4,519	21	21	3	3
Total interest rate instruments	**608,766**	**608,766**	480,096	480,096	**9,219**	**9,510**	13,351	13,587
Foreign currency instruments								
Currency swaps	135,547	136,171	126,518	126,586	723	1,358	854	924
Cross currency swaps	87,093	87,043	64,694	64,168	4,063	3,847	2,067	1,388
Currency forwards	31,456	30,830	25,803	26,021	978	383	175	399
Purchased options	48,525	49,581	33,555	33,274	868	0	460	0
Sold options	49,581	48,525	33,274	33,555	0	868	0	460
Total currency instruments	**352,202**	**352,150**	283,844	283,604	**6,632**	**6,456**	3,556	3,171
Other instruments								
Forwards on emission allowances	847	720	1,763	1,399	222	95	426	56
Commodity forwards	1,296	1,296	1,302	1,302	19	18	16	15
Commodity swaps	11,674	11,674	2,243	2,243	105	97	60	57
Commodity cross currency swaps	3,903	3,903	8,798	8,798	137	137	222	222
Purchased commodity options	475	475	0	0	21	0	0	0
Sold commodity options	475	475	0	0	0	21	0	0
Total other instruments	**18,670**	**18,543**	14,106	13,742	**504**	**368**	724	350
Total	**979,638**	**979,459**	778,046	777,442	**16,355**	**16,334**	17,631	17,108

Note.: * Fair values include only forwards. Regarding futures the Group places funds on a margin account which is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining maturity as at 31 December 2013:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	96,214	307,568	149,697	**553,479**
Interest rate forwards and futures*	46,893	1,521	0	**48,414**
Interest rate options	270	5,854	749	**6,873**
Total interest rate instruments	**143,377**	**314,943**	**150,446**	**608,766**
Foreign currency instruments				
Currency swaps	134,039	1,450	58	**135,547**
Cross currency swaps	15,576	36,069	35,448	**87,093**
Currency forwards	27,210	4,198	48	**31,456**
Purchased options	32,709	15,816	0	**48,525**
Sold options	33,459	16,122	0	**49,581**
Total currency instruments	**242,993**	**73,655**	**35,554**	**352,202**
Other instruments				
Forwards on emission allowances	832	15	0	**847**
Commodity forwards	1,296	0	0	**1,296**
Commodity swaps	10,055	1,619	0	**11,674**
Commodity cross currency swaps	3,635	268	0	**3,903**
Purchased commodity options	236	239	0	**475**
Sold commodity options	236	239	0	**475**
Total other instruments	**16,290**	**2,380**	**0**	**18,670**
Total	**402,660**	**390,978**	**186,000**	**979,638**

Note: * The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as at 31 December 2012:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	127,691	199,228	117,647	**444,566**
Interest rate forwards and futures*	29,011	2,000	0	**31,011**
Interest rate options	0	3,377	1,142	**4,519**
Total interest rate instruments	**156,702**	**204,605**	**118,789**	**480,096**
Foreign currency instruments				
Currency swaps	124,898	1,484	136	**126,518**
Cross currency swaps	5,465	30,197	29,032	**64,694**
Currency forwards	22,352	3,309	142	**25,803**
Purchased options	24,369	9,186	0	**33,555**
Sold options	24,190	9,084	0	**33,274**
Total currency instruments	**201,274**	**53,260**	**29,310**	**283,844**
Other instruments				
Forwards on emission allowances	1,659	104	0	**1,763**
Commodity forwards	1,302	0	0	**1,302**
Commodity swaps	1,179	1,064	0	**2,243**
Commodity cross currency swaps	1,846	6,952	0	**8,798**
Purchased commodity options	0	0	0	**0**
Sold commodity options	0	0	0	**0**
Total other instruments	5,986	8,120	0	**14,106**
Total	**363,962**	**265,985**	**148,099**	**778,046**

Note: * The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

	31 Dec 2013 Notional value		31 Dec 2012 Notional value		31 Dec 2013 Fair value		31 Dec 2012 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Cross currency swaps for cash flows hedging	49,785	50,218	37,617	35,136	189	3,322	226	591
Cross currency swaps for fair value hedging	348	3,297	348	3,048	0	219	29	61
Currency swaps for fair value hedging	207	222	202	204	0	15	0	1
Forwards on stocks for cash flow hedging	32	32	7	7	11	0	1	0
Interest rate swaps for cash flow hedging	469,805	469,805	413,153	413,153	17,831	6,255	25,781	7,231
Interest rate swaps for fair value hedging	27,721	27,721	19,710	19,710	217	2,244	0	3,349
Interest rate swaps for portfolio fair value hedging	11,550	11,550	4,350	4,350	1	207	31	13
Total	**559,448**	**562,845**	475,387	475,608	**18,249**	**12,262**	26,068	11,246

Remaining contractual maturities of derivatives designated as hedging are shown below as at 31 December 2013:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	8,595	33,408	7,782	**49,785**
Cross currency swaps for fair value hedging	0	348	0	**348**
Currency swaps for fair value hedging	207	0	0	**207**
Forwards on stocks for cash flow hedging	4	28	0	**32**
Interest rate swaps for cash flow hedging	91,931	214,830	163,044	**469,805**
Interest rate swaps for fair value hedging	0	2,218	25,503	**27,721**
Interest rate swaps for portfolio fair value hedging	0	4,200	7,350	**11,550**
Total	**100,737**	**255,032**	**203,679**	**559,448**

Remaining contractual maturities of derivatives designated as hedging are shown below as at 31 December 2012:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	1,734	29,120	6,763	**37,617**
Cross currency swaps for fair value hedging	0	348	0	**348**
Currency swaps for fair value hedging	202	0	0	**202**
Forwards on stocks for cash flow hedging	0	7	0	**7**
Interest rate swaps for cash flow hedging	82,256	193,694	137,203	**413,153**
Interest rate swaps for fair value hedging	141	156	19,413	**19,710**
Interest rate swaps for portfolio fair value hedging	300	1,650	2,400	**4,350**
Total	**84,633**	**224,975**	**165,779**	**475,387**

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

	31 Dec 2013			31 Dec 2012		
(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows hedged	(470)	(2,236)	(2,072)	(175)	(3,173)	(2,663)

The Group treats as hedges only those contracts for which it is able to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met.

During 2013, the Group recorded the following hedges:

1. Interest rate risk hedging:
   a. The fair values of long-term loans provided and of investments into long-term government securities classified into the '*Available-for-sale financial assets'* portfolio are hedged by an interest rate swap and a cross currency swap, respectively;
   b. The fair values of a portfolio of savings accounts from retail clients are hedged by a portfolio of interest rate swaps;
   c. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients with variable interest rates, respectively, are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Income Statement on an ongoing basis);
   d. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term liabilities to clients are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Income Statement on an ongoing basis).

2. Foreign exchange risk hedging:
   a. In selected material cases, the Group hedges the future cash flows of firm commitments arising from the Group's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Group. The hedging instrument consists of foreign currency assets (e.g. securities) or foreign currency liabilities (client deposits), respectively;
   b. The Group hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent on the foreign exchange rate developments and selected foreign currency liabilities (e.g. short-term liabilities traded on the interbank market).

3. Share price risk hedging:
   a. A portion of the bonus of selected Group employees is paid in cash equivalents of the Société Générale S.A. share price. The risk of change in the Société Générale S.A. share price is hedged at the Société Générale level. Hedging instruments are forwards on stocks.
   b. A portion of the bonus of selected Group employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Group hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks

4. Hedging of an investment in a foreign subsidiary:
   a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term liabilities traded on the interbank market and short-term client liabilities).

The Group does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these Consolidated Financial Statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Group uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped in the *'Undefined'* category.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	5,892	0	0	0	38,513	**44,405**
Financial assets at fair value through profit or loss	5,529	10,412	3,374	1,463	16,355	**37,133**
Positive fair values of hedging financial derivatives	0	0	0	0	18,249	**18,249**
Available-for-sale financial assets	10,199	7,701	56,909	66,391	0	**141,200**
Assets held for sale	0	0	0	0	84	**84**
Amounts due from banks	117,560	1,077	4,973	1,152	973	**125,735**
Loans and advances to customers, net	209,961	74,546	167,242	18,135	3,205	**473,089**
Revaluation differences on portfolios hedge items	0	0	0	0	7	**7**
Held-to-maturity investments	0	194	3,114	892	0	**4,200**
Current tax assets	0	0	0	0	82	**82**
Deferred tax assets	0	0	5	0	31	**36**
Prepayments, accrued income and other assets	2	713	0	0	2,565	**3,280**
Investments in subsidiaries and associates	0	0	0	0	1,084	**1,084**
Intangible assets	0	0	0	0	3,772	**3,772**
Tangible assets	0	0	0	0	7,872	**7,872**
Goodwill	0	0	0	0	3,752	**3,752**
Total assets	**349,143**	**94,643**	**235,617**	**88,033**	**96,544**	**863,980**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	1,196	0	0	0	16,334	**17,530**
Negative fair values of hedging financial derivatives	15	69	335	378	11,465	**12,262**
Amounts due to banks	41,204	2,602	2,743	0	3,131	**49,680**
Amounts due to customers	95,391	19,783	29,283	3,386	501,315	**649,158**
Revaluation differences on portfolios hedge items	0	0	0	0	(218)	**(218)**
Securities issued	1,910	0	19,502	1,005	0	**22,417**
Current tax liabilities	1	12	0	0	731	**744**
Deferred tax liabilities	0	0	21	21	3,454	**3,496**
Accruals and other liabilities	330	1	0	0	10,897	**11,228**
Provisions	0	0	0	0	1,144	**1,144**
Subordinated debt	0	0	0	0	0	**0**
Total liabilities	**140,048**	**22,467**	**51,884**	**4,790**	**548,253**	**767,442**
Statement of Financial Position interest rate sensitivity gap at 31 December 2013	**209,095**	**72,176**	**183,733**	**83,243**	**(451,709)**	**96,538**
Derivatives*	448,170	281,393	274,484	251,019	0	**1,255,066**
Total off-balance sheet assets	**448,170**	**281,393**	**274,484**	**251,019**	**0**	**1,255,066**
Derivatives*	549,057	272,436	300,123	136,784	0	**1,258,400**
Undrawn portion of loans**	(4,596)	(1,820)	6,003	413	0	**0**
Undrawn portion of revolving loans**	(336)	(8)	195	149	0	**0**
Total off-balance sheet liabilities	**544,125**	**270,608**	**306,321**	**137,346**	**0**	**1,258,400**
Net off-balance sheet interest rate sensitivity gap at 31 December 2013	**(95,955)**	**10,785**	**(31,837)**	**113,673**	**0**	**(3,334)**
Cumulative interest rate sensitivity gap at 31 December 2013	**113,140**	**196,101**	**347,997**	**544,913**	**93,204**	**X**

Note: * Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
** Undrawn loans and revolving loans are reported on a net basis, that is, the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	1,134	0	0	0	26,923	**28,057**
Financial assets at fair value through profit or loss	15,738	14,916	2,418	891	17,630	**51,593**
Positive fair values of hedging financial derivatives	0	0	0	0	26,068	**26,068**
Available-for-sale financial assets	2,240	14,025	60,347	65,179	0	**141,791**
Assets held for sale	0	0	0	0	86	**86**
Amounts due from banks	55,297	1,438	4,932	1,351	1,093	**64,111**
Loans and advances to customers, net	196,543	75,334	154,559	23,279	1,832	**451,547**
Revaluation differences on portfolios hedge items	0	0	0	0	0	**0**
Held-to-maturity investments	0	1	1,461	1,860	0	**3,322**
Current tax assets	0	6	0	0	14	**20**
Deferred tax assets	0	0	0	0	34	**34**
Prepayments, accrued income and other assets	0	742	0	0	2,835	**3,577**
Investments in subsidiaries and associates	0	0	0	0	971	**971**
Intangible assets	0	0	0	0	3,913	**3,913**
Tangible assets	0	0	0	0	7,994	**7,994**
Goodwill	0	0	0	0	3,752	**3,752**
Total assets	**270,952**	**106,462**	**223,717**	**92,560**	**93,145**	**786,836**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	2,481	0	0	0	17,108	**19,589**
Negative fair values of hedging financial derivatives	0	1	145	107	10,993	**11,246**
Amounts due to banks	34,575	789	0	0	3,538	**38,902**
Amounts due to customers	75,458	24,718	29,144	2,386	447,361	**579,067**
Revaluation differences on portfolios hedge items	0	0	0	0	16	**16**
Securities issued	2,194	0	17,034	396	0	**19,624**
Current tax liabilities	0	0	0	0	622	**622**
Deferred tax liabilities	0	0	11	41	5,421	**5,473**
Accruals and other liabilities	558	0	0	0	10,184	**10,742**
Provisions	0	0	0	0	1,016	**1,016**
Subordinated debt	0	0	0	0	0	**0**
Total liabilities	**115,267**	**25,508**	**46,334**	**2,930**	**496,259**	**686,298**
Statement of Financial Position interest rate sensitivity gap at 31 December 2012	**155,685**	**80,954**	**177,383**	**89,630**	**(403,114)**	**100,538**
Derivatives*	371,933	247,004	203,783	197,248	0	**1,019,968**
Total off-balance sheet assets	**371,933**	**247,004**	**203,783**	**197,248**	**0**	**1,019,968**
Derivatives*	437,240	245,964	228,128	108,329	0	**1,019,661**
Undrawn portion of loans**	(5,387)	1,005	4,147	235	0	**0**
Undrawn portion of revolving loans**	(331)	331	(149)	149	0	**0**
Total off-balance sheet liabilities	**431,522**	**247,300**	**232,126**	**108,713**	**0**	**1,019,661**
Net off-balance sheet interest rate sensitivity gap at 31 December 2012	**(59,589)**	**(296)**	**(28,343)**	**88,535**	**0**	**307**
Cumulative interest rate sensitivity gap at 31 December 2012	**96,096**	**176,754**	**325,794**	**503,959**	**100,845**	**X**

Note: * Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
** Undrawn loans and revolving loans are reported on a net basis, that is, the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

Average interest rates as at 31 December 2013 and 2012 were as follow:

	31 Dec 2013			31 Dec 2012		
(CZKm)	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and current balances with central banks	0.02%	x	x	0.00%	x	x
Treasury bills	0.15%	x	x	0.52%	x	x
Amounts due from banks	0.15%	0.19%	0.65%	0.35%	0.46%	0.54%
Loans and advances to customers	3.25%	1.99%	2.24%	3.66%	2.06%	2.38%
Interest earning securities	2.19%	3.69%	3.06%	2.84%	3.61%	3.01%
Total assets	**2.00%**	**1.29%**	**1.65%**	2.59%	1.55%	1.81%
Total interest earning assets	**2.33%**	**1.35%**	**1.98%**	3.13%	1.65%	1.97%
Liabilities						
Amounts due to central banks and banks	0.08%	0.23%	0.96%	0.09%	0.56%	1.03%
Amounts due to customers	0.21%	0.09%	0.08%	0.35%	0.08%	0.11%
Debt securities	3.23%	x	0.00%	3.52%	x	0.00%
Total liabilities	**0.28%**	**0.11%**	**0.39%**	0.19%	0.19%	0.38%
Total interest bearing liabilities	**0.36%**	**0.11%**	**0.41%**	0.29%	0.20%	0.41%
Off-balance sheet assets						
Derivatives (interest rate swaps, options, etc.)	1.51%	2.26%	1.21%	1.89%	2.68%	1.77%
Undrawn portion of loans	2.98%	2.30%	2.42%	3.12%	2.18%	3.70%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.67%	x	0.88%
Total off-balance sheet assets	**1.74%**	**2.25%**	**1.22%**	2.13%	2.61%	1.77%
Off-balance sheet liabilities						
Derivatives (interest rate swaps, options, etc.)	1.17%	2.01%	1.25%	1.57%	2.38%	1.94%
Undrawn portion of loans	2.98%	2.30%	2.42%	3.12%	2.18%	3.70%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.67%	x	0.88%
Total off-balance sheet liabilities	**1.42%**	**2.01%**	**1.26%**	1.84%	2.35%	1.93%

Note: The above table sets out the average interest rates for December 2013 and 2012 calculated as a weighted average for each asset and liability category.

The 2W REPO rate announced by the CNB remained at the level of 0.05% throughout 2013. Czech crown money market rates (PRIBOR) declined by 0.05% (O/N) to 0.27% (12M). The market spreads showed almost no change during 2013 and stagnated on the level of 14-38 basis points (1D-1Y). Interest rates in the derivatives market increased by 5-70 basis points (2-10Y).
Euro money market rates increased during 2013 by 0.01% (12M) to 0.14% (O/N) and derivative market rates increased by about 15-60 basis points (2-10Y).

Dollar money market rates decreased during 2013 by 0.10% (O/N) to 0.25% (12M) and derivative market rates increased by about 10-130 basis points (2-10Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2013 Fixed interest rate	Floating interest rate	No interest	Total	31 Dec 2012 Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and current balances with central banks	0	5,892	38,513	**44,405**	0	1,134	26,923	28,057
Financial assets at fair value through profit or loss	17,058	3,340	16,735	**37,133**	31,210	1,939	18,444	51,593
Positive fair values of hedging financial derivatives	0	0	18,249	**18,249**	0	0	26,068	26,068
Available-for-sale financial assets	118,595	22,603	2	**141,200**	119,833	21,537	421	141,791
Amounts due from banks	6,503	119,161	71	**125,735**	6,100	57,833	178	64,111
Loans and advances to customers	285,488	184,125	3,476	**473,089**	277,001	170,184	4,362	451,547
Revaluation differences on portfolios hedge items	0	0	7	**7**	0	0	0	0
Held-to-maturity investments	4,200	0	0	**4,200**	3,212	0	110	3,322
Liabilities								
Amounts due to central banks	1	0	0	**1**	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	17,530	**17,530**	0	0	19,589	19,589
Negative fair values of hedging financial derivatives	0	0	12,262	**12,262**	0	0	11,246	11,246
Amounts due to banks	15,883	33,596	201	**49,680**	9,515	28,898	489	38,902
Amounts due to customers	64,409	539,692*	45,057	**649,158**	63,999	478,488	36,580	579,067
Revaluation differences on portfolios hedge items	0	0	(218)	**(218)**	0	0	16	16
Securities issued	12,202	10,215	0	**22,417**	11,569	8,055	0	19,624

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.
* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a stand-alone limit. The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Group is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).
The table below provides a breakdown of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	37,280	0	0	0	0	7,125	**44,405**
Financial assets at fair value through profit or loss	0	2,270	9,649	4,998	3,480	16,736	**37,133**
Positive fair values of hedging financial derivatives	0	0	0	0	0	18,249	**18,249**
Available-for-sale financial assets	0	5,717	6,943	60,945	61,514	6,081	**141,200**
Assets held for sale	0	0	6	0	0	78	**84**
Amounts due from banks	33,268	74,830	482	6,437	2,972	7,746	**125,735**
Loans and advances to customers, net	4,988	58,079	52,682	131,455	208,944	16,941	**473,089**
Revaluation differences on portfolios hedge items	0	0	0	0	0	7	**7**
Held-to-maturity investments	0	73	249	3,003	875	0	**4,200**
Current tax assets	0	0	59	0	0	23	**82**
Deferred tax assets	0	0	0	5	0	31	**36**
Prepayments, accrued income and other assets	64	125	829	0	0	2,262	**3,280**
Investments in subsidiaries and associates	0	0	0	0	0	1,084	**1,084**
Intangible assets	0	0	0	0	0	3,772	**3,772**
Tangible assets	0	0	0	0	0	7,872	**7,872**
Goodwill	0	0	0	0	0	3,752	**3,752**
Total assets	**75,600**	**141,094**	**70,899**	**206,843**	**277,785**	**91,759**	**863,980**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities through profit or loss	1,196	0	0	0	0	16,334	**17,530**
Negative fair values of hedging financial derivatives	0	0	0	0	0	12,262	**12,262**
Amounts due to banks	21,537	7,795	1,420	13,329	5,599	0	**49,680**
Amounts due to customers	499,220	60,734	23,086	27,225	2,747	36,146	**649,158**
Revaluation differences on portfolios hedge items	0	0	0	0	0	(218)	**(218)**
Securities issued	0	6	105	14,761	7,545	0	**22,417**
Current tax liabilities	0	8	733	1	0	2	**744**
Deferred tax liabilities	0	58	173	251	21	2,993	**3,496**
Accruals and other liabilities	8,938	814	206	12	0	1,258	**11,228**
Provisions	111	123	181	128	4	597	**1,144**
Subordinated debt	0	0	0	0	0	0	**0**
Equity	0	0	0	0	0	96,538	**96,538**
Total liabilities	**531,003**	**69,538**	**25,904**	**55,707**	**15,916**	**165,912**	**863,980**
Statement of Financial Position liquidity gap at 31 December 2013	**(455,403)**	**71,556**	**44,995**	**151,136**	**261,869**	**(74,153)**	**0**
Off-balance sheet assets*	27,501	127,241	97,686	107,411	43,336	0	**403,175**
Off-balance sheet liabilities*	35,046	148,674	153,889	142,887	47,469	14,663	**542,628**
Net off-balance sheet liquidity gap at 31 December 2013	**(7,545)**	**(21,433)**	**(56,203)**	**(35,476)**	**(4,133)**	**(14,663)**	**(139,453)**

Note: * Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	25,893	0	0	0	0	2,164	**28,057**
Financial assets at fair value through profit or loss	981	12,518	13,386	4,930	1,322	18,456	**51,593**
Positive fair values of hedging financial derivatives	0	0	0	0	0	26,068	**26,068**
Available-for-sale financial assets	0	3,131	10,239	56,533	61,856	10,032	**141,791**
Assets held for sale	0	18	56	0	0	12	**86**
Amounts due from banks	25,262	26,080	1,960	5,701	2,016	3,092	**64,111**
Loans and advances to customers, net	3,901	39,562	70,154	123,150	196,211	18,569	**451,547**
Revaluation differences on portfolios hedge items	0	0	0	0	0	0	**0**
Held-to-maturity investments	0	72	39	1,981	1,230	0	**3,322**
Current tax assets	0	0	16	0	0	4	**20**
Deferred tax assets	0	0	0	4	0	30	**34**
Prepayments, accrued income and other assets	117	342	890	23	0	2,205	**3,577**
Investments in subsidiaries and associates	0	0	0	0	0	971	**971**
Intangible assets	0	0	0	0	0	3,913	**3,913**
Tangible assets	0	0	0	0	0	7,994	**7,994**
Goodwill	0	0	0	0	0	3,752	**3,752**
Total assets	**56,154**	**81,723**	**96,740**	**192,322**	**262,635**	**97,262**	**786,836**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities through profit or loss	2,481	0	0	0	0	17,108	**19,589**
Negative fair values of hedging financial derivatives	0	0	1	145	107	10,993	**11,246**
Amounts due to banks	20,562	1,922	3,184	9,104	4,130	0	**38,902**
Amounts due to customers	429,298	61,746	24,990	28,618	1,933	32,482	**579,067**
Revaluation differences on portfolios hedge items	0	0	0	0	0	16	**16**
Securities issued	0	1	102	13,277	6,244	0	**19,624**
Current tax liabilities	0	0	617	0	0	5	**622**
Deferred tax liabilities	0	51	152	215	41	5,014	**5,473**
Accruals and other liabilities	8,381	995	242	1	0	1,123	**10,742**
Provisions	51	46	245	109	5	560	**1,016**
Subordinated debt	0	0	0	0	0	0	**0**
Equity	0	0	0	0	0	100,538	**100,538**
Total liabilities	**460,774**	**64,761**	**29,533**	**51,469**	**12,460**	**167,839**	**786,836**
Statement of Financial Position liquidity gap at 31 December 2012	**(404,620)**	**16,962**	**67,207**	**140,853**	**250,175**	**(70,577)**	**0**
Off-balance sheet assets*	21,944	116,279	65,598	82,728	36,072	0	**322,621**
Off-balance sheet liabilities*	25,957	135,549	123,657	112,640	38,212	17,577	**453,592**
Net off-balance sheet liquidity gap at 31 December 2012	**(4,013)**	**(19,270)**	**(58,059)**	**(29,912)**	**(2,140)**	**(17,577)**	**(130,971)**

Note: * Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as at 31 December 2013.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss (except derivatives)	1,196	0	0	0	0	0	**1,196**
Amounts due to banks	21,547	7,825	1,493	13,590	5,643	0	**50,098**
Amounts due to customers	499,318	61,107	23,296	29,618	3,691	36,146	**653,176**
Securities issued	0	93	838	17,057	8,615	0	**26,603**
Current tax liabilities	0	8	733	1	0	2	**744**
Deferred tax liabilities	0	58	173	251	21	2,993	**3,496**
Accruals and other liabilities	8,938	814	206	12	0	1,258	**11,228**
Provisions	111	123	181	128	4	597	**1,144**
Subordinated debt	0	0	0	0	0	0	**0**
Total non-derivative financial liabilities	**531,111**	**70,028**	**26,920**	**60,657**	**17,974**	**40,996**	**747,686**
Other loans commitment granted	5,590	9,341	37,783	14,051	1,278	14,409	**82,452**
Guarantee commitments granted	1,852	11,813	17,979	19,260	2,498	254	**53,656**
Total contingent liabilities	**7,442**	**21,154**	**55,762**	**33,311**	**3,776**	**14,663**	**136,108**

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as at 31 December 2012.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss (except derivatives)	2,481	0	0	0	0	0	**2,481**
Amounts due to banks	20,565	2,068	3,498	9,624	4,183	0	**39,938**
Amounts due to customers	429,401	62,304	25,330	31,569	2,215	32,482	**583,301**
Securities issued	2	101	1,356	17,501	7,774	0	**26,734**
Current tax liabilities	0	0	617	0	0	5	**622**
Deferred tax liabilities	0	51	152	215	41	5,014	**5,473**
Accruals and other liabilities	8,381	995	242	1	0	1,123	**10,742**
Provisions	51	46	245	109	5	560	**1,016**
Subordinated debt	0	0	0	0	0	0	**0**
Total non-derivative financial liabilities	**460,882**	**65,565**	**31,440**	**59,019**	**14,218**	**39,184**	**670,308**
Other loans commitment granted	2,093	11,514	41,970	12,059	192	17,498	**85,326**

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Guarantee commitments granted	1,989	7,768	16,016	17,930	1,880	79	**45,662**
Total contingent liabilities	**4,082**	**19,282**	**57,986**	**29,989**	**2,072**	**17,577**	**130,988**

(F) Foreign exchange position

The table below provides an analysis of the Group's main currency exposures. The remaining currencies are shown within *'Other currencies'*. The Group manages its foreign exchange position on a daily basis. For this purpose, the Group has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	42,660	1,280	220	245	**44,405**
Financial assets at fair value through profit or loss	33,537	3,359	162	75	**37,133**
Positive fair values of hedging financial derivatives	16,862	1,172	215	0	**18,249**
Available-for-sale financial assets	108,492	29,861	2,847	0	**141,200**
Assets held for sale	84	0	0	0	**84**
Amounts due from banks	97,245	21,129	6,100	1,261	**125,735**
Loans and advances to customers, net	383,092	80,611	9,047	339	**473,089**
Revaluation differences on portfolios hedge items	7	0	0	0	**7**
Held-to-maturity investments	4,006	194	0	0	**4,200**
Current tax assets	82	0	0	0	**82**
Deferred tax assets	30	6	0	0	**36**
Prepayments, accrued income and other assets	3,045	203	21	11	**3,280**
Investments in subsidiaries and associates	1,084	0	0	0	**1,084**
Intangible assets	3,772	0	0	0	**3,772**
Tangible assets	7,865	7	0	0	**7,872**
Goodwill	3,752	0	0	0	**3,752**
Total assets	**705,615**	**137,822**	**18,612**	**1,931**	**863,980**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities through profit or loss	15,933	1,397	147	53	**17,530**
Negative fair values of hedging financial derivatives	10,706	1,439	117	0	**12,262**
Amounts due to banks	11,023	35,304	3,324	29	**49,680**
Amounts due to customers	576,178	61,825	8,572	2,583	**649,158**
Revaluation differences on portfolios hedge items	(218)	0	0	0	**(218)**
Securities issued	22,417	0	0	0	**22,417**
Current tax liabilities	736	8	0	0	**744**
Deferred tax liabilities	3,495	1	0	0	**3,496**
Accruals and other liabilities	9,528	1,356	239	105	**11,228**
Provisions	866	215	46	17	**1,144**
Subordinated debt	0	0	0	0	**0**
Equity	96,456	82	0	0	**96,538**
Total liabilities	**747,121**	**101,627**	**12,445**	**2,787**	**863,980**
Net FX position at 31 December 2013	**(41,506)**	**36,195**	**6,167**	**(856)**	**0**
Off-balance sheet assets*	1,087,308	360,240	79,749	13,172	**1,540,469**
Off-balance sheet liabilities*	1,050,240	395,095	86,154	12,198	**1,543,687**
Net off-balance sheet FX position at 31 December 2013	**37,068**	**(34,855)**	**(6,405)**	**974**	**(3,218)**
Total net FX position at 31 December 2013	**(4,438)**	**1,340**	**(238)**	**118**	**(3,218)**

Note: * Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	26,575	983	235	264	**28,057**
Financial assets at fair value through profit or loss	45,441	5,877	147	128	**51,593**
Positive fair values of hedging financial derivatives	24,204	1,506	358	0	**26,068**
Available-for-sale financial assets	117,114	22,673	2,004	0	**141,791**
Assets held for sale	86	0	0	0	**86**
Amounts due from banks	40,561	18,655	3,764	1,131	**64,111**
Loans and advances to customers, net	385,116	58,138	7,896	397	**451,547**
Revaluation differences on portfolios hedge items	0	0	0	0	**0**
Held-to-maturity investments	3,143	179	0	0	**3,322**
Current tax assets	20	0	0	0	**20**
Deferred tax assets	27	7	0	0	**34**
Prepayments, accrued income and other assets	3,262	299	10	6	**3,577**
Investments in subsidiaries and associates	971	0	0	0	**971**
Intangible assets	3,913	0	0	0	**3,913**
Tangible assets	7,987	7	0	0	**7,994**
Goodwill	3,752	0	0	0	**3,752**
Total assets	**662,172**	**108,324**	**14,414**	**1,926**	**786,836**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities through profit or loss	17,340	2,059	153	37	**19,589**
Negative fair values of hedging financial derivatives	9,114	2,038	94	0	**11,246**
Amounts due to banks	11,552	23,061	4,242	47	**38,902**
Amounts due to customers	525,554	43,303	7,844	2,366	**579,067**
Revaluation differences on portfolios hedge items	16	0	0	0	**16**
Securities issued	19,624	0	0	0	**19,624**
Current tax liabilities	622	0	0	0	**622**
Deferred tax liabilities	5,473	0	0	0	**5,473**
Accruals and other liabilities	9,259	1,250	156	77	**10,742**
Provisions	841	125	44	6	**1,016**
Subordinated debt	0	0	0	0	**0**
Equity	100,180	358	0	0	**100,538**
Total liabilities	**699,576**	**72,194**	**12,533**	**2,533**	**786,836**
Net FX position at 31 December 2012	**(37,404)**	**36,130**	**1,881**	**(607)**	**0**
Off-balance sheet assets*	954,935	227,249	66,714	5,147	**1,254,045**
Off-balance sheet liabilities*	918,557	261,954	68,624	4,494	**1,253,629**
Net off-balance sheet FX position at 31 December 2012	**36,378**	**(34,705)**	**(1,910)**	**653**	**416**
Total net FX position at 31 December 2012	**(1,026)**	**1,425**	**(29)**	**46**	**416**

Note: * Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.

(G) Operational risk

Since 2008, the Group has adopted the Advanced Measurement Approach (AMA) for the operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) or Scenario Analysis (SA), the Group developed and deployed also the permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. In 2013, the process of risk self-assessment was performed in close co-operation with the mapping of risks for the purposes of internal audit. This resulted in increased effectiveness of both procedures and simultaneously in decreased time consumption from the management of the Group. The Group continuously develops all the aforementioned operational risk instruments and supports the continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the management of the Group. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process of new product development and validation.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. The AMA approach has been used in three Group companies. These are in two cases non-banking entities (SGEF and ESSOX), which situation is unique in the Czech Republic. The Czech National Bank performed its mission on fulfilment of requirements necessary for deployment of AMA approach in Modrá pyramida. Based on the results of this mission, the French Prudential Supervisory Authority (as a regulatory supervisor of SG group) was asked for final approval with the use of AMA approach in Modra pyramida. The approval is being expected during first half of 2014.

(H) Legal risk

The Group regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Group establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Group also manages its legal risk through the assessment of legal risks involved in the contracts to which the Group is a party.

(I) Estimated fair value of assets and liabilities of the Group

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

(a) Cash and current balances with central banks
The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Amounts due from banks
The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis, the fair value of a loss loans is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers
The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) Held-to-maturity investments

The fair values of held-to-maturity portfolio is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered at the financial statements date.

(e) Amounts due to central banks, banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand at the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values at the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values at the financial statements date.

(f) Securities issued

The fair value of debt securities issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair value:

	31 Dec 2013		31 Dec 2012	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	44,405	44,405	28,057	28,057
Amounts due from banks	125,735	125,760	64,111	64,361
Loans and advances to customers	473,089	485,883	451,547	464,388
Held-to-maturity investments	4,200	4,523	3,322	3,775
Financial liabilities				
Amounts due to central banks	1	1	1	1
Amounts due to banks	49,680	49,671	38,902	38,935
Amounts due to customers	649,158	649,229	579,067	579,179
Securities issued	22,417	23,078	19,624	21 360

The hierarchy of fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair value:

	31 Dec 2013				31 Dec 2012			
(CZKm)	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	44,405	0	0	44,405	28,057	0	0	28,057
Amounts due from banks	125,760	0	0	125,760	64,361	0	0	64,361
Loans and advances to customers	485,883	0	0	485,883	464,388	0	0	464,388
Held-to-maturity investments	4,523	4,523	0		3,775	3,775	0	
Financial liabilities								
Amounts due to central banks	1	0	0	1	1	0	0	1
Amounts due to banks	49,671	0	0	49,671	38,935	0	0	38,935
Amounts due to customers	649,229	0	0	649,229	579,179	0	0	579,179
Securities issued	23,078	0	0	23,078	21,360	0	0	21,360

(J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2013	Level 1	Level 2	Level 3	31 Dec 2012	Level 1	Level 2	Level 3
Financial assets								
Financial assets at fair value through profit or loss								
– emission allowances	381	381	0	0	813	813	0	0
– debt securities	20,397	6,599	13,798	0	33,149	7,577	25,572	0
– derivatives	16,355	222	16,133	0	17,631	426	17,205	0
Financial assets at fair value through profit or loss	**37,133**	**7,202**	**29,931**	**0**	51,593	8,816	42,777	0
Positive fair value of hedging financial derivatives	**18,249**	**0**	**18,249**	**0**	26,068	0	26,068	0
Available-for-sale financial assets								
– shares and participation	2	0	0	2	2	0	0	2
– certificates								
– debt securities	141,198	115,169	26,029	0	141,789	109,229	32,560	0
Available-for-sale financial assets	**141,200**	**115,169**	**26,029**	**2**	141,791	109,229	32,560	2
Revaluation differences on portfolios hedge items	**7**	**0**	**7**	**0**	0	0	0	0
Financial assets at fair value	**196,589**	**122,371**	**74,216**	**2**	219,452	118,045	101,405	2
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– sold securities	1,196	1,196	0	0	2,481	2,481	0	0
– derivatives	16,334	95	16,239	0	17,108	56	17,052	0
Financial liabilities at fair value through profit or loss	**17,530**	**1,291**	**16,239**	**0**	19,589	2,537	17,052	0
Negative fair value of hedging financial derivatives	**12,262**	**0**	**12,262**	**0**	11,246	0	11,246	0
Revaluation differences on portfolios hedge items	**(218)**	**0**	**(218)**	**0**	16	0	16	0
Financial liabilities at fair value	**29,574**	**1,291**	**28,283**	**0**	30,851	2,537	28,314	0

Financial assets at fair value – Level 3:

	2013		2012	
(CZKm)	Available-for-sale financial assets	Total	Available-for-sale financial assets	Total
Balance at 1 January	**2**	**2**	2,773	2,773
Comprehensive income/(loss)				
- in the Income Statement	0	0	(107)	(107)
- in Other Comprehensive Income	0	0	190	190
Sales	0	0	(890)	(890)
Settlement	0	0	(1,964)	(1,964)
Balance at 31 December	**2**	**2**	2	2

Shares and participation certificates
When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows, which was used for the original valuation.

44 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as at 31 December 2013:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set of by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	34,604	0	34,604	21,599	5,897	7,108
Negative fair value of derivatives	28,596	0	28,596	21,599	6,763	234

Note: * This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as at 31 December 2012:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set of by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	43,699	0	43,699	25,127	10,686	7,886
Negative fair value of derivatives	28,354	0	28,354	25,127	2,514	713

Note: * This item includes also counterparties with only positive or negative fair value of derivatives.

45 Assets under management

As at 31 December 2013, the Group held client assets on its balance sheet in the amount of CZK 1,513 million (2012: CZK 1,028 million) and also managed assets in the amount of CZK 313,845 million (2012: CZK 287,932 million).

46 Post balance sheet events

Reclassification of certain debt securities held in the portfolio of Available-for-sale financial assets
Since January 2014, the Group has started to review the accounting recognition of certain debt securities held in the portfolio of Available-for-sale financial assets (hereafter only "AFS") which the Group intends to hold until their maturity. Till the issuance of these Consolidated Financial Statements, the Group concluded that all regulatory and accounting requirements, as well as internal limits, are satisfied for recognition of the debt securities in the nominal value of CZK 50,260 million in the portfolio of Held-to-maturity investments (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains or losses in the Shareholders' Equity of CZK 4,474 million are retained in Other Comprehensiveincome. Such amounts are amortised over the remaining life of the security.

Separate Financial Statements Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union and Independent Auditor's Report as at 31 December 2013

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Komerční banka, a.s.:

We have audited the accompanying financial statements of Komerční banka, a.s., which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Komerční banka, a.s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

EY
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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Komerční banka, a.s. as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Michaela Kubýová
Auditor, License No. 1810

4 March 2014
Prague, Czech Republic

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

SEPARATE INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2013

Separate Income Statement

(CZKm)	Note	2013	Restated 2012
Interest income and similar income	5	26,799	30,284
Interest expense and similar expense	5	(9,761)	(12,747)
Dividend income	5	1,885	257
Net interest income and similar income		**18,923**	17,794
Net fee and commission income	6	6,672	6,990
Net profit/(loss) on financial operations	7	3,200	3,168
Other income	8	157	148
Net operating income		**28,952**	28,100
Personnel expenses	9	(6,018)	(6,061)
General administrative expenses	10	(4,185)	(4,386)
Depreciation, impairment and disposal of assets	11	(1,587)	(1,561)
Total operating expenses		**(11,790)**	(12,008)
Profit before allowances/provisions for loan and investment losses, other risk and income taxes		**17,162**	16,092
Allowances for loan losses	12	(1,546)	(1,379)
Allowances for impairment of securities	12	0	0
Provisions for other risk expenses	12	(7)	(28)
Cost of risk		**(1,553)**	(1,407)
Profit/(loss) on subsidiaries and associates	13	0	0
Profit before income taxes		**15,609**	14,685
Income taxes	14	(2,486)	(2,436)
Net profit for the period	15	**13,123**	12,249

Separate Statement of Comprehensive Income

(CZKm)	Note	2013	Restated 2012
Net profit for the period	15	**13,123**	12,249
Items that will not be reclassified to Income Statement			
Remeasurement of retirement benefits plan, net of tax		2	(11)
Items that may be reclassified subsequently to Income Statement			
Cash flow hedging			
– net fair value gain/(loss), net of tax		(3,425)	6,615
– transfer to net profit/(loss), net of tax		(2,989)	(2,016)
Foreign exchange gain/(loss) on translation of a foreign net investment		2	1
Net value gain/(loss) on available-for-sale financial assets, net of tax		(1,918)	4,264
Other comprehensive income for the period, net of tax	39, 40, 41	**(8,328)**	8,853
Comprehensive income for the period, net of tax		**4,795**	21,102

The accompanying Notes are an integral component of this Separate Income Statement and Statement of Comprehensive Income.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

(CZKm)	Note	31 Dec 2013	Restated 31 Dec 2012
ASSETS			
Cash and current balances with central banks	16	43,831	27,659
Financial assets at fair value through profit or loss	17	38,118	51,907
Positive fair value of hedging financial derivatives	42	18,235	26,027
Available-for-sale financial assets	18	93,555	94,381
Assets held for sale	19	6	3
Amounts due from banks	20	119,661	55,863
Loans and advances to customers	21	423,295	396,189
Held-to-maturity investments	22	194	179
Current tax assets		0	4
Deferred tax assets	33	6	6
Prepayments, accrued income and other assets	23	2,173	2,234
Investments in subsidiaries and associates	24	26,220	24,928
Intangible assets	25	3,363	3,496
Tangible assets	26	5,235	6,581
Total assets		**773,892**	689,457
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	27	18,543	19,904
Negative fair value of hedging financial derivatives	42	11,248	10,972
Amounts due to banks	28	45,946	31,845
Amounts due to customers	29	552,253	485,969
Securities issued	30	48,145	38,017
Current tax liabilities		708	568
Deferred tax liabilities	33	2,703	4,712
Accruals and other liabilities	31	9,513	8,921
Provisions	32	1,130	1,004
Subordinated debt	34	0	0
Total liabilities		**690,190**	601,913
Share capital	35	19,005	19,005
Share premium and reserves		64,697	68,539
Total shareholders' equity		**83,702**	87,544
Total liabilities and shareholders' equity		**773,892**	689,457

The accompanying Notes are an integral component of this Separate Statement of Financial Position.

These Separate Financial Statements were approved by the Board of Directors on 4 March 2014.

Signed on behalf of the Board of Directors:

Albert Le Dirac'h

Albert Le Dirac'h
Chairman of the Board of Directors
and Chief Executive Office

Pavel Čejka
Member of the Board of Directors
and Senior Executive Director

SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY YEAR ENDED 31 DECEMBER 2013

(CZKm)	Share capital	Capital and reserve funds and retained earnings*	Remeasurement of retirement benefits plan	Cash flow hedging	Translation of a foreign net investment	Available-for-sale financial assets	Total
Balance at 31 December 2011	**19,005**	**41,716**	**0**	**10,110**	**3**	**1,634**	**72,468**
Changes in accounting policies	0	(29)	0	0	0	0	(29)
Balance at 1 January 2012	**19,005**	**41,687**	**0**	**10,110**	**3**	**1,634**	**72,439**
Treasury shares, other	0	85	0	0	0	0	85
Payment of dividends	0	(6,082)	0	0	0	0	(6,082)
Transactions with owners	**0**	**(5,997)**	**0**	**0**	**0**	**0**	**(5,997)**
Net profit for the period	0	12,249	0	0	0	0	12,249
Other comprehensive income for the period, net of tax	0	0	(11)	4,599	1	4,264	8,853
Comprehensive income for the period	**0**	**12,249**	**(11)**	**4,599**	**1**	**4,264**	**21,102**
Balance at 31 December 2012	**19,005**	**47,939**	**(11)**	**14,709**	**4**	**5,898**	**87,544**
Treasury shares, other	0	105	0	0	0	0	105
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)
Transactions with owners	**0**	**(8,637)**	**0**	**0**	**0**	**0**	**(8,637)**
Net profit for the period	0	13,123	0	0	0	0	13,123
Other comprehensive income for the period, net of tax	0	0	2	(6,414)	2	(1,918)	(8,328)
Comprehensive income for the period	**0**	**13,123**	**2**	**(6,414)**	**2**	**(1,918)**	**4,795**
Balance at 31 December 2013	**19,005**	**52,425**	**(9)**	**8,295**	**6**	**3,980**	**83,702**

Note: * Capital and reserve funds and retained earnings consist of statutory reserve funds in the amount of CZK 3,801 million (2012: CZK 3,801 million), other funds created from profit in the amount of CZK 388 million (2012: CZK 388 million), share premium and purchased treasury shares in the amount of CZK -454 million (2012: CZK -500 million), net profit from the period in the amount of CZK 13,123 million (2012: CZK 12,249 million) and retained earnings in the amount of CZK 35,567 million (2012: CZK 32,001 million).

The accompanying Notes are an integral component of this Separate Statement of Changes in Shareholders' Equity.

SEPARATE CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2013

(CZKm)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	23,558	26,611
Interest payments	(14,459)	(6,843)
Fee and commission receipts	7,956	8,169
Fee and commission payments	(1,270)	(1,186)
Net income from financial operations	7,483	(1,765)
Other income receipts	181	92
Cash payments to employees and suppliers, and other payments	(10,075)	(9,877)
Operating cash flow before changes in operating assets and operating liabilities	**13,374**	15,201
Amounts due from banks	(67,737)	43,632
Financial assets at fair value through profit or loss	14,044	(16,591)
Loans and advances to customers	(27,606)	(25,241)
Other assets	44	(480)
(Increase)/decrease in operating assets	**(81,255)**	1,320
Amounts due to banks	17,513	(2,665)
Financial liabilities at fair value through profit or loss	(1,366)	(4,522)
Amounts due to customers	67,326	16,189
Other liabilities	674	(2,238)
Increase/(decrease) in operating liabilities	**84,147**	6,764
Net cash flow from operating activities before taxes	16,266	23,285
Income taxes paid	(2,451)	(1,581)
Net cash flows from operating activities	**13,815**	21,704
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received	1,885	257
Maturity of held-to-maturity investments*	0	0
Purchase of available-for-sale financial assets	(12,170)	(15,535)
Sale and maturity of available-for-sale financial assets*	14,238	17,156
Purchase of tangible and intangible assets	(1,410)	(1,676)
Sale of tangible and intangible assets	33	47
Purchase of investments in subsidiaries and associates	(100)	(410)
Sale/decrease of investments in subsidiaries and associates	77	68
Net cash flow from investment activities	**2,553**	(93)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(8,657)	(6,026)
Purchase of treasury shares	0	0
Securities issued	11,158	3,891
Securities redeemed*	(2,526)	(1,688)
Repayment of subordinated debt*	0	(6,002)
Net cash flow from financing activities	**(25)**	(9,825)
Net increase/(decrease) in cash and cash equivalents	**16,343**	11,786
Cash and cash equivalents at the beginning of the year	25,535	13,790
FX differences on cash and cash equivalents at beginning of year	97	(41)
Cash and cash equivalents at the end of the year (see Note 36)	**41,975**	25,535

Note: * The amount also includes coupons received and paid.

The accompanying Notes are an integral component of this Separate Cash Flow Statement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

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1 Principal activities

Komerční banka, a.s. (henceforth the "Bank") is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

I. Providing loans, advances and guarantees in Czech crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions;
VII. Investment banking.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its foreign branch, Komerční banka, a.s., pobočka zahraničnej banky.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2012: 60.35%) of the Bank's issued share capital.

2 Events for the year ended 31 December 2013

Change in the Chief Executive Officer and Chairman of the Board of Directors of the Bank
Henri Bonnet, the Chief Executive Officer and Chairman of the Board of Directors, retired from his position in the Bank as at 1 August 2013. The Supervisory Board of the Bank elected Albert Le Dirac'h a member of the Board of Directors with effect from 2 August 2013. The Board of Directors of the Bank subsequently elected Albert Le Dirac'h Chairman of the Board of Directors and appointed him Chief Executive Officer with effect from the same date.

Dividends declared in respect of the year ended 31 December 2012
At the General Meeting, held on 24 April 2013, the shareholders approved a dividend for the year ended 31 December 2012 of CZK 230 per share before tax. The dividend was declared in the aggregate amount of CZK 8,742 million. An amount of CZK 3,507 million was allocated to retained earnings.

Changes in the Bank's Financial Group
In January 2013, based on the new legislation issued on 28 December 2011, a revision of the pension system started to be processed in the Czech Republic. Under Act No. 427/2011 Coll. the Supplementary Pension Saving Act the Bank's fully owned subsidiary Penzijní fond Komerční banky, a.s., was transformed into KB Penzijní společnost, a.s., with its registered office at náměstí Junkových 2772/1, Stodůlky, 155 00, Prague 5 and registered capital of CZK 300 million as at 1 January 2013. In accordance with the requirements of the pension reform, the net assets of the Penzijní fond Komerční banky, a.s. were divided between pension scheme participants and pension fund shareholders. The net assets of pension scheme participants were allocated to a newly created Transformed fund, which is closed for new participants. However, similarly as before, KB Penzijní společnost will remain responsible for management of the Transformed fund, be entitled to up to 15% of the profit in addition to the regular asset under management fee and will need to guarantee the positive results for participants as well as positive equity of the Transformed fund. Transformed fund is fully consolidated in the Consolidated Financial Statements of Komerční banka, a.s.

In May 2013, the shareholders' equity in Bastion European Investments S.A. was decreased by EUR 2.7 million (equivalent to CZK 77 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

In August 2013, the Bank established two new subsidiaries VN 42, s.r.o. with shareholders' equity of CZK 1 million and NP 33, s.r.o. with shareholders' equity of CZK 1 million. Both companies were established in connection with management of the Bank's own buildings. In November 2013, the share capital of VN 42, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 1,990 million and the share capital of NP 33, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 845 million. The difference between cost of investment booked in the Separate Financial Statements and amount of a non-monetary contribution into share capital represents positive revaluation to the fair value of buildings at the date of increase of share capital.

In September 2013, the shareholders' equity of KB Penzijní společnost, a.s. was increased by CZK 100 million in the form of increasing other capital funds.

3 Principal accounting policies

These Financial Statements are separate. The Consolidated Financial Statements are issued as at the same date. The total consolidated equity is CZK 96,538 million and total consolidated profit is CZK 12,906 million.

The principal accounting policies adopted in the preparation of these Separate Financial Statements are set out below.

3.1 Statement of compliance with IFRS

The Separate Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2013.

The Separate Financial Statements include a Statement of Financial Position, a Statement of Comprehensive Income presented in two constituent statements (a Separate Income Statement and a Separate Statement of Comprehensive Income), a Statement of Changes in Shareholders' Equity, a Cash Flow Statement, and Notes to the Separate Financial Statements containing accounting policies and explanatory disclosures.

The presented Separate Financial Statements for the year ended 31 December 2013 are based on the current best estimates. The management of the Bank believes that they present a true and fair view of the Bank's financial results and financial position using all relevant and available information at the financial statements date.

3.2 Underlying assumptions of the Separate Financial Statements

3.2.1 Accrual basis

The Separate Financial Statements are prepared on an accrual accounting basis, i.e. the effects of transactions and other events are recognised when they occur and are reported in the Separate Financial Statements for the period to which they relate.

The exception is the Cash Flow Statement, which is prepared on a cash basis, i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates.

3.2.2 Going concern

The Separate Financial Statements are prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The Bank has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

3.2.3 Offsetting

Unless required or permitted under IFRS, assets and liabilities or income and expenses are not offset.

3.2.4 Reporting period

The Bank reports for a 12-month period which is identical to the calendar year.

3.3 Basis of preparation

3.3.1 Presentation currency

The Separate Financial Statements are presented in Czech crowns (hereafter only "CZK"), which represent the Bank's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

3.3.2 Historical cost

The Separate Financial Statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and hedging derivatives and hedge items in fair value hedge accounting, whose items are measured at fair value.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell; or (ii) carrying amount just before reclassification into *'Assets held for sale'*.

3.3.3 Use of estimates

The presentation of Separate Financial Statements in accordance with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial

statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the financial statements date and they specifically relate to the determination of:
- fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, hedging derivatives or available-for-sale financial assets (refer to Note 3.5.5);
- the value of intangible assets (refer to Note 3.5.9);
- the amount of impairment of assets (refer to Notes 3.5.5 and 3.5.9);
- provisions recognised under liabilities (refer to Note 3.5.10);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7).

Information about the key assumptions concerning the future and other key sources of estimation uncertainty at the financial statements date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

3.3.4 Investments in subsidiaries and associates

A subsidiary is an entity in which the Bank has control, i.e. it directly or indirectly owns more than half the voting rights or it has the power to govern the entity by another way. An associate is an entity in which the Bank has significant influence, i.e. directly or indirectly owns 20% to 50% of the voting rights.

Investments in which the Bank directly or indirectly owns of the voting rights less than 20% are classified as *'Available-for-sale financial assets'*.

Investments in subsidiaries and associates are measured at historical cost (i.e. foreign currency investments are translated using the foreign exchange rate at the date of transaction) decreased by potential accumulated impairment losses. The Bank assesses regularly at the end of each reporting period whether there is any impairment loss by comparing the carrying values of each investment with its recoverable amount. If the recoverable amount is lower, the Bank recognises the impairment loss through the use of an allowances account. Investments in subsidiaries and associates are presented in the line *'Investments in subsidiaries and associates'*.

3.4 Adoption of new and revised IFRS

3.4.1 Standards and interpretations not yet adopted by the European Union

The European Commission decides on the applicability of IFRS issued by IASB within the European Union by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

As at the issuance date of these Separate Financial Statements, IFRS as adopted by the European Union does not differ from IFRS, except for provisions of IAS 39 prohibiting fair value hedge accounting applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the European Union (i.e. in the European Union this hedging is permitted).

In addition, the European Commission has not approved the following effective standards and interpretations, and/or their amendments:
- IFRS 9 Financial Instruments
- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – amendment: Mandatory Effective Date and Transition
- IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IAS 39 Financial Instruments: Recognition and Measurement – amendment: Hedge Accounting
- Annual Improvements to IFRS 2010-2012 Cycle
- Annual Improvements to IFRS 2011-2013 Cycle
- IAS 19 Employee Benefits – amendment: Defined Benefit Plans: Employee Contributions
- IFRIC 21 Levies

3.4.2 Standards and interpretations adopted in the current period

Discussed here are standards that were adopted with effect from 2 January 2012 to 1 January 2013 inclusive. They have no impact in the current period (and/or prior period) with the exception of IAS 19 Employee Benefits and IFRS 13 Fair Value Measurement.

The impact of the application of the revised standard IAS 19 related to elimination of the "corridor approach" on recognised provisions amounts to CZK 48 million (before deferred tax). This amount is recognised in accordance with the transition guidance of the revised standard and the treatment is described in paragraph 3.6 Changes in accounting policies and reclassifications.

The impact of the application of the new standard IFRS 13 related to adjustments to fair values of derivatives for counterparty credit risk is a loss of CZK 113 million. The amount is recognised in profit or loss for the period in accordance with the transition guidance of the standard. IFRS 13 also requires additional disclosures in the notes to the financial statements that are provided in the individual notes relating to the assets and liabilities whose fair values were determined. For the hierarchy of fair values refer to Note 42(J).

Standard	Impact/Comments
IAS 1 Presentation of Financial Statements – amendment "Presentation of Items of Other Comprehensive Income"	The amendment requires that items in other comprehensive income are grouped on the basis of whether they may be subsequently reclassified from other comprehensive income to profit or loss. Moreover, a new title of "Income Statement and Statement of Comprehensive Income" is used for the statement containing all items of income and expense.
IAS 19 Employee Benefits – revised Defined Benefit Plans	The revised standard requires immediate recognition of defined benefit cost and improves presentation and disclosure.
IFRS 1 First-time Adoption of IFRS – amendment: "Government Loans"	The amendments add an exception to the retrospective application of IFRS to require that first-time adopters apply the requirements in IFRS 9 and IAS 20 prospectively to government loans existing at the date of transition to IFRS.
IFRS 7 Financial Instruments: Disclosures – amendment: "Disclosures – Offsetting Financial Assets and Financial Liabilities"	The amendment requires disclosure of information that will enable users of entity Financial Statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.
IFRS 13 Fair Value Measurement – new standard	The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).
Annual Improvements to IFRS 2012 – new standard	Annual Improvements amend five standards in the total of six points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – new interpretation	The interpretation addresses recognition of production stripping costs as an asset ("stripping activity asset") and its initial and subsequent measurement.

3.4.3 Issued standards and interpretations not applied for the current period

The standards and interpretations or their amendments described below are in effect. However, they do not apply to reporting periods beginning on 1 January 2013 and the Bank has decided not to early adopt. The Bank has decided not to early adopt the standards and interpretations which were already adopted by the European Commission.

Concurrently, the Bank does not anticipate that their application will significantly impact the Bank's financial position and financial performance for the reporting period, with the exception of IFRS 9 Financial Instruments which supersedes a component of the existing standard IAS 39 relating to the classification and derecognition of financial assets and financial liabilities. And potentially with the exception of new standard IFRS 10 Consolidated Financial Statements which review is still running in relation to the consolidation of Transformovaný fond KB Penzijní společnosti, a.s.

The application of the requirements of IFRS 9 will primarily mean that non-equity instruments classified in the portfolio of available-for-sale financial assets will be remeasured to profit or loss rather than to other comprehensive income. With respect to equity instruments classified in this portfolio, the Bank will have to decide upon the first-time application of the standard whether it will remeasure these to profit or loss or whether it will use the possibility to recognise changes in their fair value in other comprehensive income.

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	The standard initially covered only the classification and measurement of financial assets for which it has newly introduced two portfolios – financial assets subsequently measured at amortised cost and financial assets subsequently measured at fair value. Financial assets subsequently measured at fair value are remeasured to profit and loss except for equity instruments for which the entity irrevocably opts for the possibility to recognise changes in the fair value in other comprehensive income upon first-time recognition or first-time application. Derivatives embedded in financial assets are no longer separated according to the standard. In October 2010, the requirements in IAS 39 for the classification and measurement of financial liabilities and for the derecognition of financial assets/liabilities were carried forward unchanged to the standard. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk. In December 2011, the Board issued the amendment that postponed the mandatory effective date of IFRS 9 to 1 January 2015. In November 2013, the IASB added to IFRS 9 requirements related to hedge accounting. These requirements align hedge accounting more closely with risk management, resulting in more useful information to users of financial statements. They also establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39. This amendment also removed mandatory the date of application of IFRS 9. However, the standard is available for application.	To be determined when the outstanding phases are finalised

Standard	Summarised content	Effective for reporting period beginning on or after
IAS 27 Separate Financial Statements – revised standard	The revised standard does not change current requirements related to Separate Financial Statements.	1 January 2013*
IAS 28 Investments in Associates and Joint Ventures – revised standard	The revised standard results from the new standard on joint ventures and incorporates the accounting for them. In the Consolidated Financial Statements joint ventures will be newly consolidated using only the equity method.	1 January 2013*
IFRS 10 Consolidated Financial Statements – new standard	The new standard is based on current consolidation requirements stipulated in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. However, this standard presents a revised definition of control – assessing all three elements of control (power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of returns) so that a single control model can be applied to all entities. The consolidation conclusion is not expected to change for most straightforward entities. Although the standard newly sets out a framework for asset manager entities to use when interpreting IFRS 10 to determine whether control exists, IFRS 10 does not provide "bright lines" and requires consideration of many factors and entities judgement.	1 January 2013*
IFRS 11 Joint Arrangements – new standard	The new standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures and it improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement and by eliminating a choice of accounting treatment.	1 January 2013*
IFRS 12 Disclosure of Interests in Other Entities – new standard	The new standard enhances disclosures to be published about consolidated and unconsolidated entities.	1 January 2013*
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – amendment: "Transitional Guidance"	The amendments explain that the "date of initial application" in IFRS 10 (resp. IFRS 11 and IFRS 12) means "the beginning of the annual reporting period in which the standard is applied for the first time". It also requires the investor to adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different when applying IFRS 10 as compared with applying IAS 27/SIC-12. The relief from retrospective application of IFRS 10 apply to an investor's interests in investees that were disposed of during a comparative period, such that consolidation would not occur in accordance with either IAS 27/SIC-12 or IFRS 10 at the date of initial application.	1 January 2013*
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – amendment "Investment Entities"	The amendments define an investment entity, introduce an exception to consolidating particular subsidiaries for investment entities and require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities.	1 January 2014
IAS 32 Financial Instruments: Presentation – amendment "Offsetting Financial Assets and Financial Liabilities"	The amendment explains the criterion that an entity "currently has a legally enforceable right to set off the recognised amounts" newly added into application guidance.	1 January 2014
IAS 36 Impairment of Assets – amendment "Recoverable Amount Disclosures for Non-Financial Assets"	The amendment requires additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014
IAS 39 Financial Instruments: Recognition and Measurement – amendment "Novation of Derivatives and Continuation of Hedge Accounting"	The amendment specifies the novation of derivatives and provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument arises as a result of new laws or regulations.	1 January 2014
IFRIC 21 Levies	This Interpretation addresses the accounting for a liability to pay a levy.	1 January 2014
Annual Improvements to IFRS 2010-2012 Cycle – new standard	Annual Improvements amend seven standards in the total of eight points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
Annual Improvements to IFRS 2011-2013 Cycle – new standard	Annual Improvements amend four standards with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
IAS 19 Employee Benefits – amendment "Defined Benefit Plans: Employee Contributions"	The amendment defines principles for recognition of employee contributions within defined benefit plans distinguishing the procedure for contributions the amounts of which are not dependent upon the length of service and those the amounts of which are so dependent.	1 July 2014

Note: * The European Commission has approved these standards for reporting periods beginning on or after 1 January 2014 and it permitted their early application.

3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2013

The Bank did not make use of the possibility for the voluntary earlier application of standards or interpretations in the reporting period beginning 1 January 2013.

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency

The Bank's functional currency (i.e. the currency of the primary economic environment in which the Bank operates) is the Czech crown.

The Bank has a branch in the Slovak Republic and a subsidiary, Bastion European Investments S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency at the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only "BA") for the respective foreign currency. Depending on the functional currency the BA means the Czech National Bank (hereafter only "CNB") for the Czech crown and the European Central Bank (hereafter only "ECB") for the euro.

At the end of the reporting period all items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:

I. foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
II. non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction;
III. non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses related to the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses of the period in which they occur and are presented in the line ***'Net profit/(loss) on financial operations'***.

However, where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments. In Other Comprehensive Income, foreign exchange rate differences related to the fair value revaluation of debt instruments classified as available-for-sale (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation are also recognised.

3.5.2 Recognition of income and expenses

3.5.2.1 Net interest income and similar income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Income Statement in the lines ***'Interest income and similar income'*** and ***'Interest expense and similar expense'*** using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late fee income is recognised at the date of its payment and presented in the line ***'Interest income and similar income'***.

Dividend income is recognised when the Bank's right to receive a dividend payment is established and is presented in the line ***'Dividend income'***.

3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Bank distinguishes the following three categories of fees:

– fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line ***'Interest income and similar income'***;
– fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line ***'Net fee and commission income'***;

– fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line *'Net fee and commission income'*.

3.5.2.3 Net profit/(loss) on financial operations

In the line *'Net profit/(loss) on financial operations*' is recognised interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

This line also includes realised and unrealised gains/losses on securities held for trading, security derivatives, currency, interest rate and trading commodity derivatives, foreign exchange transactions, foreign assets and liabilities retranslation to functional currency, and realised gains/losses on available-for-sale financial assets.

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

In preparing its Cash Flow Statement for the period, the Bank includes into cash and cash equivalents the cash and current balances with central banks at the beginning and end of the period and current amounts due from and to banks.

3.5.4 Fair value and hierarchy of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of asset or liability measured at fair value. The hierarchy of fair values has the following three levels:
- *Level 1*: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- *Level 3*: inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. The significant input information is that information which has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the statement of financial position at the end of each reporting period), the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

3.5.5 Financial instruments

3.5.5.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, an acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date according to its categorisation into an individual portfolio, i.e. either in profit or loss or in other comprehensive income.

All purchases and sales of financial instruments that do not meet the "regular way" settlement criterion in the marketplace concerned are treated as financial derivatives. The Bank recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Bank recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished, i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires.

3.5.5.2 Initial measurement of financial assets and financial liabilities
When a financial asset or financial liability is initially recognised, the Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *'Accruals and other liabilities'*. The guarantees are subsequently measured as at the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss (in the Statement of Financial Position in the line *'Accruals and other liabilities'*), and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *'Provisions'*). The premium received is recognised in the Income Statement in the line *'Net fee and commission income'* on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Income Statement in the line *'Allowances for loan losses'*.

3.5.5.3 "Day 1" profit or loss
When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

The Bank trades no financial instruments on an inactive market. On active markets, the Bank trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a "Day 1" profit or loss).

3.5.5.4 Financial assets and liabilities classification and subsequent measurement
Financial assets and liabilities held by the Bank are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Bank's intention as at the acquisition date, and pursuant to the Bank's financial instrument investment strategy as follows:

I. Financial assets and liabilities at fair value through profit or loss;
II. Held-to-maturity investments;
III. Loans and receivables;
IV. Available-for-sale financial assets;
V. Financial liabilities at amortised cost.

The Bank does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the so-called "Fair Value Option").

(i) Financial assets and liabilities at fair value through profit or loss
The Bank designates as financial assets at fair value through profit or loss securities held for trading and derivatives that are assets, i.e. financial instruments acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. These financial assets are recognised in the Statement of Financial Position in the line *'Financial assets at fair value through profit or loss'*.

Securities designated as held for trading include equity and debt securities, treasury bills, bills of exchange and participation certificates.
The trading derivative financial instruments used by the Bank include currency and commodity forwards, currency and interest rate swaps, derivatives on securities and emission allowances and options.

Financial liabilities at fair value through profit or loss include liabilities from securities sold and trading derivatives that are liabilities and are recognised in the Statement of Financial Position in the line *'Financial liabilities at fair value through profit or loss'*.

Unrealised gains and losses, as well as realised gains and losses arising from the fair value measurement of financial assets and liabilities, interest and dividends are recognised as income in the Income Statement in the line *'Net profit/(loss) on financial operations'*. These financial assets are not tested for impairment because the change of fair value is recognised directly in profit or loss.

(ii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in *'Interest income and similar income'* in the Income Statement. When an impairment of assets is identified, the Bank recognises allowances in the Income Statement in the line *'Allowance for impairment of securities'*.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than due to a significant decrease of a client's creditworthiness, changes in tax laws, business combination or sale of a part of the business (segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for held-to-maturity investments to calculate the capital adequacy), the entire portfolio would have to be reclassified as *'Available-for-sale financial assets'*. Furthermore, the Bank would be prohibited from classifying any financial asset as *'Held-to-maturity investments'* for the following two years.

(iii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:
- assets that the Bank intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Bank upon initial recognition designates as at fair value through profit or loss;
- assets that the Bank upon initial recognition designates as available-for-sale; or
- assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (e.g. asset-backed securities or a fixed rate, interest-only strip created in a securitisation and subject to prepayment risk), which are classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in the line *'Interest income and similar income'* in the Income Statement. When the impairment of assets is identified, the Bank recognises allowances in the Income Statement in the line *'Allowance for loan losses'*.

Financial assets designated as loans and receivables are reported in the Statement of Financial Position in the line *'Amounts due from banks'* or in the line *'Loans and advances to customers'*, as appropriate.

(iv) Available-for-sale financial assets
Available-for-sale financial assets are those financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. This portfolio comprises equity securities and debt securities, asset-backed securities and participation certificates.

Available-for-sale financial assets are subsequently measured at fair value and at the end of each reporting period tested to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. Unrealised gains or losses from the fair value measurement of these assets are recognised within Other Comprehensive Income in the line *'Net value gain on available-for-sale financial assets, net of tax'*) until their sale, maturity or impairment as well as fair value changes arising from changes in foreign exchange rates. Gains or losses from changes in foreign exchange rates on debt instruments are recognised in the Income Statement in the line *'Net profit/(loss) on financial operations'* except for exchange gains or losses related to fair value revaluation that are recognised within Other Comprehensive Income. When the available-for-sale financial asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in the line *'Net profit/(loss) on financial operations'*.

Accrued interest income for debt securities is recognised in the Income Statement line *'Interest income and similar income'*. Dividend income arising from equity securities is recognised when the right for dividends is established and reported in the Income Statement in the line *'Dividend income'*.

(v) Financial liabilities at amortised cost
Financial liabilities at amortised cost include non-derivative financial liabilities with fixed or determinable payments and are recognised according to the type of counterparty in the lines ***'Amounts due to central banks'***, ***'Amounts due to banks', 'Amounts due to customers'***, ***'Subordinated debt'*** and ***'Securities issued'***.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Income Statement in the line ***'Interest expense and similar expense'***.

In the event of the repurchase of its own debt securities, the Bank derecognises these securities, i.e. the item ***'Securities issued'*** is decreased. Gains and losses arising as a result of repurchasing the Bank's own debt securities are recognised as at the date of their repurchase in the Income Statement in the line ***'Net interest income'*** as an adjustment to the interest paid from own bonds.

3.5.5.5 Reclassification of financial assets
The Bank does not reclassify any financial assets into the ***'Financial assets at fair value through profit or loss portfolio after initial recognition'***. In rare circumstances, if non-derivative financial asset at fair value through profit or loss are no longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and are classified into the '***Available-for-sale financial assets'***, or ***'Held-to-maturity investments'*** portfolio.

The Bank may also reclassify a non-derivative trading asset out of the ***'Financial assets at fair value through profit or loss'*** portfolio and into the ***'Loans and receivables'*** portfolio if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain circumstances, the Bank may also reclassify financial assets out of the ***'Available-for-sale financial assets'*** portfolio and into the ***'Loans and receivables'*** portfolio. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Bank may reclassify financial assets or a significant amount out of the ***'Held-to-maturity investments'*** portfolio into the ***'Available-for-sale financial assets'*** portfolio or ***'Loans and receivables'*** portfolio, without triggering the "tainting rules", in cases when the given assets are near to maturity, the Bank has received almost the whole original principal of the given financial asset or there has occurred a unique and exceptional event that is out of the Bank's control and the Bank could not have expected it. Such unique cases include a significant decrease of a client's credit worthiness, changes in tax laws or in legislative requirements, a business combination or the sale of a part of the business (segment), a significant increase in regulatory capital requirements or a significant increase in risk weights for held-to-maturity investments used in calculating the capital adequacy.

For a financial asset reclassified out of the ***'Available-for-sale financial assets'*** portfolio, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. Reclassification is at the election of management and is determined on an instrument-by-instrument basis.

3.5.5.6 Determination of financial instrument's fair value and its hierarchy
For determination and categorisation of a financial instrument's fair value, the Bank treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there is no active market for the financial asset, the Bank uses other values that are observable, directly or indirectly, from the markets for its measurement, e.g.

I. quoted prices for similar assets or liabilities in active markets;
II. quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.);
IV. inputs derived principally from or corroborated by observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset/liability, the Bank uses for fair value measurement inputs that are available but not directly observable within a market and which in the Bank's view reflect presumptions about assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and they are adjusted for the credit risk of the counterparty or the Bank's own credit risk, as appropriate.

3.5.5.7 Effective interest rate method
The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of a financial instrument.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

3.5.5.8 Renegotiated loans
Where possible, the Bank seeks to restructure loans rather than to realise the collateral. The renegotiation generally involves extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Bank to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows discounted by the loans' original effective interest rates.

3.5.5.9 Impairment of financial assets
At the end of each reporting period, the Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Bank and proving the deterioration of a debtor's (issuer's) financial health, breach of contract (default in interest or principal payment), high probability of bankruptcy or other financial reorganisation, or proving a measurable decrease in the estimated future cash flow due to adverse changes in industry conditions.

In addition to the aforementioned events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment in which the issuer operates and the significant or prolonged decline in the fair value of the instrument below its cost. The determination of what constitutes a significant or prolonged decline is a matter of circumstances that requires application of the Bank management's judgment. As indicators of possible significant or prolonged decline, the Bank regards unrealised loss in respect of instrument acquisition cost or the fact that the quoted price of the instrument has been below its carrying amount during every trading date for several months. Furthermore, the Bank considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

If there is objective evidence that an impairment loss on a financial instrument has been incurred, the Bank calculates an impairment loss and recognises it in the respective item in the Income Statement.

For a financial asset classified in portfolios carried at amortised cost (i.e. *'Held-to-maturity investments'* and '*Loans and receivables'* portfolios), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. Estimations of future cash flows for loans are based on expected cash flows from economic activities of the client and possible realisation of loan collateral.

The Bank assesses all significant impaired credit exposures on an individual basis. The remaining insignificant impaired exposures are assessed using statistical models based on a collective approach (refer to Note 42(A)). Assets that are not identified for impairment on an individual basis are included in the collective assessment of impairment.

For the purpose of assessing impairment, financial assets are grouped on the basis of the Bank's internal credit rating system, which considers credit risk characteristics such as client type, asset type, classification degree, obligor rating, collateral, past-due status and other relevant factors.

The future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group, i.e. by use of the Expected Loss (EL) or Expected Loss Best Estimate (ELBE) statistical models. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating the future cash flow are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account, the creation of which is recognised in the Income Statement in the line *'Allowance for loan losses'* or *'Allowance for impairment of securities'*. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is correspondingly reversed.

When it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank in respect of such loans, loss loans are written off and recognised in the line *'Allowance for loan losses'.* Subsequent recoveries are credited to the Income Statement in *'Allowance for loan losses'* if previously written off. If the Bank collects a higher amount than that written off subsequent to the write-off of the loan, the difference is reported through *'Interest income and similar income'*.

For *'Available-for-sale financial assets'* and in the case of objective evidence of their impairment, a cumulative loss that had been recognised in Other Comprehensive Income is reclassified to the Income Statement and recognised in the line *'Allowance for impairment of securities'* for debt instruments and in the line *'Net profit/(loss) on financial operations'* for equity instruments. The amount of the loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed, with the amount of the reversal recognised in the Income Statement. The Bank cannot reverse any impairment loss recognised in the Income Statement for an equity instrument.

3.5.5.10 Repurchase agreements

The Bank accounts for contracts to sell and buy back financial instruments (so-called "repos" or "reverse repos") based on their substance as the receiving or granting of a loan with a corresponding transfer of financial instruments as collateral.

Under repurchase transactions ("repos"), the Bank only provides securities held in the portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* or in the *'Available-for-sale financial assets'* portfolio that are recorded in the Statement of Financial Position in the same lines. The corresponding liability arising from a loan received is recognised in the lines '*Amounts due to banks'* or *'Amounts due to customers',* as appropriate.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line '*Amounts due from banks'* or *'Loans and advances to customers'*.

The Bank is allowed to provide securities received in reverse repo transactions as collateral or sell them in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan received is included in *'Amounts due to banks'* or *'Amounts due to customers'*, as appropriate. The Bank has the obligation to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Bank as interest which is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Bank derecognises from the off-balance sheet evidence the security acquired under the reverse repo transaction and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

3.5.5.11 Derivatives and hedge accounting

A derivative is a financial instrument or other contract having all three of the following characteristics:
– its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other market variable;
– it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
– it is settled at a future date.

At the inception of a financial derivative contract, the Bank designates the derivative instrument as either held for trading or hedging.

Derivatives designated as held for trading are classified into a portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* based on whether the fair value is positive or negative (refer to 3.5.5.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Bank uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:
– there is compliance with the Bank's risk management objective and strategy in undertaking the hedge;
– at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;

– the hedge is expected to be highly effective at inception and throughout the period;
– the effectiveness of the hedge can be reliably measured; and
– changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:
I. a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Income Statement line *'Net profit/(loss) on financial operations'*. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Income Statement line *'Net profit/(loss) on financial operations'*.

On this basis, the Bank hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rate and debt instruments classified as available-for-sale). The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

Changes in the fair value of a derivative that is designated and qualified as a cash flow hedge and that proves to be highly effective in relation to hedged risk are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and they are transferred to the Income Statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the Income Statement. The ineffective portion of the hedge is charged directly to the Income Statement in the line *'Net profit/(loss) on financial operations'*.

On this basis, the Bank hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

The Bank additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investments S.A. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives representing economic hedges under the Bank's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 42(C).

3.5.5.12 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if, and only if, all of the following conditions are met:
– the embedded derivative as a separate instrument meets the definition of a derivative;
–the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
– the host contract is not measured at fair value with fair value changes recognised in the Income Statement.

3.5.6 Assets held for sale

The line *'Assets held for sale'* represents assets for which the Bank expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Bank expects that the sale of assets will be completed, the market situation permitting, within one year from the date of the asset's classification as *'Assets held for sale'*.

Assets held for sale are measured at the lower of:
- the carrying amount of a respective asset at the date of its classification as *'Assets held for sale'*; or
- fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, whose estimates are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as *'Assets held for sale'* are no longer depreciated.

The Bank recognises an impairment loss on assets held for sale in the line *'Depreciation, impairment and disposal of assets'* if their selling price less estimated costs to sell is lower than their carrying value. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the asset classification as held for sale or before the reclassification into the line *'Assets held for sale'* (i.e. during the period when the asset had been held for supplying the Bank's services or for administrative purposes).

3.5.7 Income tax

3.5.7.1 Current income tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the Statement of Financial Position date.

Current income tax is recognised in the Income Statement, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Bank does not offset current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts or intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

3.5.7.2 Deferred income tax
Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values presented in the Statement of Financial Position. Deferred income tax is determined using tax rates enacted or substantially enacted for the periods in which the Bank expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Income Statement, or, as the case may be, in the Statement of Other Comprehensive Income, if it relates to an item directly taken into other comprehensive income (as deferred income tax related to changes in the fair value of available-for-sale financial assets or in relation to a cash flow hedge).

The Bank offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and receivables, hedging derivatives and available-for-sale financial assets.

3.5.8 Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Bank as lessor</u>
Operating leases
The Bank presents assets that are the subject of an operating lease in the appropriate lines in the Statement of Financial Position in accordance with the nature of these assets and uses for them accounting policies applied to the relevant asset class.

Rental income from operating leases is recognised as the Bank's income on a straight-line basis over the term of the relevant lease and is presented in the line *'Other income'*.

Finance leases
When assets held are subject to a finance lease, the net investment in the lease is recognised as *'Loans and advances to customers'* while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income. Lease income is recognised over the term of the lease, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and is presented in the line *'Interest income and similar income'*.

The Bank as lessee

Operating lease

Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line *'General administrative expenses'*. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

Finance leases

At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line in the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Bank uses the same accounting policies for these assets as for its own property presented in the same line as the leased asset. If the legal ownership of the asset held under finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Bank divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Income Statement as *'Interest expense and similar expense'*. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

3.5.9 Tangible and intangible assets

Intangible assets include principally software and internally generated intangible assets. Tangible assets include plant, property and equipment that are held by the Bank for supplying the Bank's services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets, less accumulated depreciation and increased by technical improvements. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Bank capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following expiration of the lease set out in the lease contract. The Bank estimates no residual value for other assets. Depreciation is reported in the Income Statement line *'Depreciation, impairment and disposal of assets'*.

The Bank does not depreciate land, works of art, or tangible and intangible assets in the course of construction and technical improvements unless these are brought into a condition fit for use.

During the reporting period, the Bank used the following useful lives in years:

	2013	2012
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facade	30	30
– Roof	20	20
– Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 4
Licences – software	4	4
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Bank assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economical or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Bank estimates the recoverable amount of the asset concerned, i.e. the higher amount of its fair value less costs to sell in comparison with the asset's carrying value. If the asset's carrying amount is greater than its recoverable amount, the Bank reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line *'Depreciation, impairment and disposal of assets'*.

Repairs and maintenance are charged directly to the Income Statement when they occur.

3.5.10 Provisions

Provisions are recognised when and only when:
– the Bank has a present obligation (legal or constructive) as a result of a past event;
– it is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
– a reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

Among others, the Bank recognises provisions for credit-related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit-related commitments into which the Bank enters in the normal course of its business and that are recorded off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit-related commitments are created on the same basis as are allowances for loan portfolios (refer to Note 32).

3.5.11 Employee benefits

3.5.11.1 General

The Bank provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension but only if they were employed within the Bank for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line *'Provisions'*. The changes in provisions are disaggregated into three components that are presented as follows:

I. service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line *'Personnel expenses'*;
II. the interest expense on the net benefit liability is presented in the line *'Personnel expenses'*;
III. other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line *'Remeasurement of retirement benefits plan, net of tax'.*

The use of a provision is presented in the line *'Personnel expenses'*.

The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions as incurred in the line *'Personnel expenses'* (refer to Note 9).

The Bank has the following share plans and deferred compensation schemes:

3.5.11.2 Deferred bonus payments

In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU), the Bank implemented a new compensation scheme for employees whose professional activities have a material impact on the risk profile of the Bank. For employees identified as targeted by the CRD III regulation, the performance-linked remuneration is split into two components: (i) a non-deferred component which is paid in the following year; and (ii) a deferred component which is spread over three years. The amounts of both components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:

– in the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the condition is based on the profitability of the Société Générale Group;
– in the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the condition is based on the profitability of the Komerční banka Group. Moreover, for employees of investment banking there is a condition that the Bank's net investment banking operating income is higher than zero.

Indexed bonuses qualify for cash-settled, share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Société Générale S.A. or Komerční banka, a.s. multiplied by numbers of granted shares and it is spread over the vesting period.

The amount of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s shares multiplied by their price fixed as the volume-weighted average of the last twenty closing trading prices prior to the first business day following the end of the applicable retention period.

Deferred cash bonuses (i.e. bonuses paid to employees more than twelve months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line *'Personnel expenses'*.

3.5.11.3 Free share plan

In November 2010, the Bank awarded all its employees rights to forty free shares of Société Générale S.A. upon the achievement of two performance conditions and completing a specific period of service that is recognised as equity-settled share-based payment. The rights are measured at their fair value calculated using the arbitrage model as at the grant day. Their fair value is spread over the vesting period and recognised in the lines *'Personnel expenses'* and *'Share premium and reserves'* under Shareholders' Equity. At the end of each accounting period, the number of these instruments is recalculated taking into account performance and service conditions and the overall cost of the plan as originally determined is adjusted. Social security, health insurance contributions and contributions to retirement pension insurance costs related to granted rights to free shares are recognised in the lines *'Personnel expenses'* and *'Provisions'*.

The shares will be allotted in two tranches:

– the first tranche will account for 40% of the planned allocation (i.e. 16 shares) and it is contingent on Société Générale S.A. Group's achieving a positive net income in 2012 (the initial criterion of at least 10% return on equity, net of tax was changed by decision of the Société Générale Board of Directors based on agreement of the General Shareholders' Meeting held on 22 May 2012). The Bank's employees will receive those shares on 31 March 2015;
– the second tranche will account for 60% of the planned allocation (i.e. 24 shares) and it is contingent on customer satisfaction increasing between 2010 and 2013 in Société Générale S.A. Group's three core businesses (French Networks, International Retail Banking, Corporate and Investment Banking). The Bank's employees will receive those shares on 31 March 2016.

3.5.12 Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time in which they are approved by the Bank's shareholders.

Treasury shares

When the Bank acquires its own equity instruments, the consideration paid, and including any attributable transaction costs, is recognised as a deduction from the line *'Share premium and reserves'* under Shareholders' Equity. Gains and losses on sales of treasury shares are recognised in equity and presented as well in the line *'Share premium and reserves'*.

3.5.13 Contingent assets, contingent liabilities and off-balance sheet items

In addition to transactions giving rise to the recognition of assets and liabilities in the Statement of Financial Position, the Bank enters into transactions under which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities as off-balance sheet items. The Bank monitors these transactions inasmuch as they represent a substantial proportion of its activities and materially impact the level of risks to which the Bank is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset/liability is defined as a possible asset/liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Bank's control.

A contingent liability is also a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody and fiduciary activities and related obligations to return these to customers (e.g. Assets under Management).

Off-balance sheet items include also notional values of interest and foreign currency instruments as forwards, swaps, options and futures. More information regarding derivative operations is presented in 3.5.5.11 Derivatives and hedge accounting.

3.5.14 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Bank).

The Bank has the following operating segments:
- *Retail Banking:* includes the provision of products and services to individuals, i.e. predominantly current and savings accounts, term deposits, overdrafts, credit card loans, personal loans and mortgages;
- *Corporate Banking:* includes the provision of products and services to corporate entities, i.e. current accounts, term deposits, revolving loans, business loans, mortgages, foreign currency and derivative products, syndicated and export financing, and guarantee transactions;
- *Investment Banking:* involves trading in financial instruments;
- *Other:* consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. However, the management of the Bank believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Bank is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are reported not separately but on a net basis.

In addition, the Bank monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Bank does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Bank's financial accounting records.

The Bank has no client or group of related parties for which the income from transactions would account for more than 10% of the Bank's total income.

3.5.15 Regulatory requirements

The Bank is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances to cover credit risk associated with the Bank's clients, as well as with its liquidity, interest rate and foreign currency positions.

3.6 Changes in accounting policies and reclassifications

Since 1 January 2013, the Bank has changed the presentation of certain items in the Financial Statements arising from the revision of the standard IAS 19 Employee Benefits or to refinements in reporting of stated items. Comparative information has been restated to reflect the presentation of the current period. A reconciliation of the lines is shown in the tables below.

Reconciliation of lines in the Income Statement for the year ended 31 December:

(CZKm)	As reported 2012	After restatement 2012	Reference
Interest expense and similar expense	(12,749)	**(12,747)**	2
Net fee and commission income	7,017	**6,990**	2, 3
Personnel expenses	(6,062)	**(6,061)**	1
General administrative expenses	(4,411)	**(4,386)**	3

1. The impact of applying the revised standard IAS 19 Employee Benefits was a decrease in *'Personnel expenses'* by CZK 1 million;
2. Income from penalties for early withdrawals of term deposits in the amount of CZK 2 million was reclassified from *'Net fee and commission income'* to *'Interest expense and similar expense'*;
3. Fees related to provided banking services in the amount of CZK 25 million were reclassified from *'General administrative expenses'* to *'Net fees and commissions income'*.

Reconciliation of lines in the Statement of Financial Position as at 31 December:

(CZKm)	As reported 31 Dec 2012	After restatement 31 Dec 2012	As reported 31 Dec 2011	After restatement 31 Dec 2011	Reference
Deferred tax liabilities	4,721	**4,712**	2,441	**2,434**	1
Provisions	956	**1,004**	1,055	**1,091**	1
Share premium and reserves	68,578	**68,539**	53,463	**53,434**	1

1. The impact of applying the revised standard IAS 19 Employee Benefits was an increase of *'Provisions'* by CZK 48 million (2011: CZK 36 million), a decrease of *'Deferred tax liabilities'* by CZK 9 million (2011: CZK 7 million), and in *'Share premium and reserves'* a decrease of *'Retained earnings'* by CZK 29 million (2011: CZK 29 million), a decrease in Other Comprehensive Income of *'Remeasurement of retirement benefits plan, net of tax'* by CZK 11 million (2011: CZK 0 million), and an increase of *'Net profit for the period'* by CZK 1 million (2011: CZK 0 million).

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net interest income and similar income	8,962	9,469	6,349	6,136	123	55	3,489	2,134	18,923	17,794
Net fee and commission income	4,395	4,893	2,098	2,269	(41)	(51)	220	(121)	6,672	6 990
Net profit/(loss) on financial operations	860	872	1,225	1,373	288	527	827	396	3,200	3,168
Other income	128	113	(11)	(26)	163	132	(123)	(71)	157	148
Net banking income	**14,345**	15,347	**9,661**	9,752	**533**	663	**4,413**	2,338	**28,952**	28,100

Since 1 January 2013, the Bank has changed the method of allocating revenues from products of Investment banking between individual segments. Comparative information has been restated to reflect the presentation of the current period.

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs and income tax only for selected segments rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest, and, in assessing the performance of segments and deciding on allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis, i.e. reduced by interest expense.

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rates conditions, including the liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Bank's income is primarily (more than 98%) generated on the territory of the Czech Republic.

5 Net interest income and similar income

Net interest income and similar income comprise the following:

(CZKm)	2013	2012
Interest income and similar income	26,799	30,284
Interest expense and similar expense	(9,761)	(12,747)
Dividend income	1,885	257
Net interest income and similar income	**18,923**	17,794
Of which net interest and similar income from		
– loans and advances	15,006	16,883
– available-for-sale financial assets	3,026	3,494
– held-to-maturity investments	6	6
– financial liabilities at amortised cost	(4,086)	(4,928)

'Interest income and similar income' includes interest on substandard, doubtful and loss loans due from customers of CZK 379 million (2012: CZK 372 million) and interest on securities of CZK 0 million (2012: CZK 70 million) that have suffered impairment. During the year ended 31 December 2012, the Bank derecognised these securities and the Bank does not register any receivables related to these securities.

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 8,761 million (2012: CZK 9,915 million) and *‚Interest expense and similar expense'* includes interest expense from hedging financial derivatives of CZK 5,675 million (2012: CZK 7,833 million). Net interest income from these derivatives amounts to CZK 3,086 million (2012: CZK 2,082 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

'Dividend income' includes dividends received from subsidiaries and associates of CZK 1,885 million (2012: CZK 257 million). Expenses from hedging financial derivatives used to hedge cash flows of a foreign exchange risk of dividends from subsidiaries and associates were CZK 3 million (2012: CZK 0 million).

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2013	2012
Transactions	4,126	4,253
Loans and deposits	2,328	2,552
Others	1,486	1,396
Total fee and commission income	**7,940**	8,201
Transactions	(987)	(977)
Loans and deposits	(186)	(156)
Others	(95)	(78)
Total fee and commission expenses	**(1,268)**	(1,211)
Total net fee and commission income	**6,672**	6,990

The line *'Others'* includes mainly fees and commissions from trade finance, investment banking, and distribution of the Group companies' products. The line comprises fee income arising from trust and other fiduciary activities in the amount of CZK 91 million (2012: CZK 73 million) and fee expense for these services in the amount of CZK 10 million (2012: CZK 8 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises the following:

(CZKm)	2013	2012
Net realised gains/(losses) on securities held for trading	(206)	146
Net unrealised gains/(losses) on securities held for trading	68	238
Net realised gains/(losses) on securities available-for-sale	787	460
Net realised and unrealised gains/(losses) on security derivatives	293	123
Net realised and unrealised gains/(losses) on interest rate derivatives	63	(162)
Net realised and unrealised gains/(losses) on trading commodity derivatives	27	44
Net realised and unrealised gains/(losses) on foreign exchange from trading	893	1,005
Net realised gains/(losses) on foreign exchange from payments	1,275	1,314
Total net profit/(loss) on financial operations	**3,200**	3,168

In the year ended 31 December 2013, the line *'Net realised gains/(losses) on securities available-for-sale'* includes a net gain from the sale of Italian government bonds in the amount of CZK 787 million (refer to Note 18).

In the year ended 31 December 2012, the line *'Net realised gains/(losses) on securities available-for-sale'* includes a net gain from the sale of the equity investment in Českomoravská záruční a rozvojová banka, a.s. in the amount of CZK 830 million, a net loss from the sale of Greek and Portuguese government bonds in the amount of CZK 380 million, and a net gain from the sale of Italian government bonds in the amount of CZK 11 million (refer to Note 18).

A gain of CZK 1,431 million (2012: loss of CZK 1,442 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the loss arising from retranslation of hedged loan receivables and available-for-sale financial assets reported in the same line.

8 Other income

The Bank reports *'Other income'* in the amount of CZK 157 million (2012: CZK 148 million). In both years 2013 and 2012, *'Other income'* was predominantly composed of income from services provided to the financial group and property rental income.

9 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2013	2012
Wages, salaries and bonuses	4,282	4,347
Social costs	1,736	1,714
Total personnel expenses	**6,018**	6,061
Physical number of employees at the end of the period*	7,777	7,895
Average recalculated number of employees during the period*	7,706	7,845
Average cost per employee (CZK)	**781,017**	772,495

Note: * Calculation according to the methodology of the Czech Statistical Office.

'Social costs' include costs of CZK 77 million (2012: CZK 78 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 44 million (2012: CZK 44 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include a charge in the amount of CZK 0 million (2012: CZK 10 million) and the release and use of a provision for restructuring in the amount of CZK 10 million (2012: CZK 0 million) relating to a project to reorganise the distribution network (refer to Note 32).

Indexed bonuses

In 2013, the total amount relating to bonuses indexed on the Société Générale share price and the Komerční banka share price recognised in *'Personnel expenses'* was CZK 36 million (2012: CZK 27 million) and the total amount of CZK 40 million (2012: CZK 27 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Bank. Net income from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 9 million (2012: CZK 1 million). The total number of Société Générale shares according to which bonuses indexed on the Société Générale share price are calculated is 12,461 shares (2012: 16,934 shares). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 15,137 shares (2012: 9,487 shares).

The changes in the numbers of shares were as follow:

	2013		2012	
(shares)	**SG shares**	**KB shares**	**SG shares**	**KB shares**
Balance at 1 January	**16,934**	**9,487**	24,852	0
Paid out during the period	(4,473)	(4,314)	(7,918)	0
New guaranteed number of shares	0	9,964	0	9,487
Balance at 31 December	**12,461**	**15,137**	16,934	9,487

Free shares
The share price at the granting date was established to be EUR 34.55 for the first tranche and EUR 33.15 for the second tranche. The total number of free shares granted for the two tranches is 277,800 shares (2012: 284,840 shares). For 2013, the total amount relating to the free shares program recognised in *'Personnel expenses'* was CZK 46 million (2012: CZK 46 million) and from the granting date a cumulative amount of CZK 138 million (2012: CZK 92 million) is recognised as *'Share premium'* in equity.

10 General administrative expenses

General administrative expenses comprise the following:

(CZKm)	**2013**	**2012**
Insurance	110	107
Marketing and representation	473	508
Sale and banking products expenses	299	315
Other employees expenses and travelling	121	119
Real estate expenses	1,161	1,203
IT support	888	790
Equipment and supplies	154	223
Telecommunications, postage and data transfer	279	343
External consultancy and other services	610	670
Other expenses	90	108
Total general administrative expenses	**4,185**	4,386

'General administrative expenses' include the release and use of a provision for restructuring in the amount of CZK 0 million (2012: CZK 9 million) relating to the change in the legal status of Komerční banka Bratislava, a.s. to that of a foreign branch of the Bank (refer to Note 32).

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise the following:

(CZKm)	**2013**	**2012**
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,591	1,549
Impairment and disposal of fixed assets	(4)	12
Total depreciation, impairment and disposal of assets	**1,587**	1,561

12 Cost of risk

Allowance for loan losses and provisions for other credit commitments

'Allowances for loan losses' in the total amount of CZK 1,546 million (2012: CZK 1,379 million) include a net loss from allowances and provisions for loan losses in the amount of CZK 1,820 million (2012: CZK 1,848 million), and a net gain from loans written off and transferred in the amount of CZK 274 million (2012: CZK 469 million).

The movements in allowances and provisions were as follow:

(CZKm)	2013	2012
Balance at 1 January	**(14,008)**	(13,377)
Charge of allowances and provisions for loan losses		
– individuals	(2,300)	(2,464)
– corporates*	(5,028)	(4,294)
Release and use of allowances and provisions for loan losses		
– individuals	1,701	1,529
– corporates*	3,807	3,381
Impact of loans written off and transferred	1,252	1,095
Foreign exchange rate differences attributable to provisions	(219)	122
Balance at 31 December	**(14,795)**	(14,008)

Note: * This item also includes allowances and provisions for loans granted to individual entrepreneurs.

The balance of allowances and provisions as at 31 December 2013 and 2012 comprises:

(CZKm)	2013	2012
Allowances for loans to banks (refer to Note 20)	0	0
Allowances for loans to customers (refer to Note 21)	(14,223)	(13,525)
Allowances for other loans to customers (refer to Note 21)	(1)	(1)
Provisions for guarantees and other credit-related commitments (refer to Note 32)	(571)	(482)
Total	**(14,795)**	(14,008)

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 0 million as at 31 December 2013 (2012: CZK 0 million). During the year ended 31 December 2012, the Bank derecognised a provision of CZK 5,278 million due to the replacement of Greek government bonds held by the Bank and the related foreign exchange differences from provisions against securities denominated in foreign currencies of CZK 288 million (refer to Note 18).

Provisions for other risk expenses

The net loss of *'Provisions for other risk expenses'* of CZK 7 million (2012: CZK 28 million) mainly consists of the charge for provisions of CZK 11 million (2012: CZK 260 million) and the release and use of provisions of CZK 4 million (2012: CZK 256 million) for legal disputes, together with the net costs incurred by the Bank as a result of the outcome of legal disputes of CZK 0 million (2012: CZK 24 million).

Additional information on the provisions for other risk expenses is provided in Note 32.

13 Profit/(loss) on subsidiaries and associates

The balance of allowances for subsidiaries and associates is as follows:

(CZKm)	2013	2012
Balance at 1 January	**(355)**	(355)
Charge for allowances	0	0
Release and use of allowances	0	0
Balance at 31 December	**(355)**	(355)

Allowances for investments in subsidiaries and associates principally comprise allowances charged in respect of Komerční pojišťovna, a.s. on the basis of losses incurred in prior periods (refer to Note 24).

14 Income taxes

The major components of corporate income tax expense are as follow:

(CZKm)	2013	2012
Tax payable – current year, reported in profit or loss	(2,606)	(2,406)
Tax paid – prior year	11	24
Deferred tax (refer to Note 33)	122	(68)
Hedge of a deferred tax asset against foreign currency risk	(13)	14
Total income taxes	**(2,486)**	(2,436)
Tax payable – current year, reported in equity	0	0
Total tax expense	**(2,486)**	(2,436)

The items explaining the difference between the Bank's theoretical and effective tax rates are as follow:

(CZKm)	2013	2012
Profit before tax	**15,609**	14,685
Theoretical tax calculated at a tax rate of 19% (2012: 19%)	2,966	2,790
Tax on pre-tax profit adjustments	4	20
Non-taxable income	(1,297)	(1,088)
Expenses not deductible for tax purposes	936	763
Tax allowance	(3)	(2)
Tax credit	0	(77)
Hedge of a deferred tax asset against foreign currency risk	13	(14)
Movement in deferred tax	(122)	68
Other	0	0
Income tax expense	**2,497**	2,460
Prior period tax expense	(11)	(24)
Total income taxes	**2,486**	2,436
Tax payable on available-for-sale financial assets reported in equity*	0	0
Total tax expense	**2,486**	2,436
Effective tax rate	15.93%	16.59%

Note: * This amount represents the tax payable on unrealised gains from revaluation of available-for-sale financial assets which are revalued through equity under IFRS.

Non-taxable income primarily includes dividends, tax-exempt interest income and the release of non-tax deductible allowances and provisions. Expenses not deductible for tax purposes primarily include the recognition of non-tax deductible allowances and provisions and non-tax deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to the Czech Accounting Standards (CAS). Tax credit arises from interest income on bonds issued by EU states.

The corporate tax rate for the year ended 31 December 2013 is 19% (2012: 19%). The Bank's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax- exempt income or income subject to a final withholding tax rate.

As at 31 December 2013, the Bank records unused tax losses in the amount of CZK 0 million (2012: CZK 77 million). These tax losses were Slovak tax losses from previous years, applicable only for Slovak corporate tax paid by the Slovak branch of the Bank.

Further information about deferred tax is presented in Note 33.

15 Distribution of net profit

For the year ended 31 December 2013, the Bank generated a net profit of CZK 13,123 million (2012: CZK 12,249 million). The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount CZK 230 per share (2012: CZK 230 per share), which represents a total amount of CZK 8,742 million. The proposal is subject to the Supervisory Board's review and subsequently to the approval of the General Shareholders' meeting.

In accordance with a resolution of the General Shareholders' meeting, held on 24 April 2013, the aggregate balance of the net profit of CZK 12,249 million for the year ended 31 December 2012 was allocated as follows: CZK 8,742 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. Since 2008, the reserve fund has corresponded to the level required by the Commercial Code and the Articles of Association of the Bank, i.e. 20% of the Bank's share capital.

16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Cash and cash equivalents	7,188	6,452
Current balances with central banks	36,643	21,207
Total cash and current balances with central banks	**43,831**	27,659

Obligatory minimum reserves in the amount of CZK 5,318 million (2012: CZK 736 million) are included in *'Current balances with central banks'* and they bear interest. As at 31 December 2013, the interest rate was 0.05% (2012: 0.05%) in the Czech Republic and 0.25% (2012: 0.75%) in the Slovak Republic.

17 Financial assets at fair value through profit or loss

As at 31 December 2013 and 2012, the *'Financial assets at fair value through profit or loss'* portfolio includes only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any other financial assets as *'Financial assets at fair value through profit or loss'*.

(CZKm)	31 Dec 2013	31 Dec 2012
Securities	20,778	33,962
Derivative financial instruments	17,340	17,945
Total financial assets at fair value through profit or loss	**38,118**	51,907

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 42(C).

Trading securities comprise the following:

	31. 12. 2013		31. 12. 2012	
(CZKm)	Fair value	Cost*	Fair value	Cost*
Emission allowances	**381**	**407**	813	855
Fixed income debt securities	6,278	6,241	8,505	8,309
Variable yield debt securities	3,340	3,337	1,939	1,927
Bills of exchange	373	372	1,852	1,839
Treasury bills	10,406	10,410	20,853	20,836
Total debt securities	**20,397**	**20,360**	33,149	32,911
Total trading securities	**20,778**	**20,767**	33,962	33,766

Note: * Acquisition cost for shares, participation certificates and emission allowances; amortised acquisition cost for debt securities.

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Ministry of Finance at fair value of CZK 10,406 million (2012: CZK 20,853 million).

As at 31 December 2013, the portfolio of trading securities includes securities at fair value of CZK 9,504 million (2012: CZK 11,013 million) that are publicly traded on stock exchanges and securities at fair value of CZK 11,274 million (2012: CZK 22,949 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Emission allowances at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Emission allowances		
– Other currencies	381	813
Total emission allowances	**381**	813

Emission allowances at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Emission allowances issued by:		
– Foreign financial institutions	381	813
Total emission allowances	**381**	813

Debt trading securities at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Variable yield debt securities		
– Czech crowns	1,984	1,837
– Other currencies	1,356	102
Total variable yield debt securities	**3,340**	1,939
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	16,522	27,798
– Other currencies	535	3,412
Total fixed income debt securities	**17,057**	31,210
Total trading debt securities	**20,397**	33,149

Debt trading securities at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Debt trading securities issued by:		
– State institutions in the Czech Republic	16,876	28,575
– Foreign state institutions	1,334	2,503
– Financial institutions in the Czech Republic	1,952	114
– Foreign financial institutions	182	93
– Other entities in the Czech Republic	49	1,864
– Other foreign entities	4	0
Total trading debt securities	**20,397**	33,149

Bonds issued by foreign state institutions designated as financial assets at fair value through profit or loss:

(CZKm) Country of Issuer	31 Dec 2013 Fair value	31 Dec 2012 Fair value
Italy	0	13
Poland	66	129
Slovakia	1,268	2,361
Total	**1,334**	2,503

Of the debt securities issued by state institutions in the Czech Republic, CZK 6,063 million (2012: CZK 7,651 million) consist of securities eligible for refinancing with the CNB.

18 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

(CZKm)	31 Dec 2013 Fair value	31 Dec 2013 Cost*	31 Dec 2012 Fair value	31 Dec 2012 Cost*
Shares and participation certificates	**2**	**2**	2	2
Fixed income debt securities	78,939	71,622	83,318	72,571
Variable yield debt securities	14,614	14,306	11,061	10,553
Total debt securities	**93,553**	**85,928**	94,379	83,124
Total available-for-sale financial assets	**93,555**	**85,930**	94,381	83,126

Note: * Acquisition cost for shares and participation certificates; amortised acquisition cost for debt securities.

As at 31 December 2013, the *'Available-for-sale financial assets'* portfolio includes securities at fair value of CZK 93,553 million (2012: CZK 94,379 million) that are publicly traded on stock exchanges and securities at fair value of CZK 2 million (2012: CZK 2 million) that are not publicly traded.

Shares and participation certificates available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Shares and participation certificates		
– Other currencies	2	2
Total shares and participation certificates available-for-sale	**2**	2

Shares and participation certificates available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Shares and participation certificates available-for-sale issued by:		
– Non-banking foreign entities	2	2
Total shares and participation certificates available-for-sale	**2**	2

In 2012, the Bank sold its equity investment in Českomoravská záruční a rozvojová banka, a.s. The net gain from the sale for the Bank was CZK 830 million (refer to Note 7). The acquisition cost had been CZK 60 million.

Debt securities available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Fixed income debt securities		
– Czech crowns	58,195	65,350
– Other currencies	20,744	17,968
Total fixed income debt securities	**78,939**	83,318
Variable yield debt securities		
– Czech crowns	11,027	9,398
– Other currencies	3,587	1,663
Total variable yield debt securities	**14,614**	11,061
Total debt securities available-for-sale	**93,553**	94,379

Debt securities available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Debt securities available-for-sale issued by:		
– State institutions in the Czech Republic	61,948	58,454
– Foreign state institutions	13,325	19,737
– Financial institutions in the Czech Republic	17,450	15,326
– Foreign financial institutions	830	862
Total debt securities available-for-sale	**93,553**	94,379

Debt securities available-for-sale issued by foreign state institutions comprise the following:

(CZKm)	31 Dec 2013		31 Dec 2012	
Country of Issuer	Fair value	Cost*	Fair value	Cost*
EFSF	567	561	1,040	1,029
Italy	0	0	7,907	6,717
Poland	5,383	4,924	5,664	5,051
Portugal	0	0	0	0
Greece	0	0	0	0
Slovakia	7,375	6,874	5,126	4,603
Total	**13,325**	**12,359**	19,737	17,400

Note: * Acquisition cost for shares and participation certificates; amortised acquisition cost for debt securities.

Of the debt securities issued by state institutions in the Czech Republic, CZK 53,690 million (2012: CZK 50,669 million) consist of securities eligible for refinancing with the CNB.

During the year ended 31 December 2013, the Bank acquired bonds with a nominal value of CZK 11,340 million, of which CZK 6,225 million comprised bonds issued by State institutions in the Czech Republic, EUR 97 million (equivalent to CZK 2,520 million) by Foreign state institutions and EUR 100 million (equivalent to CZK 2,595 million) by Financial institutions in the Czech Republic. During 2013, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 1,900 million and EUR 75 million (a total CZK equivalent of CZK 3,822 million), of which CZK 1,900 million were issued by State institutions in the Czech Republic and CZK 1,922 million by Foreign state institutions.

During the year ended 31 December 2012, the Bank acquired bonds with a nominal value of CZK 12,350 million. The whole amount comprised bonds issued by State institutions in the Czech Republic. During 2012, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 7,400 million, EUR 35 million and USD 76 million (a total CZK equivalent of CZK 9,810 million), of which CZK 6,250 million were issued by State institutions in the Czech Republic, CZK 2,410 million by Foreign state institutions and CZK 1,150 million by Other entities in the Czech Republic.

During the year ended 31 December 2013, the Bank sold Italian government bonds in the nominal value of CZK 7,470 million. The net gain from the sale was CZK 787 million (refer to Note 7).

During the year ended 31 December 2012, the Bank sold Portuguese government bonds in the nominal value of EUR 10 million, i.e. in CZK equivalent of CZK 253 million. The net loss from the sale was CZK 23 million. The Bank also sold Italian government bonds in the nominal value of EUR 10 million and USD 10 million, i.e. in a total in CZK equivalent of CZK 450 million. The net gain from the sale was CZK 11 million (refer to Note 7).

Greece

During the first quarter of 2012, the Bank decided to participate in the exchange of Greek government bonds. Subsequently, the Bank has decided to realise the divestment of all new Greek government bonds and GDP warrants with a negative impact of CZK 357 million, which was booked as *'Net profit/(loss) on financial operations'* (refer to Note 7).

19 Assets held for sale

As at 31 December 2013, the Bank reported assets held for sale at a carrying amount of CZK 6 million (2012: CZK 3 million) comprising buildings and land owned by the Bank which the management of the Bank decided to sell as a component of a plan to optimise the distribution network. These buildings are not depreciated.

20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Current accounts with other banks	893	5,455
Debt securities	6,710	4,786
Loans and advances to banks	11,671	7,484
Advances due from the Czech National Bank (reverse repo transactions)	87,001	21,000
Term placements with other banks	13,386	17,138
Total amounts due from banks, gross	**119,661**	55,863
Allowances for amounts due from banks (refer to Note 12)	0	0
Total amounts due from banks, net	**119,661**	55,863

Advances due from the Czech National Bank and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair value of which are as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Treasury bills	85,325	20,614
Debt securities issued by state institutions	2,517	2,683
Shares	0	278
Investment certificates	82	77
Total	**87,924**	23,652

Securities acquired as loans and receivables

As at 31 December 2013, the Bank maintains in its portfolio bonds at an amortised cost of CZK 6,710 million (2012: CZK 4,786 million) and a nominal value of CZK 6,625 million (2012: CZK 4,705 million), of which CZK 2,590 million (2012: CZK 2,590 million) is comprised of a bond issued by the parent company, Société Générale S.A., and acquired by the Bank under an initial offering and normal market conditions in 2010. During the year ended 31 December 2012, there was a repayment of other bond issued by the parent company, Société Générale S.A., in a nominal value of CZK 2,000 million. Additionally, the Bank holds in this portfolio three issues of securities placed by financial institutions with an aggregate nominal value of CZK 2,115 million (2012: CZK 2,115 million). During the year ended 31 December 2013, the Bank acquired bonds with a nominal value of EUR 70 million (equivalent to CZK 1,811 million) issued by Financial institutions in the Czech Republic.

21 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Loans to customers	435,287	406,934
Bills of exchange	302	421
Forfaits	1,458	1,776
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**437,047**	409,131
Debt securities	461	461
Other amounts due from customers	11	123
Total loans and advances to customers, gross	**437,519**	409,715
Allowances for loans to customers		
- individuals	(3,956)	(3,816)
- corporates*	(10,267)	(9,709)
Total allowances for loans to customers (refer to Note 12)	**(14,223)**	(13,525)
Allowances for other amounts due from customers (refer to Note 12)	(1)	(1)
Total allowances for loans and other amounts due from customers	**(14,224)**	(13,526)
Total loans and advances to customers, net	**423,295**	396,189

Note: * This item includes loans granted to individual entrepreneurs.

As at 31 December 2013, loans and advances to customers include interest due of CZK 1,025 million (2012: CZK 1,141 million), of which CZK 420 million (2012: CZK 505 million) relates to overdue interest.

As at 31 December 2013, loans provided to customers under reverse repurchase transactions in the amount of CZK 124 million (2012: CZK 218 million) are collateralised by securities with a fair value of CZK 66 million (2012: CZK 120 million).

As at 31 December 2013, the loan portfolio of the Bank (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	408,122	181,305	226,817	0	408,122	0%
Watch	7,346	3,143	4,203	(670)	6,676	16%
Substandard	5,737	2,941	2,796	(1,232)	4,505	44%
Doubtful	1,650	646	1,004	(727)	923	72%
Loss	14,192	778	13,414	(11 594)	2,598	86%
Total	**437,047**	**188,813**	**248,233**	**(14 223)**	**422,824**	

As at 31 December 2012, the loan portfolio of the Bank (excluding Debt securities and Other amounts due from customers) was comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	379,151	167,971	211,180	0	379,151	0%
Watch	8,622	3,909	4,713	(645)	7,977	14%
Substandard	5,112	2,866	2,246	(1,010)	4,102	45%
Doubtful	2,130	686	1,444	(845)	1,285	59%
Loss	14,116	857	13,259	(11,025)	3,091	83%
Total	**409,131**	**176,289**	**232,842**	**(13,525)**	**395,606**	

Set out below is a breakdown of loans by sector (excluding Debt securities and Other amounts due from customers):

(CZKm)	31 Dec 2013	31 Dec 2012
Food industry and agriculture	14,428	15,902
Mining and extraction	4,480	1,279
Chemical and pharmaceutical industry	6,012	5,378
Metallurgy	7,478	8,183
Automotive industry	4,443	2,472
Manufacturing of other machinery	8,802	7,633
Manufacturing of electrical and electronic equipment	2,812	3,134
Other processing industry	7,563	8,034
Power plants, gas plants and waterworks	26,153	21,783
Construction industry	8,682	9,685
Retail	10,050	11,872
Wholesale	27,143	27,120
Accommodation and catering	983	1,019
Transportation, telecommunication and warehouses	11,554	10,158
Banking and insurance industry	47,045	46,500
Real estate	32,712	27,854
Public administration	32,146	30,758
Other industries	17,669	17,524
Individuals	166,892	152,843
Total loans to customers	**437,047**	409,131

The majority of loans (more than 87%) were provided to entities on the territory of the Czech Republic.

Set out below is an analysis of the types of collateral held in support of loans and advances to customers as stated in the Statement of Financial Position:

(CZKm)	31 Dec 2013 Total client loan collateral*	31 Dec 2013 Discounted client loan collateral value**	31 Dec 2013 Applied client loan collateral value***	31 Dec 2012 Total client loan collateral*	31 Dec 2012 Discounted client loan collateral value**	31 Dec 2012 Applied client loan collateral value***
Guarantees of state and governmental institutions	4,899	2,964	2,947	4,492	2,713	2,696
Bank guarantee	16,198	13,561	13,451	17,501	14,953	14,857
Guaranteed deposits	1,916	1,874	1,481	1,673	1,106	928
Pledge of real estate	291,914	194,039	140,237	269,817	178,739	128,553
Pledge of movable assets	14,552	1,363	1,317	19,034	1,707	1,641
Guarantee by legal entity	18,438	11,381	10,868	21,839	13,425	12,908
Guarantee by individual (natural person)	1,243	189	168	1,159	182	156
Pledge of receivables	32,812	3,886	3,426	31,177	3,592	3,239
Insurance of credit risk	15,351	14,571	14,571	11,804	11,213	11,213
Other	1,202	617	349	841	414	98
Nominal value of collateral	**398,525**	**244,445**	**188,813**	379,337	228,044	176,289

Note: * The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling the collateral, the risk of declining market prices, the risk of insolvency, etc.
*** The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 13% of total pledges on real estate (2012: 13%).

Debt securities designated as loans and receivables

As at 31 December 2013, the Bank holds in its portfolio debt securities at an amortised cost of CZK 461 million (2012: CZK 461 million) and in the nominal value of CZK 450 million (2012: CZK 450 million). During 2013 and 2012, there were no purchases, sales or redemptions.

Loans and advances to customers – restructured

(CZKm)	31 Dec 2013	31 Dec 2012
Individuals	956	754
Corporates*	4,051	4,519
Total	**5,007**	5,273

Note: * This item includes loans granted to individual entrepreneurs.

Trade finance losses

During 1999, the Bank incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Bank. As at 31 December 2013, the Statement of Financial Position included loans to this client in the amount of CZK 1,390 million (2012: CZK 1,331 million) which were fully provided for. The increase in the balance between 2013 and 2012 arises from a foreign exchange rate difference. The Bank did not report any off-balance sheet receivables from this client in 2013 and 2012. The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

22 Held-to-maturity investments

Held-to-maturity investments comprise the following:

(CZKm)	31 Dec 2013 Carrying value	31 Dec 2013 Cost*	31 Dec 2012 Carrying value	31 Dec 2012 Cost*
Fixed income debt securities	194	193	179	177
Total held-to-maturity investments	**194**	**193**	179	177

Note: * Amortised acquisition cost.

As at 31 December 2013, the 'Held-to-maturity investments' portfolio includes bonds of CZK 194 million (2012: CZK 179 million) that are publicly traded on stock exchanges.

Fixed income debt securities held-to-maturity comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Fixed income debt securities		
– Foreign currencies	194	179
Total fixed income debt securities	**194**	179

Fixed income debt securities held-to-maturity, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Fixed income debt securities issued by:		
– Foreign state institutions	194	179
Total fixed income debt securities	**194**	179

Debt securities held-to-maturity issued by foreign state institutions comprise the following:

Country of Issuer	31 Dec 2013		31 Dec 2012	
(CZKm)	Fair value	Cost*	Fair value	Cost*
France	198	193	189	177
Total	**198**	**193**	189	177

Note: * Amortised acquisition cost.

No purchases or sales within this portfolio took place during the years ended 31 December 2013 and 2012. During 2013 and 2012, there were no redemptions at maturity.

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Prepayments and accrued income	286	201
Settlement balances	405	597
Receivables from securities trading	22	19
Other assets	1,460	1,417
Total prepayments, accrued income and other assets	**2,173**	2,234

'Other assets' include provisions for operating receivables for other debtors in the amount of CZK 232 million (2012: CZK 239 million) and in particular also advances provided and receivables for other debtors.

24 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Investments in subsidiary undertakings	25,738	24,446
Investments in associated undertakings	482	482
Total investments in subsidiaries and associates	**26,220**	24,928

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as at 31 December 2013:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels	3,396	0	3,396
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Factoring KB, a.s.	100	100	Factoring	Prague	1,190	0	1,190
KB Penzijní společnost, a.s.*	100	100	Additional pension insurance	Prague	330	0	330
KB Real Estate, s.r.o.	100	100	Support services	Prague	511	0	511
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,873	0	4,873
NP 33, s.r.o.	100	100	Support services	Prague	405	0	405
Protos, uzavřený investiční fond, a.s.	89.64	100	Financial services	Prague	11,705	0	11,705
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague	1,299	0	1,299
VN 42, s.r.o.	100	100	Support services	Prague	864	0	864
Total					**25,738**	**0**	**25,738**

Note * KB Penzijní společnost, a.s. was established through the transformation of Penzijní fond Komerční banky, a.s. as at 1 January 2013.

Associated undertakings

The following companies are associated undertakings of the Bank as at 31 December 2013:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
CBCB – Czech Banking Credit Bureau, a.s.	20	20	Collection of data for the evaluation of credit risk	Prague	0*	0	0
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	(355)	482
Total					**837**	**(355)**	**482**

Note: * The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

Set out below is an overview of year-on-year movements in investments, by issuer:

(CZKm)	Investment at cost at 1 Jan 2013	Additions	Decreases	Investment at cost at 31 Dec 2013
Bastion European Investments S.A.[1)]	3,473	0	(77)	3,396
ESSOX s.r.o.	1,165	0	0	1,165
Factoring KB, a.s.	1,190	0	0	1,190
KB Penzijní společnost, a.s.[2)]	230	100	0	330
KB Real Estate, s.r.o.	511	0	0	511
Modrá pyramida stavební spořitelna, a.s.	4,873	0	0	4,873
NP 33, s.r.o.[3)]	0	405	0	405
Protos, uzavřený investiční fond, a.s.	11,705	0	0	11,705
SG Equipment Finance Czech Republic s.r.o.	1,299	0	0	1,299
VN 42, s.r.o.[3)]	0	864	0	864
Total subsidiaries	**24,446**	**1,369**	**(77)**	**25,738**
CBCB – Czech Banking Credit Bureau, a.s.	0*	0	0	0*
Komerční pojišťovna, a.s.	837	0	0	837
Total associates	**837**	**0**	**0**	**837**

Note: * The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

Changes in equity investments in subsidiaries and associates in 2013

1) In May 2013, the shareholders' equity in Bastion European Investments S.A. was decreased by EUR 2.7 million (equivalent to CZK 77 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.
2) In January 2013, based on the new legislation issued on 28 December 2011, a revision of the pension system started to be processed in the Czech Republic. Under Act No. 427/2011 Coll. the Supplementary Pension Saving Act the Bank's fully owned subsidiary Penzijní fond Komerční banky, a.s., was transformed into KB Penzijní společnost, a.s., with its registered office at náměstí Junkových 2772/1, Stodůlky, 155 00, Prague 5 and registered capital of CZK 300 million as at 1 January 2013. In accordance with the requirements of the pension reform, the net assets of the Penzijní fond Komerční banky, a.s. were divided between pension scheme participants and pension fund shareholders. The net assets of pension scheme participants were allocated to a newly created Transformed fund, which is closed for new participants. However, similarly as before, KB Penzijní společnost will remain responsible for management of the Transformed fund, be entitled to up to 15% of the profit in addition to the regular asset under management fee and will need to guarantee the positive results for participants as well as positive equity of the Transformed fund. Transformed fund is fully consolidated in the Consolidated Financial Statements of Komerční banka, a.s.
   In September 2013, the shareholders' equity of KB Penzijní společnost, a.s. was increased by CZK 100 million in the form of increasing other capital funds.
3) In August 2013, the Bank established two new subsidiaries VN 42, s.r.o. with shareholders' equity of CZK 1 million and NP 33, s.r.o. with shareholders' equity of CZK 1 million. Both companies were established in connection with management of the Bank's own buildings. In November 2013, the share capital of VN 42, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 1,990 million and the share capital of NP 33, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 845 million. The difference between cost of investment booked in the Separate Financial Statements and amount of a non-monetary contribution into share capital represents positive revaluation to the fair value of buildings at the date of increase of share capital.

25 Intangible assets

The movements in intangible assets were as follow:

(CZKm)	Internally generated assets	Software	Other intangible assets	Acquisition of assets	Total Cost
Cost					
At 1 January 2012	8,117	1,381	98	660	10,256
Additions	943	119	(36)	976	2,002
Disposals/transfers	(144)	(17)	0	(1,026)	(1,187)
Foreign exchange rate difference	0	(1)	0	0	(1)
At 31 December 2012	8,916	1,482	62	610	11,070
Additions	842	74	0	879	1,795
Disposals/transfers	(287)	(32)	(8)	(916)	(1,243)
Foreign exchange rate difference	0	2	0	0	2
At 31 December 2013	**9,471**	**1,526**	**54**	**573**	**11,624**
Accumulated amortisation and allowances					
At 1 January 2012	(5,696)	(1,047)	(64)	0	(6,807)
Additions	(813)	(120)	22	0	(911)
Disposals	128	15	0	0	143
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	1	0	0	1
At 31 December 2012	(6,381)	(1,151)	(42)	0	(7,574)
Additions	(793)	(203)	(17)	0	(1,013)
Disposals	288	32	8	0	328
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(2)	0	0	(2)
At 31 December 2013	**(6,886)**	**(1,324)**	**(51)**	**0**	**(8,261)**
Net book value					
At 31 December 2012	2,535	331	20	610	3,496
At 31 December 2013	**2,585**	**202**	**3**	**573**	**3,363**

During the year ended 31 December 2013, the Bank reflected CZK 199 million (2012: CZK 143 million) invested into research and development through a charge to *'Operating expenses'*.

26 Tangible assets

The movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total Cos
Cost					
At 1 January 2012	149	10,599	4,889	325	15,962
Reallocation from/to assets held for sale	0	20	0	0	20
Additions	11	328	386	702	1,427
Disposals/transfers	(3)	(175)	(329)	(726)	(1,233)
Foreign exchange rate difference	0	0	(1)	0	(1)
At 31 December 2012	157	10,772	4,945	301	16,175
Reallocation from/to assets held for sale	0	23	0	0	23
Additions	0	286	237	531	1,054
Disposals/transfers	(16)	(2,763)	(406)	(570)	(3,755)
Foreign exchange rate difference	0	1	2	0	3
At 31 December 2013	**141**	**8,319**	**4,778**	**262**	**13,500**
Accumulated depreciation and allowances					
At 1 January 2012	0	(5,351)	(4,075)	0	(9,426)
Reallocation of accumulated depreciation of assets held for sale	0	(6)	0	0	(6)
Additions	0	(339)	(299)	0	(638)
Disposals	0	144	316	0	460
Impairment charge	0	12	3	0	15
Foreign exchange rate difference	0	0	1	0	1
At 31 December 2012	0	(5,540)	(4,054)	0	(9,594)
Reallocation of accumulated depreciation of assets held for sale	0	14	0	0	14
Additions	0	(318)	(260)	0	(578)
Disposals	0	1,548	349	0	1,897
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(1)	(3)	0	(4)
At 31 December 2013	**0**	**(4,297)**	**(3,968)**	**0**	**(8,265)**
Net book value					
At 31 December 2012	157	5,232	891	301	6,581
At 31 December 2013	**141**	**4,022**	**810**	**262**	**5,235**

As at 31 December 2013, the Bank recognised allowances against tangible assets of CZK 1 million (2012: CZK 1 million). These allowances primarily included allowances charged in respect of buildings and improvements of leased assets.

27 Financial liabilities at fair value through profit or loss

As at 31 December 2013 and 2012, the *'Financial liabilities at fair value through profit or loss'* portfolio includes only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Bank has not designated any other financial liabilities as *'Financial liabilities at fair value through profit or loss'*.

(CZKm)	31 Dec 2013	31 Dec 2012
Sold securities	1,195	2,481
Derivative financial instruments	17,348	17,423
Total financial liabilities at fair value through profit or loss	**18,543**	19,904

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 42(C).

28 Amounts due to banks

Amounts due to banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Current accounts	2,748	7,578
Amounts due to banks	43,198	24,267
Total amounts due to banks	**45,946**	31,845

The fair value of securities and treasury bills used as collateral for repurchase loans received from banks was CZK 6,978 million (2012: CZK 395 million), of which CZK 558 million (2012: CZK 175 million) were securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'* and CZK 6,420 million (2012: CZK 0 million) from the portfolio of '*Available-for-sale financial assets'*. The carrying amount of associated liabilities was CZK 6,760 million (2012: CZK 175 million).

The carrying amount of securities and loans to banks used as a pledge for loans received was CZK 0 million (2012: CZK 5,468 million).

29 Amounts due to customers

Amounts due to customers, by type of deposit, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Current accounts	365,842	330,152
Savings accounts	95,283	84,090
Term deposits	53,656	55,058
Depository bills of exchange	7,593	6,287
Amounts received from customers	24,547	6,498
Other payables to customers	5,332	3,884
Total amounts due to customers	**552,253**	485,969

The fair value of securities and treasury bills used as collateral for repurchase loans received from customers was CZK 24,461 million (2012: CZK 6,497 million), of which CZK 2,515 million (2012: CZK 0 million) were securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'*. The carrying amount of associated liabilities was CZK 2,571 million (2012: CZK 0 million).

Amounts due to customers, by type of customer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Private companies	210,659	186,451
Other financial institutions, non-banking entities	42,413	20,692
Insurance companies	3,688	15,407
Public administration	1,325	1,272
Individuals	157,419	152,583
Individuals – entrepreneurs	24,263	23,027
Government agencies	83,980	64,676
Other	11,673	11,222
Non-residents	16,833	10,639
Total amounts due to customers	**552,253**	485,969

30 Securities issued

Securities issued comprise mortgage bonds of CZK 48,145 million (2012: CZK 38,017 million). The Bank issues mortgage bonds to fund its mortgage activities.

Debt securities according to their remaining time to maturity break out as follows:

(CZKm)	31 Dec 2013	31 Dec 2012
In less than one year	0	0
In one to five years	15,644	14,286
In five to ten years	6,161	3,547
In ten to twenty years	0	0
More than twenty years	26,340	20,184
Total debt securities	**48,145**	38,017

During the year ended 31 December 2013, the Bank repurchased mortgage bonds with aggregate nominal volume of CZK 641 million and increased the nominal volume in issue by CZK 11,447 million.

During the year ended 31 December 2012, the Bank repurchased mortgage bonds with aggregate nominal volume of CZK 1,344 million and increased the nominal volume in issue by CZK 5,140 million.

The debt securities detailed above include the following bonds and notes issued by the Bank:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2013 CZKm	31 Dec 2012 CZKm
HZL Komerční banky, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% of the value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	1,910	2,200
HZL Komerční banky, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	11,453	11,434
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	3,132	3,147
HZL Komerční banky, a.s., CZ0002001324, CZ0002001332	5.06% for the first twelve annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	2,461	2,468
HZL Komerční banky, a.s., CZ0002001340, CZ0002001357	5.02% for the first eleven annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,822	1,842
HZL Komerční banky, a.s., CZ0002001365, CZ0002001373	4.23% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,825	0
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,281	2,079
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	4,966	2,465
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	5,107	5,133
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest rate swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	6,878	6,197
HZL Komerční banky, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	520	652
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,029	400
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,761	0
Total debt securities					**48,145**	38,017

Note: Six-month PRIBOR was 48 bps as at 31 December 2013 (2012: 67 bps).
Three-month PRIBID was 5 bps as at 31 December 2013 (2012: 18 bps).
The value of the interest rate swap CZK sale average for five years as at 31 December 2013 was 128 bps (2012: 82 bps).
The value of the interest rate swap CZK sale average for ten years as at 31 December 2013 was 207 bps (2012: 137 bps).
* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for two to thirty years.

31 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Accruals and deferred income	162	187
Settlement balances and outstanding items	6	0
Payables from securities trading and issues of securities	1,548	1,407
Payables from payment transactions	4,569	4,523
Other liabilities	3,228	2,804
Total accruals and other liabilities	**9,513**	8,921

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 21 million (2012: CZK 20 million).

'Other liabilities' mainly include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).

32 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Provisions for contracted commitments (refer to Note 9 and 12)	559	512
Provisions for other credit commitments (refer to Note 12)	571	482
Provision for restructuring (refer to Note 9 and 10)	0	10
Total provisions	**1,130**	1,004

In 2013, the Bank adjusted a provision for restructuring in respect of the project for reorganisation of the distribution network. The change in the provisioning amount includes the full release and use of the provision reflecting the expenses incurred in 2013. The release and use of the provision is reported in the Income Statement line *'Personnel expenses'* (refer to Note 9).

In 2012, the Bank created a provision for restructuring in respect of the project for reorganisation of the distribution network. The Bank also adjusted the amount of the provision for restructuring in respect of the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Bank. The change in the provisioning amount includes the full release and use of the provision reflecting the expenses incurred in 2012. The charge, release and use of provisions are reported in the Income Statement lines *'Personnel expenses'* (refer to Note 9) and '*General administrative expenses'* (refer to Note 10).

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements and the retirement benefits plan.

Set out below is an analysis of the provisions for other credit commitments:

(CZKm)	31 Dec 2013	31 Dec 2012
Provision for off-balance sheet commitments	385	409
Provision for undrawn loan facilities	186	73
Total (refer to Note 12)	**571**	482

Movements in the provisions for contracted commitments and for restructuring were as follow:

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance at 1 January 2012	**97**	**332**	**9**	**438**
Changes in accounting policies	36	0	0	36
Additions	19	290	10	319
Disposals	(12)	(266)	(9)	(287)
Accrual	6	0	0	6
Remeasurement	13	0	0	13
Foreign exchange difference	0	(3)	0	(3)
Balance at 31 December 2012	**159**	**353**	**10**	**522**
Additions	9	66	0	75
Disposals	(12)	(22)	(10)	(44)
Accrual	4	0	0	4
Remeasurement	(2)	0	0	(2)
Foreign exchange difference	0	4	0	4
Balance at 31 December 2013	**158**	**401**	**0**	**559**

33 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised.

Deferred tax assets are as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	2	1
Difference between accounting and tax net book value of assets	1	1
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 40)	3	4
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	0	0
Other temporary differences	0	0
Net deferred tax assets	**6**	6

Deferred tax liabilities are as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Banking provisions and allowances	267	254
Allowances for assets	1	1
Non-banking provisions	31	46
Difference between accounting and tax net book value of assets	(309)	(389)
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	2	2
Revaluation of hedging derivatives – equity impact (refer to Note 40)	(1,917)	(3,356)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	(926)	(1,375)
Other temporary differences	148	105
Net deferred tax liabilities	**(2,703)**	(4,712)

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign net investment.

Movements in the net deferred tax assets/(liabilities) were as follow:

(CZKm)	2013	2012
Balance at the beginning of the period	**(4,706)**	(2,435)
Changes in accounting policies	0	7
Movement in the net deferred tax – profit and loss impact (refer to Note 14)	122	(68)
Movement in the net deferred tax – equity impact (refer to Note 39, 40 and 41)	1,887	(2,210)
Balance at the end of the period	**(2,697)**	(4,706)

34 Subordinated debt

In 2012, the Bank repaid its subordinated debt. The nominal value of the subordinated debt received by the Bank at the end of 2006 was CZK 6,000 million, and it had been issued by the Bank's parent company, Société Générale S.A. The subordinated debt bore a floating rate linked to one-month PRIBOR and had a 10-year maturity with the Bank's option for early repayment after five years and thereafter as at any interest payment date. In December 2011, the Bank announced its intention to repay the subordinated debt which had been subject to negotiation and approval by, among others, the Czech National Bank as the regulator. Due to the positive result of these negotiations and the Bank's capital position, the subordinated debt was repaid on 27 January 2012. Since repayment of the subordinated debt, the Bank has all its regulatory capital in the form of Tier 1 capital, i.e. the highest quality capital from the point of view of capital regulation.

35 Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary bearer shares in dematerialised form with a nominal value of CZK 500 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, Czech Stock Exchange. Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 513/1991 Coll., the Commercial Code, as amended. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The exclusion of voting rights can occur only on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from four years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Global depository receipts ("GDRs") were issued for shares of the Bank administered by The Bank of New York Mellon and which are held on its asset account at the Central Securities Depository. In principle, GDRs bear the same rights as do shares of the Bank and they may be reconverted into shares. One GDR represents one third of one share of the Bank. The GDRs program was launched at the end of June 1995. In issuing the first tranche, the Bank marked its entry into the international capital markets; a second tranche followed in 1996. From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as at 31 December 2013 was 183,765 pieces (2012: 236,361 pieces).

Set out below is a summary of the entities that hold more than 3% of the Bank's issued share capital as at 31 December 2013:

Name of the entity	Registered office	Ownership (%)
SOCIETE GENERALE S.A.	29 Bld Haussmann, Paris	60.35
CHASE NOMINEES LIMITED	25 Bank Street, Canary Wharf, London	5.26
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	4.47

Société Générale S.A., being the only entity with a qualified holding in the Bank as well as the ultimate parent company, is a French joint-stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and following the French Commercial Code, as well as its Articles of Association.

As at 31 December 2013, the Bank held 238,672 treasury shares at a cost of CZK 726 million (2012: 238,672 treasury shares at a cost of CZK 726 million).

Capital management

The Bank manages its capital adequacy to ensure its sufficient level while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel II capital adequacy regulation as at 31 December 2013 currently in force, and in addition to the usual reporting of the capital adequacy ratio (Pillar 1), the Bank has to meet the requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Bank has selected methods close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

Since the introduction of Basel II regulation, the Bank has regularly simulated future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications resulting in deterioration in the Bank's risk profile.

The Bank compiles hypothetical macroeconomic scenarios on the basis of which are estimated medium-term impacts on earnings and on transactions' risk profiles. On this basis, the Bank acquires views as to the changing volume of the risk-weighted assets, financial results, and, while also taking into account the outlook for dividend payments, the level of the Bank's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining Bank's dividend policy, which is the primary tool for capital adequacy management in such situation that the Bank's capital is entirely classified as core Tier 1 capital.

The Bank's capital principally consists of the following balances: share capital, reserve funds and undistributed profit (as at 31 December 2013, the Bank had no subordinated debt as it had been repaid as at 27 January 2012).

The Bank did not purchase its own shares into treasury during 2013, and as at 31 December 2013 the Bank holds a total amount of 238,672 treasury shares at a total cost of CZK 726 million which were bought in previous years (as at 31 December 2012: 238,672 treasury shares at a total cost of CZK 726 million). The purchase of treasury shares was approved by the Bank's General Meeting to manage the capital adequacy of the Bank.

The Bank continuously monitors and evaluates the forthcoming changes in regulatory requirements affecting the capital and capital adequacy (together known as Basel III and on the European level as CRR/CRD IV, and effective from the year 2014), and it analyses their potential impact within the capital planning process.

The Czech National Bank, as the local regulatory authority, oversees the Bank's compliance with the capital adequacy ratio both on separate and consolidated bases. During the past year, the Bank complied with all regulatory requirements. Moreover, the Bank regularly prepares the regulatory report on Pillar 2 and submits it to the CNB.

(CZKm)	31 Dec 2013	31 Dec 2012
Tier 1 capital	54,944	51,228
Tier 2 capital	0	0
Items deductible from Tier 1 and Tier 2	(2,042)	(2,126)
Total regulatory capital	**52,902**	49,102

36 Composition of cash and cash equivalents as reported in the Cash Flow Statement

(CZKm)	31 Dec 2013	31 Dec 2012	Change in the year
Cash and current balances with central banks (refer to Note 16)	43,831	27,659	16,172
Amounts due from banks – current accounts with other banks (refer to Note 20)	893	5,455	(4,562)
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts (refer to Note 28)	(2,748)	(7,578)	4,830
Cash and cash equivalents at the end of the year	**41,975**	25,535	**16,440**

37 Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2013. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 281 million (2012: CZK 272 million) for these legal disputes (refer to Note 32). The Bank has also recorded a provision of CZK 49 million (2012: CZK 44 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2013, the Bank conducted a review of legal proceedings filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Bank makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Capital commitments

As at 31 December 2013, the Bank had capital commitments of CZK 266 million (2012: CZK 199 million) in respect of current capital investment projects.

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written, irrevocable commitments by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The Bank records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments and overdrafts and approved overdraft loans

Principal off-balance sheet exposures include undrawn overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditioned commitment the Bank distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. Irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts and approved overdraft loans results from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon the customers' maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts and approved overdraft loans, the Bank recognises a provision when required (according to a customer's creditworthiness) in accordance with the same algorithm as for loans.

From 2013, the Bank does not report revocable unutilised overdrafts. Comparative amounts for 2012 are restated.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Non-payment guarantees including commitments to issued non-payment guarantees	40,593	35,235
Payment guarantees including commitments to issued payment guarantees	13,992	11,148
Committed facilities and unutilised overdrafts	8,985	11,186
Undrawn credit commitments	44,094	39,945
Unutilised overdrafts and approved overdraft loans	14,077	20,052
Unutilised limits under framework agreements to provide financial services	8,741	9,517
Open customer/import letters of credit uncovered	719	518
Stand-by letters of credit uncovered	1,982	551
Confirmed supplier/export letters of credit	169	131
Total commitments and contingencies	**133,352**	128,283

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As at 31 December 2013, the Bank recorded provisions for these risks in the amount of CZK 571 million (2012: CZK 482 million). Refer to Note 32.

Set out below is a breakdown of financial commitments and contingencies by sector:

(CZKm)	31 Dec 2013	31 Dec 2012
Food industry and agriculture	8,990	4,580
Mining and extraction	2,315	1,401
Chemical and pharmaceutical industry	2,730	1,426
Metallurgy	4,071	4,161
Automotive industry	2,091	718
Manufacturing of other machinery	6,986	7,503
Manufacturing of electrical and electronic equipment	2,269	1,904
Other processing industry	2,235	2,462
Power plants, gas plants and waterworks	7,497	10,921
Construction industry	32,065	30,042
Retail	3,922	3,710
Wholesale	7,865	8,532
Accommodation and catering	323	303
Transportation, telecommunication and warehouses	5,442	6,241
Banking and insurance industry	3,375	6,315
Real estate	2,510	1,771
Public administration	5,547	9,404
Other industries	19,586	15,089
Individuals	13,533	11,800
Total commitments and contingencies	**133,352**	128,283

The majority of commitments and contingencies originate on the territory of the Czech Republic.

Set out below is an analysis of the types of collateral held in support of financial commitments and contingencies:

	31 Dec 2013			31 Dec 2012		
(CZKm)	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contin-gencies collateral value***	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***
Guarantees of state and governmental institutions	214	197	197	359	333	333
Bank guarantee	891	840	747	1,269	1,215	1,123
Guaranteed deposits	2,295	2,280	2,145	1,886	1,855	1,752
Pledge of real estate	7,618	4,473	3,586	6,509	3,771	3,055
Pledge of movable assets	221	20	11	84	8	8
Guarantee by legal entity	6,650	4,495	4,424	5,526	2,786	2,655
Guarantee by individual (natural person)	21	2	2	29	1	1
Pledge of receivables	1,909	0	0	1,764	0	0
Insurance of credit risk	2,216	2,102	2,102	4,306	4,087	4,087
Other	233	163	118	5	4	4
Total nominal value of collateral	**22,268**	**14,572**	**13,332**	21,737	14,060	13,018

Note: * The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling the collateral, the risk of declining market prices, the risk of insolvency, etc.
*** The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As at 31 December 2013, the Bank was controlled by Société Générale S.A. which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions were carried out on an arm's length basis.

Amounts due to and from the Group companies

The following table summarises loans issued to the Group companies and their deposits with the Bank:

(CZKm)	31 Dec 2013	31 Dec 2012
Bastion European Investments S.A.	3,379	3,167
ESSOX s.r.o.	6,004	6,108
Factoring KB, a.s.	3,634	2,421
KB Real Estate, s.r.o.	573	611
SG Equipment Finance Czech Republic s.r.o.	15,248	13,278
Total loans	**28,838**	25,585
ESSOX s.r.o.	299	274
Factoring KB, a.s.	0	3
KB Penzijní společnost, a.s.*	600	0
Transformovaný fond KB Penzijní společnosti, a.s.*	803	0
KB Real Estate, s.r.o.	42	42
Modrá pyramida stavební spořitelna, a.s.	3,812	1,001
NP 33, s.r.o.	9	0
Penzijní fond Komerční banky, a.s.*	0	1,003
Protos, uzavřený investiční fond, a.s.	6,639	6,740
SG Equipment Finance Czech Republic s.r.o.	3,760	3,397
VN 42, s.r.o.	21	0
Total deposits	**15,985**	12,460

Note: * KB Penzijní společnost, a.s. and Transformovaný fond KB Penzijní společnosti, a.s. were established as at 1 January 2013 through the transformation of Penzijní fond Komerční banky, a.s.

As at 31 December 2013, the positive fair value of financial derivatives in relation to the Group companies amounted to 1,001 million (2012: CZK 273 million) and the negative fair value to CZK 14 million (2012: CZK 42 million).

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 24,650 million (2012: CZK 16,650 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 1,014 million (2012: CZK 1,143 million).

As at 31 December 2013 and 2012, other amounts due to and from the Group companies were not significant.

Interest income from loans granted to the Group companies:

(CZKm)	2013	2012
Bastion European Investments S.A.	125	124
ESSOX s.r.o.	126	162
Factoring KB, a.s.	21	21
KB Real Estate, s.r.o.	19	12
Modrá pyramida stavební spořitelna, a.s.	0	32
SG Equipment Finance Czech Republic s.r.o.	259	265
Total interest from loans granted by the Bank	**550**	616

In addition to interest on loans to the Bank's Group companies, other income in the year ended 31 December 2013 amounted to CZK 918 million (2012: CZK 337 million) and total expenses amounted to CZK 1,017 million (2012: CZK 1,084 million).
As at 31 December 2013, the Bank reported guarantees granted to the Group companies totalling CZK 1,126 million (2012: CZK 863 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

(CZKm)	31 Dec 2013	31 Dec 2012
ALD Automotive s.r.o. (Czech Republic)	3,182	2,848
Belrosbank	0	11
BRD Romania	116	3
Komerční pojišťovna, a.s.	1,698	519
Rosbank	1	87
SG Express bank	1	3
SG London	238	262
SG New York	3	0
SG Private Banking (Suisse)	0	2
Société Générale Paris	10,623	15,877
Société Générale Warsaw	68	499
Succursale Newedge UK	7	5
Total	**15,937**	20,116

Principal balances owed to the Société Générale Group entities include:

(CZKm)	31 Dec 2013	31 Dec 2012
BRD Romania	5	1
Crédit du Nord	4	6
ESSOX SK s.r.o.	13	25
Inter Europe Conseil	2	2
Investiční kapitálová společnost KB, a.s.	55	76
Komerční pojišťovna, a.s.	1,285	1,468
PEMA Praha spol. s r.o.	11	19
Rosbank	6	0
SG Amsterdam	32	42
SG Cyprus	127	0
SG Frankfurt	178	1
SG Istanbul	10	0
SG Lebanon	0	90
SG London	2	0
SG New York	1	2
SG Private Banking (Suisse)	276	100
SG Zürich	0	1
SGBT Luxemburg	5	285
Société Générale Paris	30,305	15,592
Société Générale Warsaw	34	26
Splitska Banka	27	2
Total	**32,378**	17,738

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading (refer to Note 20) and issued bonds.

As at 31 December 2013, the Bank also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet notional assets and liabilities amounted to CZK 229,256 million (2012: CZK 196,099 million) and CZK 222,688 million (2012: CZK 186,585 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.
As at 31 December 2013 and 2012, the Bank also carried other amounts due to and from the Société Générale Group entities which are not significant.

During the year ended 31 December 2013, the Bank had total income of CZK 21,470 million (2012: CZK 27,917 million) and total expenses of CZK 23,525 million (2012: CZK 28,004 million) in relation to Société Générale Group entities. That income includes interest income from debt securities issued by Société Générale Group, income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise those of interbank deposits, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

Remuneration and amounts due from the members of the Board of Directors, Supervisory Board and Directors' Committee

Remuneration paid to the members of the Board of Directors, Supervisory Board and Directors' committee during the years was as follows:

(CZKm)	2013	2012
Remuneration to the Board of Directors members*	52	52
Remuneration to the Supervisory Board members**	5	5
Remuneration to the Directors' Committee members***	66	61
Total	**123**	118

Note: * Remuneration to the Board of Directors members includes amounts paid during the year ended 31 December 2013 to the current and former directors under mandate and management contracts, exclusive of bonuses for 2013 but including bonuses for 2012. Amounts for expatriate members of the Board of Directors include remuneration exclusive of bonuses for 2013 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Board of Directors does not include accommodation-related services.
** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2013 to the current and former members of the Supervisory Board. Amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.
*** Remuneration to the Directors' committee members comprise the sum of compensation and benefits paid in 2013 under management contracts or under expatriate relocation contracts in respect of expatriates. This item does not reflect any compensation provided to the Board of Directors members (as that is reflected in the remuneration to the Board of Directors members). All the Board of Directors members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2013, the total balance reflects his/her aggregate annual remuneration.

(CZKm)	2013	2012
Number of the Board of Directors members	6	6
Number of the Supervisory Board members	9	9
Number of the Directors' Committee members*	17	17

Note: * These figures include all members of the Board of Directors, who are also members of the Directors' Committee.

As at 31 December 2013, the Bank recorded an estimated payable (including indexed bonuses) of CZK 28 million (2012: CZK 21 million) for Board of Directors bonuses.

In respect of loans and guarantees as at 31 December 2013, the Bank recorded receivables from loans granted to members of the Board of Directors, Supervisory Board and Directors' Committee totalling CZK 11 million (2012: CZK 5 million). During 2013, draw-downs of CZK 12 million (2012: CZK 0 million) were made under the loans granted. Loan repayments during 2013 amounted to CZK 9 million (2012: CZK 2 million). The increase of loans in 2013 is affected by new members of the Supervisory Board and the Directors' Committee already having loans in the amount of CZK 3 million (2012: CZK 0 million).

39 Movements in the remeasurement of retirement benefits plan in the Shareholders' Equity

(CZKm)	2013	2012
Remeasurement of retirement benefits plan at 1 January	(13)	0
Deferred tax asset/(liability) at 1 January	2	0
Balance at 1 January	**(11)**	0
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	2	(13)
Deferred tax	0	2
	2	(11)
Remeasurement of retirement benefits plan at 31 December	(11)	(13)
Deferred tax asset/(liability) at 31 December (refer to Note 33)	2	2
Balance at 31 December	**(9)**	(11)

40 Movements in the revaluation of hedging instruments in the Shareholders' Equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate line of equity in the hedging reserve.

(CZKm)	2013	2012
Cash flow hedge fair value at 1 January	18,061	12,401
Deferred tax asset/(liability) at 1 January	(3,352)	(2,291)
Balance at 1 January	**14,709**	10,110
Movements during the year		
Gains/(losses) from changes in fair value	(3,880)	8,072
Deferred tax	737	(1,533)
	(3,143)	6,539
Transferred to interest income/expense	(3,684)	(2,487)
Deferred tax	700	472
	(2,984)	(2,015)
Transferred to personnel expenses	(6)	(1)
Deferred tax	1	0
	(5)	(1)
Change in the hedge of foreign currency risk of foreign net investment	(282)	76
	(282)	76
Cash flow hedge fair value at 31 December	10,209	18,061
Deferred tax asset/(liability) at 31 December (refer to Note 33)	(1,914)	(3,352)
Balance at 31 December	**8,295**	14,709

41 Movements in the revaluation of available-for-sale financial assets in the Shareholders' Equity

(CZKm)	2013	2012
Reserve from fair value revaluation at 1 January	7,281	1,867
Deferred tax/income tax asset/(liability) at 1 January	(1,383)	(233)
Balance at 1 January	**5,898**	1,634
Movements during the year		
Gains/(losses) from changes in fair value	(1,580)	5,874
Deferred tax/income tax	300	(1,080)
	(1,280)	4,794
(Gains)/losses from sales	(787)	(460)
Deferred tax/income tax	149	(70)
	(638)	(530)
Reserve from fair value revaluation at 31 December	4,914	7,281
Deferred tax/income tax asset/(liability) at 31 December	(934)	(1,383)
Balance at 31 December	**3,980**	5,898

42 Risk management and financial instruments

(A) Credit risk

Assessment of borrower's credit rating
The assessment of credit risk is based on quantitative and qualitative criteria, which leads to a rating assignment. The Bank uses several types of ratings, depending on the type and profile of the counterparty and the types of transactions. As a result, specific ratings are assigned to both the Bank's clients and to specific client transactions. The same rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

In 2013, the Bank focused especially on three core areas: (1) updating selected credit risk models in order to optimally reflect the current macroeconomic situation and to set the goals of the Bank; (2) increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management; and (3) continually increasing the knowledge of credit risk in business departments via special training.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the ensuing periods and thus optimisation of the Bank's credit risk management tools and more accurate estimation of expected future losses.

(a) Business clients and municipalities
For entrepreneurs, corporate clients and municipalities, the Bank uses the obligor rating (expressed on the 22-grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating to assess the quality of available guarantees and collaterals and to evaluate the potential loss from counterparty transactions. These models are also used for regular updates of Expected Loss (EL) and Unexpected Loss (UL) for all client exposures reported in accordance with the Basel II requirements.

For large and medium-sized clients, the obligor rating is the combination of the financial rating based primarily on the data in the financial statements and an economic rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the Bank. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour in the Bank (behavioural rating).

In the municipalities segment, the obligor rating is the combination of the financial rating based on the data in the financial statements and an economic rating acquired through the assessment of non-financial information relating to the specific municipality.

During 2013, the Bank increased the predictive power of its rating models for business clients (extension of the scope of the economic rating model to the client segment with annual turnover above CZK 40-100 million) and updated the behavioural rating model for small business clients and for municipalities.

(b) Ratings for banks and sovereign
For banks, other financial institutions (namely insurance companies, brokers and funds) and for sovereigns (central banks and central governments), the Bank uses the economic rating models developed by Société Générale.

(c) Ratings for individual clients
The Bank uses two types of ratings with the aim to evaluate the default risk for individuals: (1) the application rating, which results from an evaluation of clients' personal data, data on the behaviour in the Bank, and data available from external registers; and (2) a behavioural rating which is based on the evaluation of the information on the clients' behaviour in the Bank. The application rating is primarily used for active applications of clients for funding, while the behavioural rating (which includes the calculation of pre-approved limits for simple products with low exposure) is used for active offers of funding by the Bank. The behavioural rating of clients is concurrently used for regular updates of the probability of default of all client exposures reported in accordance with the Basel II requirements.

Pursuant to the back-testing of the rating and LGD models and the results of stress testing, in 2013, the Bank updated its LGD model for mortgages, implemented a new statistical model for loan loss provisioning according to the new Société Générale standardised methodology, and pursued a review of the pricing process for all loan products provided to individuals with the aim to optimise criteria for their approval and to update the setting of standard risk costs representing the valuation of the anticipated cost of risk.

(d) Internal register of negative information

The Bank maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and thus contributes substantially to protecting the Bank from risky entities.

(e) Credit bureaus

The evaluation of data from credit bureaus was one of the principal factors impacting the assessment of applications for client funding, and especially so in the retail client segments. Among other things, the Bank focused during the year on optimising the rules for reflecting information from credit bureaus in the approval process, and particularly with respect to the behavioural rating and individual assessment of applications for funding.

(f) Credit fraud prevention

The Bank uses an automated system for the detection of individual credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Bank's main applications and it will be fully applied at the Group level.

Credit concentration risk

Credit concentration risk is the risk of such excess losses related to credit transactions as could in particularly difficult circumstances jeopardise the financial stability of the Bank. The Bank's credit concentration risk is actively managed as a part of overall credit risk management using standard tools (valuation, setting internal limits, reporting, use of risk mitigation techniques, and simulation). The Bank maintains its objective not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. A system of internal limits is established so that the Bank complies with regulatory limits set in respect of concentration risk. Refer to Notes 21 and 37 for quantitative information about credit concentration risk.

The Bank's maximum credit exposure as at 31 December 2013:

	Total exposure			Applied collateral		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**36,643**	**x**	**36,643**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**38,118**	**x**	**38,118**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**18,235**	**x**	**18,235**	**0**	**x**	**0**
Available-for-sale financial assets	**93,555**	**x**	**93,555**	**0**	**x**	**0**
Amounts due from banks	**119,661**	**1,771**	**121,432**	**87,898**	**298**	**88,196**
Loans and advances to customers	**437,519**	**131,581**	**569,100**	**188,813**	**13,034**	**201,847**
– Individuals	166,892	13,530	**180,422**	123,576	1,455	**125,031**
of which: Mortgage loans	148,563	6,626	**155,189**	120,991	1,441	**122,432**
Consumer loans	13,798	39	**13,837**	1,909	6	**1,915**
– Corporates**	270,155	118,051	**388,206**	65,237	11,579	**76,816**
of which: Top corporate clients	136,978	72,035	**209,013**	32,405	6,338	**38,743**
– Debt securities	461	x	**461**	0	x	**0**
– Other amounts due from customers	11	x	**11**	0	x	**0**
Held-to-maturity investments	**194**	**x**	**194**	**0**	**x**	**0**
Total	**743,925**	**133,352**	**877,277**	**276,711**	**13,332**	**290,043**

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis, i.e. without the impact of allowances.

The Bank's maximum credit exposure as at 31 December 2012:

			Total exposure			Applied collateral
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**21,207**	**x**	**21,207**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**51,907**	**x**	**51,907**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**26,027**	**x**	**26,027**	**0**	**x**	**0**
Available-for-sale financial assets	**94,381**	**x**	**94,381**	**0**	**x**	**0**
Amounts due from banks	**55,863**	**2,671**	**58,534**	**21,459**	**157**	**21,616**
Loans and advances to customers	**409,715**	**125,612**	**535,327**	**176,289**	**12,861**	**189,150**
– Individuals	152,843	11,800	**164,643**	112,097	1,092	**113,189**
of which: Mortgage loans	134,812	4,566	**139,378**	110,525	1,059	**111,584**
Consumer loans	13,777	80	**13,857**	1,479	28	**1,507**
– Corporates**	256,288	113,812	370,100	64,192	11,769	75,961
of which: Top corporate clients	122,507	65,992	188,499	35,235	5,257	40,492
– Debt securities	461	x	461	0	x	0
– Other amounts due from customers	123	x	123	0	x	0
Held-to-maturity investments	**179**	**x**	**179**	**0**	**x**	**0**
Total	**659,279**	**128,283**	**787,562**	**197,748**	**13,018**	**210,766**

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis, i.e. without the impact of allowances.

Classification of receivables

The Bank classifies its receivables arising from financial activities into five categories in accordance with CNB regulation No. 123/2007. The Standard and Watch categories represent non-default while Substandard, Doubtful and Loss represent default. The classification reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring). The classification of individuals reflects also the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel II principles.

The structure of the credit portfolio according to the classification is regularly reported to the CNB and to investors.

Characteristics of receivables that are not classified

Pursuant to the regulation issued by the CNB, the Bank does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Allowances for receivables

Depending on the client segment, materiality, risk profile and specificity of the receivables, provisions are calculated either (i) according to statistical models which are developed in conformity with the Basel II requirements and in compliance with IFRS and are regularly updated based on the latest loss observations and new risk drivers reflecting the phase of the business cycle; or (ii) taking into account the present value of expected future cash flows while considering all available information, including the estimated value of collateral and the expected duration of the recovery process.

All significant, individually material impaired credit exposures (i.e. classified as Watch, Substandard, Doubtful or Loss according to the CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committee or, whenever required, by recovery specialists.

In November 2013, models used for the calculation of allowances were harmonised with Société Générale standards and updated in order to reflect changes in internal risk processes, results of back-tests and the macroeconomic situation. The Bank also performs regular back-testing of provisioning models to carefully monitor their quality and to identify their potential deterioration in a timely manner.

The following table shows the split of classified customer loans based on the type of assessment:

	31 Dec 2013		31 Dec 2012	
(CZKm)	Individually	Statistical model	Individually	Statistical model
Individuals	768	8,715	639	8,807
Corporates*	17,025	2,417	17,882	2,652
Total	**17,793**	**11,132**	18,521	11,459

Note: * This item includes loans granted to individual entrepreneurs.

As at 31 December 2013, the Bank reported the following loans not past due and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	Loans not past due	1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
– standard	**118,645**	0	0	0	0	0	0	**118,645**
– watch	**1,016**	0	0	0	0	0	0	**1,016**
Total	**119,661**	**0**	**0**	**0**	**0**	**0**	**0**	**119,661**
Customers								
– standard	**403,589**	4,499	32	2	0	0	4,533	**408,122**
– watch	**7**	0	0	0	0	0	0	**7**
Total	**403,596**	**4,499**	**32**	**2**	**0**	**0**	**4,533**	**408,129**

As at 31 December 2012, the Bank reported the following loans not past due and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	Loans not past due	1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
– standard	**55,270**	0	0	0	0	0	0	**55,270**
– watch	**592**	0	0	0	0	0	0	**592**
Total	**55,862**	**0**	**0**	**0**	**0**	**0**	**0**	**55,862**
Customers								
– standard	**373,894**	5,240	14	1	2	0	5,257	**379,151**
– watch	**641**	0	0	0	0	0	0	**641**
Total	**374,535**	**5,240**	**14**	**1**	**2**	**0**	**5,257**	**379,792**

The amount of the collateral applied in respect of past due loans not impaired was CZK 2,565 million (2012: CZK 3,107 million).

Loan collateral

The Bank uses collateral as one of its techniques for mitigating credit risk. The Bank defines general risk management principles connected with collateralisation of the exposure to clients. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Bank's business lines.

The Bank has fully implemented in its internal system the rules for assessing collateral's eligibility according to CNB regulation No. 123/2007. In compliance with the CNB validation, the Bank uses the Advanced Internal Ratings-Based (AIRB) approach. For clients of the Slovak branch, the Bank uses the Standardised (STD) approach for assessing of collateral eligibility.

The recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Bank uses independent valuations performed or supervised by a dedicated specialised department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB regulation No. 123/2007.

The Bank (except for the Slovak branch) uses the on-line connection to the Real Estate Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and regular monitoring of selected events that may put the Bank's pledge right to real estate at risk.

Real estate collateral valuation
Activities related to the valuation of real estates obtained as collaterals for commercial and retail loans are independent from the Bank's business processes. The valuation process is managed and controlled by a specialised internal department which co-operates with various external valuation experts.

In 2013, together with the principal activity involving real estate valuation, the Bank focused especially upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Bank monitors both the residential real estate market and the commercial real estate market. An integral component of that monitoring is the revaluation of selected real estate depending on the Basel II requirements. As a result of the statistical monitoring of market prices for residential real estates, revaluation occurs regularly.

Recovery of receivables from borrowers
As a result of the negative economic development and thus the worsened financial situation of corporate and retail clients, the Bank continuously responded to changing market conditions that primarily resulted in extended periods of recovery, increased judicial enforcement, and an increase in the complexity of the recovery process (especially in relation to real estate collateral).

Given the size of the portfolio in recovery, the Bank is continuously improving the efficiency and process of recovery. These efforts also involve intensified and enhanced use of external recovery capacities, which take in approximately 16% of the total portfolio of exposures in recovery and 80% of the total number of clients in recovery. During 2013, the Bank continued in regular sales of packaged uncollateralised retail receivables to selected investors so that the maximum achievable recovery rate is obtained. The main emphasis is on further automation of the recovery process.

The Bank paid increased attention to the application of the new Insolvency Act and its impact on the process of collecting receivables from retail and corporate clients. The Bank plays an active role in the insolvency process, from the position of secured creditor, creditors' committee member or representative of creditors, whether in bankruptcy proceedings or in reorganisations, which are used by the Bank depending on the debtor's circumstances and the attitudes of other creditors.

Credit risk hedging instruments
The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Credit risk of financial derivatives
The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Bank may incur if the counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of the derivative product, the remaining time until the maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As at 31 December 2013, the Bank posted a credit exposure of CZK 19,798 million (2012: CZK 18,286 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement cost at market rates as at 31 December 2013 of all outstanding agreements. The netting agreement and margin call agreement (ISDA/CSA, CMA) are taken into account where applicable.

The Bank puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures for individual clients which could arise due to movements in market prices. On a daily basis, the Bank monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that the limit breach is triggered by the deliberate action of a dealer ("active limit breach") such behaviour is penalised. The Board of Directors is informed about any breaches on a regular basis.

(B) Market risk

Segmentation of the Bank's financial operations
For risk management purposes, the Bank's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions concluded by the Bank's dealers for position-taking purposes or for accommodating customers' needs. The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions within the Structural Book, and other transactions not included in the Market Book.

Products generating market risk
Products that are traded by the Bank and generate market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, forward rate agreements, interest rate futures), government and corporate bonds, emission allowances as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients, etc.).
Derivatives traded on the Market Book are used either for proprietary position-taking or for clients' purposes. The derivatives concluded on the Structural Book are used for structural risk hedging purposes.

With some clients, the Bank is also trading more complex optional products to serve clients hedging needs. An example of such more complex products are e.g. structured products enabling clients to utilise these products' more sophisticated properties which cannot be substituted by simple ("plain-vanilla") derivatives. The Bank is not exposed to market risks (e.g. volatility risk, among others) associated with these derivatives, as these risks are immediately eliminated by concluding mirror deals having the opposite risk profile from those of the clients' deals ("back-to-back deals").

Market risk in the Market Book
The Bank has established a complex system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the open positions. The Bank monitors compliance with all limits on a daily basis and if these are exceeded the Bank takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure market risks inherent in the activities of the Market Book, the Bank uses the Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using historical scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1% most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses out of the 250 considered scenarios.

The VaR for a one-day holding period with a confidence level of 99% was CZK -19 million as at 31 December 2013 (2012: CZK -14 million). The average Global VaR was CZK -17 million as at 31 December 2013 (2012: CZK -12 million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Exceedances should not occur more frequently than on 1% of the days within a given period. In 2013, 0.8% (2012: 1.6%) of the daily losses (actual or hypothetical) exceeded the 99% VaR. Post-crisis development in market conditions has resulted in the emergence of some new market factors that currently are not fully covered by the existing VaR model. Work on a project for improving the VaR calculation by implementing a more sophisticated VaR model is presently underway in co-operation with Société Générale, and its implementation by the Bank is planned for 2014.

In addition, the Bank performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to all open positions in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Greek crisis in 2010) or from a hypothetical crisis that could negatively influence the positions.

Additional specific metrics such as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

Market risk in the Structural Book
The Bank manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk (hereafter only "EaR") for net interest income. The EaR indicator shows the maximum departure of the planned net interest income level from the initial value that is attributable to the movements in interest rates over a one-year time horizon and at the 99% confidence level.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Bank's sensitivity to a change in market interest rates is measured upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 1% p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates occurred. As at 31 December 2013, the CZK interest rate risk sensitivity was CZK -348 million (2012: CZK -66 million), the EUR sensitivity was CZK -51 million (2012: CZK -37 million), the USD sensitivity was CZK -9 million (2012: CZK -23 million), and for other currencies it was CZK -45 million (2012: CZK -30 million) for the hypothetical assumption of 1% change in market interest rates. The Bank is limited by this indicator, and the level of the limit is determined to be approximately 2% of capital.

In order to hedge against interest rate risk within the Structural Book, the Bank uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

(C) Financial derivatives

The Bank operates a system of market risk and counterparty limits which are designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading are as follow:

(CZKm)	31 Dec 2013 Notional value		31 Dec 2012 Notional value		31 Dec 2013 Fair value		31 Dec 2012 Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	578,804	578,804	454,040	454,040	9,376	9,703	13,393	13,628
Interest rate forwards and futures*	48,414	48,414	31,011	31,011	9	4	7	8
Interest rate options	6,873	6,873	4,519	4,519	21	21	3	3
Total interest rate instruments	**634,091**	**634,091**	489,570	489,570	**9,406**	**9,728**	13,403	13,639
Foreign currency instruments								
Currency swaps	135,547	136,171	126,518	126,586	723	1,358	854	925
Cross currency swaps	102,872	102,822	74,561	74,036	4,859	4,643	2,329	1,650
Currency forwards	31,486	30,857	25,791	26,009	980	383	175	399
Purchased options	48,525	49,581	33,555	33,274	868	0	460	0
Sold options	49,581	48,525	33,274	33,555	0	868	0	460
Total currency instruments	**368,011**	**367,956**	293,699	293,460	**7,430**	**7,252**	3,818	3,434
Other instruments								
Forwards on emission allowances	847	720	1,763	1,399	222	95	426	56
Commodity forwards	1,296	1,296	1,302	1,302	19	18	16	15
Commodity swaps	11,674	11,674	2,243	2,243	105	97	60	57
Commodity cross currency swaps	3,903	3,903	8,798	8,798	137	137	222	222
Purchased commodity options	475	475	0	0	21	0	0	0
Sold commodity options	475	475	0	0	0	21	0	0
Total other instruments	**18,670**	**18,543**	14,106	13,742	**504**	**368**	724	350
Total	**1,020,772**	**1,020,590**	797,375	796,772	**17,340**	**17,348**	17,945	17,423

Note.: * Fair values include only forwards. Regarding futures, the Bank places funds on a margin account which is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as at 31 December 2013:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	96,490	317,917	164,397	**578,804**
Interest rate forwards and futures*	46,893	1,521	0	**48,414**
Interest rate options	270	5,854	749	**6,873**
Total interest rate instruments	**143,653**	**325,292**	**165,146**	**634,091**
Foreign currency instruments				
Currency swaps	134,039	1,450	58	**135,547**
Cross currency swaps	15,576	43,858	43,438	**102,872**
Currency forwards	27,240	4,198	48	**31,486**
Purchased options	32,709	15,816	0	**48,525**
Sold options	33,459	16,122	0	**49,581**
Total currency instruments	**243,023**	**81,444**	**43,544**	**368,011**
Other instruments				
Forwards on emission allowances	832	15	0	**847**
Commodity forwards	1,296	0	0	**1,296**
Commodity swaps	10,055	1,619	0	**11,674**
Commodity cross currency swaps	3,635	268	0	**3,903**
Purchased commodity options	236	239	0	**475**
Sold commodity options	236	239	0	**475**
Total other instruments	**16,290**	**2,380**	**0**	**18,670**
Total	**402,966**	**409,116**	**208,690**	**1,020,772**

Note: * The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as at 31 December 2012:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	128,640	202,953	122,447	**454,040**
Interest rate forwards and futures*	29,011	2,000	0	**31,011**
Interest rate options	0	3,377	1,142	**4,519**
Total interest rate instruments	**157,651**	**208,330**	**123,589**	**489,570**
Foreign currency instruments				
Currency swaps	124,898	1,484	136	**126,518**
Cross currency swaps	5,465	35,551	33,545	**74,561**
Currency forwards	22,340	3,309	142	**25,791**
Purchased options	24,369	9,186	0	**33,555**
Sold options	24,190	9,084	0	**33,274**
Total currency instruments	**201,262**	**58,614**	**33,823**	**293,699**
Other instruments				
Forwards on emission allowances	1,659	104	0	**1,763**
Commodity forwards	1,302	0	0	**1,302**
Commodity swaps	1,179	1,064	0	**2,243**
Commodity cross currency swaps	1,846	6,952	0	**8,798**
Purchased commodity options	0	0	0	**0**
Sold commodity options	0	0	0	**0**
Total other instruments	**5,986**	**8,120**	**0**	**14,106**
Total	**364,899**	**275,064**	**157,412**	**797,375**

Note: * The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

	31 Dec 2013 Notional value		31 Dec 2012 Notional value		31 Dec 2013 Fair value		31 Dec 2012 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	469,592	469,592	412,767	412,766	17,831	6,252	25,782	7,223
Interest rate swaps for fair value hedging	26,821	26,821	19,710	19,710	217	2,237	0	3,350
Cross currency swaps for cash flows hedging	42,629	42,361	33,150	30,490	176	2,609	215	399
Cross currency swaps for fair value hedging	0	2,880	0	2,640	0	150	29	0
Forwards on stocks for cash flow hedging	32	32	7	7	11	0	1	0
Total	**539,074**	**541,686**	465,634	465,613	**18,235**	**11,248**	26,027	10,972

Remaining contractual maturities of derivatives designated as hedging are shown below as at 31 December 2013:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	91,792	214,756	163,044	**469,592**
Interest rate swaps for fair value hedging	0	1,318	25,503	**26,821**
Cross currency swaps for cash flow hedging	8,595	30,064	3,970	**42,629**
Forwards on stocks for cash flow hedging	4	28	0	**32**
Total	**100,391**	**246,166**	**192,517**	**539,074**

Remaining contractual maturities of derivatives designated as hedging are shown below as at 31 December 2012:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	82,082	193,482	137,203	**412,767**
Interest rate swaps for fair value hedging	141	156	19,413	**19,710**
Cross currency swaps for cash flow hedging	1,734	26,857	4,559	**33,150**
Forwards on stocks for cash flow hedging	0	7	0	**7**
Total	**83,957**	**220,502**	**161,175**	**465,634**

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

	31 Dec 2013			31 Dec 2012		
(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows hedged	(467)	(2,235)	(2,072)	(132)	(3,061)	(2,634)

The Bank treats as hedges only those contracts for which it is able to demonstrate that all criteria for recognising the transactions as hedges set out in IAS 39 have been met.

During 2013, the Bank recorded the following hedges:

1. Interest rate risk hedging:
   a. The fair values of long-term loans provided and of investments into long-term government securities classified into the *'Available-for-sale financial assets'* portfolio are hedged by an interest rate swap and a cross currency swap, respectively;
   b. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients with variable interest rates are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Income Statement on an ongoing basis);
   c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term liabilities to clients are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Income Statement on an ongoing basis).

2. Foreign exchange risk hedging:
   a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Bank. The hedging instrument consists of foreign currency assets (e.g. securities) or foreign currency liabilities (client deposits), respectively;
   b. The Bank hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent on the foreign exchange rate developments and selected foreign currency liabilities (e.g. short-term client liabilities).

3. Share price risk hedging:
   a. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Société Générale S.A. share price. The risk of change in the Société Générale S.A. share price is hedged at the Société Générale level. Hedging instruments are forwards on stocks.
   b. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Bank hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.

4. Hedging of an investment in a foreign subsidiary:
   a. The foreign exchange risk associated with investments in subsidiaries including foreign exchange risk arising from prospective cash flows (received dividends) is hedged by selected foreign currency liabilities (e.g. short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these Financial Statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped in the *'Undefined'* category.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	5,318	0	0	0	38,513	**43,831**
Financial assets at fair value through profit or loss	5,529	10,412	3,374	1,463	17,340	**38,118**
Positive fair values of hedging financial derivatives	0	0	0	0	18,235	**18,235**
Available-for-sale financial assets	3,007	5,517	28,794	56,237	0	**93,555**
Assets held for sale	0	0	0	0	6	**6**
Amounts due from banks	113,410	962	4,516	773	0	**119,661**
Loans and advances to customers, net	203,618	68,594	138,963	12,120	0	**423,295**
Held-to-maturity investments	0	194	0	0	0	**194**
Current tax assets	0	0	0	0	0	**0**
Deferred tax assets	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	0	0	0	0	2,173	**2,173**
Investments in subsidiaries and associates	0	0	0	0	26,220	**26,220**
Intangible assets	0	0	0	0	3,363	**3,363**
Tangible assets	0	0	0	0	5,235	**5,235**
Total assets	**330,882**	**85,679**	**175,647**	**70,593**	**111,091**	**773,892**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	1,195	0	0	0	17,348	**18,543**
Negative fair values of hedging financial derivatives	0	0	0	0	11,248	**11,248**
Amounts due to banks	39,792	3,411	2,743	0	0	**45,946**
Amounts due to customers	65,139	19,279	1,300	0	466,535	**552,253**
Securities issued	1,910	0	22,442	23,793	0	**48,145**
Current tax liabilities	0	0	0	0	708	**708**
Deferred tax liabilities	0	0	0	0	2,703	**2,703**
Accruals and other liabilities	0	0	0	0	9,513	**9,513**
Provisions	0	0	0	0	1,130	**1,130**
Subordinated debt	0	0	0	0	0	**0**
Total liabilities	**108,037**	**22,690**	**26,485**	**23,793**	**509,185**	**690,190**
Statement of Financial Position interest rate sensitivity gap at 31 December 2013	**222,845**	**62,989**	**149,162**	**46,800**	**(398,094)**	**83,702**
Derivatives*	450,084	289,287	282,269	254,364	0	**1,276,004**
Total off-balance sheet assets	**450,084**	**289,287**	**282,269**	**254,364**	0	**1,276,004**
Derivatives*	551,670	275,484	303,467	147,946	0	**1,278,567**
Undrawn portion of loans**	(4,596)	(1,820)	6,003	413	0	**0**
Undrawn portion of revolving loans**	(336)	(8)	195	149	0	**0**
Total off-balance sheet liabilities	**546,738**	**273,656**	**309,665**	**148,508**	**0**	**1,278,567**
Net off-balance sheet interest rate sensitivity gap at 31 December 2013	**(96,654)**	**15,631**	**(27,396)**	**105,856**	**0**	**(2,563)**
Cumulative interest rate sensitivity gap at 31 December 2013	**126,191**	**204,811**	**326,577**	**479,233**	**81,139**	**x**

Note: * Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
** Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	736	0	0	0	26,923	**27,659**
Financial assets at fair value through profit or loss	15,738	14,916	2,418	891	17,944	**51,907**
Positive fair values of hedging financial derivatives	0	0	0	0	26,027	**26,027**
Available-for-sale financial assets	774	2,838	37,935	52,834	0	**94,381**
Assets held for sale	0	0	0	0	3	**3**
Amounts due from banks	49,817	716	4,473	857	0	**55,863**
Loans and advances to customers, net	189,977	67,688	125,617	12,907	0	**396,189**
Held-to-maturity investments	0	1	178	0	0	**179**
Current tax assets	0	0	0	0	4	**4**
Deferred tax assets	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	0	0	0	0	2,234	**2,234**
Investments in subsidiaries and associates	0	0	0	0	24,928	**24,928**
Intangible assets	0	0	0	0	3,496	**3,496**
Tangible assets	0	0	0	0	6,581	**6,581**
Total assets	**257,042**	**86,159**	**170,621**	**67,489**	**108,146**	**689,457**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	2,481	0	0	0	17,423	**19,904**
Negative fair values of hedging financial derivatives	0	0	0	0	10,972	**10,972**
Amounts due to banks	30,306	1,539	0	0	0	**31,845**
Amounts due to customers	43,088	20,940	3,654	0	418,287	**485,969**
Securities issued	2,195	0	19,323	16,499	0	**38,017**
Current tax liabilities	0	0	0	0	568	**568**
Deferred tax liabilities	0	0	0	0	4,712	**4,712**
Accruals and other liabilities	0	0	0	0	8,921	**8,921**
Provisions	0	0	0	0	1,004	**1,004**
Subordinated debt	0	0	0	0	0	**0**
Total liabilities	**78,071**	**22,479**	**22,977**	**16,499**	**461,887**	**601,913**
Statement of Financial Position interest rate sensitivity gap at 31 December 2012	**178,971**	**63,680**	**147,644**	**50,990**	**(353,741)**	**87,544**
Derivatives*	372,319	250,112	207,768	199,559	0	**1,029,758**
Total off-balance sheet assets	**372,319**	**250,112**	**207,768**	**199,559**	**0**	**1,029,758**
Derivatives*	437,927	247,961	230,390	112,932	0	**1,029,210**
Undrawn portion of loans**	(5,386)	1,004	4,147	235	0	**0**
Undrawn portion of revolving loans**	(331)	331	(149)	149	0	**0**
Total off-balance sheet liabilities	**432,210**	**249,296**	**234,388**	**113,316**	**0**	**1,029,210**
Net off-balance sheet interest rate sensitivity gap at 31 December 2012	**(59,891)**	**816**	**(26,620)**	**86,243**	**0**	**548**
Cumulative interest rate sensitivity gap at 31 December 2012	**119,080**	**183,576**	**304,600**	**441,833**	**88,092**	**x**

Note: * Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
** Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

Average interest rates as at 31 December 2013 and 2012 were as follow:

	31 Dec 2013			31 Dec 2012		
(CZKm)	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and current balances with central banks	0.02%	x	x	0.00%	x	x
Treasury bills	0.15%	x	x	0.52%	x	x
Amounts due from banks	0.15%	0.19%	0.65%	0.35%	0.46%	0.54%
Loans and advances to customers	3.25%	1.99%	2.24%	3.66%	2.06%	2.38%
Interest earning securities	2.19%	3.69%	3.06%	2.84%	3.61%	3.01%
Total assets	**2.00%**	**1.29%**	**1.65%**	2.59%	1.55%	1.81%
Total interest earning assets	**2.33%**	**1.35%**	**1.98%**	3.13%	1.65%	1.97%
Liabilities						
Amounts due to central banks and banks	0.08%	0.23%	0.96%	0.09%	0.56%	1.03%
Amounts due to customers	0.21%	0.09%	0.08%	0.35%	0.08%	0.11%
Debt securities	3.23%	x	0.00%	3.52%	x	0.00%
Subordinated debt	0.00%	x	x	0.00%	x	x
Total liabilities	**0.28%**	**0.11%**	**0.39%**	0.19%	0.19%	0.38%
Total interest bearing liabilities	**0.36%**	**0.11%**	**0.41%**	0.29%	0.20%	0.41%
Off-balance sheet assets						
Derivatives (interest rate swaps, options, etc.)	1.51%	2.26%	1.21%	1.89%	2.68%	1.77%
Undrawn portion of loans	2.98%	2.30%	2.42%	3.12%	2.18%	3.70%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.67%	x	0.88%
Total off-balance sheet assets	**1.74%**	**2.25%**	**1.22%**	2.13%	2.61%	1.77%
Off-balance sheet liabilities						
Derivatives (interest rate swaps, options, etc.)	1.17%	2.01%	1.25%	1.57%	2.38%	1.94%
Undrawn portion of loans	2.98%	2.30%	2.42%	3.12%	2.18%	3.70%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.67%	x	0.88%
Total off-balance sheet liabilities	**1.42%**	**2.01%**	**1.26%**	1.84%	2.35%	1.93%

Note: The above table sets out the average interest rates for December 2013 and 2012 calculated as a weighted average for each asset and liability category.

The 2W REPO rate announced by the CNB remained at the level of 0.05% throughout 2013. Czech crown money market rates (PRIBOR) declined by 0.05% (O/N) to 0.27% (12M). The market spreads showed almost no change during 2013 and stagnated on the level of 14-38 basis points (1D-1Y). Interest rates in the derivatives market increased by 5-70 basis points (2-10Y).

Euro money market rates increased during 2013 by 0.01% (12M) to 0.14% (O/N), and derivative market rates increased by about 15-60 basis points (2-10Y).

Dollar money market rates decreased during 2013 by 0.10% (O/N) to 0.25% (12M), and derivative market rates increased by about 10-130 basis points (2-10Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

	31 Dec 2013				31 Dec 2012			
(CZKm)	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and current balances with central banks	0	5,318	38,513	**43,831**	0	736	26,923	27,659
Financial assets at fair value through profit or loss	17,058	3,340	17,720	**38,118**	31,210	1,939	18,758	51,907

(CZKm)	31 Dec 2013 Fixed interest rate	Floating interest rate	No interest	Total	31 Dec 2012 Fixed interest rate	Floating interest rate	No interest	Total
Positive fair values of hedging financial derivatives	0	0	18,235	**18,235**	0	0	26,027	26,027
Available-for-sale financial assets	78,939	14,614	2	**93,555**	83,318	11,061	2	94,381
Amounts due from banks	4,588	115,060	13	**119,661**	4,169	51,517	177	55,863
Loans and advances to customers	240,639	178,946	3,710	**423,295**	228,455	163,372	4,362	396,189
Held-to-maturity investments	194	0	0	**194**	179	0	0	179
Liabilities								
Amounts due to central banks	1	0	0	**1**	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	18,543	**18,543**	0	0	19,904	19,904
Negative fair values of hedging financial derivatives	0	0	11,248	**11,248**	0	0	10,972	10,972
Amounts due to banks	12,774	33,019	153	**45,946**	5,978	25,379	488	31,845
Amounts due to customers	1,599	541,642*	9,012	**552,253**	2,849	479,020*	4,100	485,969
Securities issued	18,134	30,011	0	**48,145**	15,633	22,384	0	38,017
Subordinated debt	0	0	0	**0**	0	0	0	0

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a stand-alone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.
The liquidity risk of the Bank is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The table below provides a breakdown of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	36,706	0	0	0	0	7,125	**43,831**
Financial assets at fair value through profit or loss	0	2,270	9,649	4,998	3,480	17,721	**38,118**
Positive fair values of hedging financial derivatives	0	0	0	0	0	18,235	**18,235**
Available-for-sale financial assets	0	3,300	6,538	26,817	50,819	6,081	**93,555**
Assets held for sale	0	0	6	0	0	0	**6**
Amounts due from banks	32,452	71,475	232	5,518	2,238	7,746	**119,661**
Loans and advances to customers	4,682	56,837	49,117	120,154	177,173	15,332	**423,295**
Held-to-maturity investments	0	0	194	0	0	0	**194**
Current tax assets	0	0	0	0	0	0	**0**
Deferred tax assets	0	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	64	1	0	0	0	2,108	**2,173**
Investments in subsidiaries and associates	0	0	0	0	0	26,220	**26,220**
Intangible assets	0	0	0	0	0	3,363	**3,363**
Tangible assets	0	0	0	0	0	5,235	**5,235**
Total assets	**73,904**	**133,883**	**65,736**	**157,487**	**233,710**	**109,172**	**773,892**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss	1,195	0	0	0	0	17,348	**18,543**
Negative fair values of hedging financial derivatives	0	0	0	0	0	11,248	**11,248**
Amounts due to banks	23,319	8,587	966	7,544	5,530	0	**45,946**
Amounts due to customers	499,464	28,321	22,382	2,019	67	0	**552,253**
Securities issued	0	119	279	15,542	32,205	0	**48,145**
Current tax liabilities	0	8	700	0	0	0	**708**
Deferred tax liabilities	0	0	0	0	0	2,703	**2,703**
Accruals and other liabilities	8,950	198	0	0	0	365	**9,513**
Provisions	111	123	181	128	4	583	**1,130**
Subordinated debt	0	0	0	0	0	0	**0**
Equity	0	0	0	0	0	83,702	**83,702**
Total liabilities	**533,040**	**37,356**	**24,508**	**25,233**	**37,806**	**115,949**	**773,892**
Statement of Financial Position liquidity gap at 31 December 2013	**(459,136)**	**96,527**	**41,228**	**132,254**	**195,904**	**(6,777)**	**0**
Off-balance sheet assets*	27,294	127,241	97,686	111,507	47,514	0	**411,242**
Off-balance sheet liabilities*	32,585	148,313	153,384	147,150	51,592	14,131	**547,155**
Net off-balance sheet liquidity gap at 31 December 2013	**(5,291)**	**(21,072)**	**(55,698)**	**(35,643)**	**(4,078)**	**(14,131)**	**(135,913)**

Note: * Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	25,495	0	0	0	0	2,164	**27,659**
Financial assets at fair value through profit or loss	980	12,518	13,386	4,930	1,322	18,771	**51,907**
Positive fair values of hedging financial derivatives	0	0	0	0	0	26,027	**26,027**
Available-for-sale financial assets	0	1,269	4,007	29,376	49,697	10,032	**94,381**
Assets held for sale	0	0	3	0	0	0	**3**
Amounts due from banks	24,823	21,018	1,099	4,703	1,128	3,092	**55,863**
Loans and advances to customers	3,850	38,537	65,995	109,067	161,758	16,982	**396,189**
Held-to-maturity investments	0	0	1	178	0	0	**179**
Current tax assets	0	0	0	0	0	4	**4**
Deferred tax assets	0	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	126	2	0	0	0	2,106	**2,234**
Investments in subsidiaries and associates	0	0	0	0	0	24,928	**24,928**
Intangible assets	0	0	0	0	0	3,496	**3,496**
Tangible assets	0	0	0	0	0	6,581	**6,581**
Total assets	**55,274**	**73,344**	**84,491**	**148,254**	**213,905**	**114,189**	**689,457**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss	2,481	0	0	0	0	17,423	**19,904**
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,972	**10,972**
Amounts due to banks	20,563	1,379	1,438	4,385	4,080	0	**31,845**
Amounts due to customers	429,805	30,032	21,053	4,988	91	0	**485,969**
Securities issued	0	89	252	15,220	22,456	0	**38,017**
Current tax liabilities	0	0	568	0	0	0	**568**
Deferred tax liabilities	0	0	0	0	0	4,712	**4,712**
Accruals and other liabilities	8,401	181	0	0	0	339	**8,921**
Provisions	51	46	243	109	5	550	**1,004**
Subordinated debt	0	0	0	0	0	0	**0**
Equity	0	0	0	0	0	87,544	**87,544**
Total liabilities	**461,302**	**31,727**	**23,554**	**24,702**	**26,632**	**121,540**	**689,457**
Statement of Financial Position liquidity gap at 31 December 2012	**(406,028)**	**41,617**	**60,937**	**123,552**	**187,273**	**(7,351)**	**0**
Off-balance sheet assets*	21,944	116,077	65,598	85,472	38,383	0	**327,474**
Off-balance sheet liabilities*	25,508	134,255	124,018	115,933	40,585	15,197	**455,496**
Net off-balance sheet liquidity gap at 31 December 2012	**(3,564)**	**(18,178)**	**(58,420)**	**(30,461)**	**(2,202)**	**(15,197)**	**(128,022)**

Note: * Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as at 31 December 2013.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss (except derivatives)	1,195	0	0	0	0	0	**1,195**
Amounts due to banks	23,333	8,595	986	7,629	5,553	0	**46,096**
Amounts due to customers	499,566	28,589	22,516	2,685	67	0	**553,423**
Securities issued	224	290	1,729	20,085	34,321	0	**56,649**
Current tax liabilities	0	8	700	0	0	0	**708**
Deferred tax liabilities	0	0	0	0	0	2,703	**2,703**
Accruals and other liabilities	8,950	198	0	0	0	365	**9,513**
Provisions	111	123	181	128	4	583	**1,130**
Subordinated debt	0	0	0	0	0	0	**0**
Total non-derivative financial liabilities	**533,380**	**37,803**	**26,112**	**30,527**	**39,945**	**3,651**	**671,418**
Other loans commitment granted	3,337	8,994	37,224	13,889	1,278	13,876	**78,598**
Guarantee commitments granted	1,866	11,799	18,033	19,992	2,809	255	**54,754**
Total contingent liabilities	**5,203**	**20,793**	**55,257**	**33,881**	**4,087**	**14,131**	**133,352**

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as at 31 December 2012.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss (except derivatives)	2,481	0	0	0	0	0	**2,481**
Amounts due to banks	20,606	1,391	1,446	4,453	4,100	0	**31,996**
Amounts due to customers	429,908	30,362	21,275	6,322	91	0	**487,958**
Securities issued	2	189	1,506	19,445	23,985	0	**45,127**
Current tax liabilities	0	0	568	0	0	0	**568**
Deferred tax liabilities	0	0	0	0	0	4,712	**4,712**
Accruals and other liabilities	8,401	182	0	0	0	339	**8,922**
Provisions	51	46	243	109	5	550	**1,004**
Subordinated debt	0	0	0	0	0	0	**0**
Total non-derivative financial liabilities	**461,450**	**32,170**	**25,038**	**30,329**	**28,181**	**5,601**	**582,769**
Other loans commitment granted	1,644	10,431	42,288	12,059	192	15,154	**81,768**
Guarantee commitments granted	1,989	7,762	16,058	18,613	2,050	43	**46,515**
Total contingent liabilities	**3,633**	**18,193**	**58,346**	**30,672**	**2,242**	**15,197**	**128,283**

(F) Foreign exchange position

The table below provides an analysis of the Bank's main currency exposures. The remaining currencies are shown within *'Other currencies'*. The Bank manages its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	42,086	1,280	220	245	**43,831**
Financial assets at fair value through profit or loss	34,522	3,359	162	75	**38,118**
Positive fair values of hedging financial derivatives	16,848	1,172	215	0	**18,235**
Available-for-sale financial assets	69,222	23,319	1,014	0	**93,555**
Assets held for sale	6	0	0	0	**6**
Amounts due from banks	94,570	17,737	6,093	1,261	**119,661**
Loans and advances to customers	338,430	77,228	7,298	339	**423,295**
Held-to-maturity investments	0	194	0	0	**194**
Current tax assets	0	0	0	0	**0**
Deferred tax assets	0	6	0	0	**6**
Prepayments, accrued income and other assets	2,021	120	21	11	**2,173**
Investments in subsidiaries and associates	22,824	3,396	0	0	**26,220**
Intangible assets	3,363	0	0	0	**3,363**
Tangible assets	5,228	7	0	0	**5,235**
Total assets	**629,120**	**127,818**	**15,023**	**1,931**	**773,892**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	16,946	1,397	147	53	**18,543**
Negative fair values of hedging financial derivatives	9,692	1,439	117	0	**11,248**
Amounts due to banks	14,308	30,028	1,581	29	**45,946**
Amounts due to customers	477,249	63,867	8,554	2,583	**552,253**
Securities issued	48,145	0	0	0	**48,145**
Current tax liabilities	700	8	0	0	**708**
Deferred tax liabilities	2,703	0	0	0	**2,703**
Accruals and other liabilities	8,022	1,149	237	105	**9,513**
Provisions	852	215	46	17	**1,130**
Subordinated debt	0	0	0	0	**0**
Equity	83,712	(10)	0	0	**83,702**
Total liabilities	**662,330**	**98,093**	**10,682**	**2,787**	**773,892**
Net FX position at 31 December 2013	**(33,210)**	**29,725**	**4,341**	**(856)**	**0**
Off-balance sheet assets*	1,099,580	366,628	81,636	13,172	**1,561,016**
Off-balance sheet liabilities*	1,070,250	394,846	86,154	12,198	**1,563,448**
Net off-balance sheet FX position at 31 December 2013	**29,330**	**(28,218)**	**(4,518)**	**974**	**(2,432)**
Total net FX position at 31 December 2013	**(3,880)**	**1,507**	**(177)**	**118**	**(2,432)**

Note: * Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	26,177	983	235	264	**27,659**
Financial assets at fair value through profit or loss	45,755	5,877	147	128	**51,907**
Positive fair values of hedging financial derivatives	24,163	1,506	358	0	**26,027**
Available-for-sale financial assets	74,750	18,609	1,022	0	**94,381**
Assets held for sale	3	0	0	0	**3**
Amounts due from banks	35,501	15,470	3,761	1,131	**55,863**
Loans and advances to customers	334,848	54,871	6,068	402	**396,189**
Held-to-maturity investments	0	179	0	0	**179**
Current tax assets	4	0	0	0	**4**
Deferred tax assets	0	6	0	0	**6**
Prepayments, accrued income and other assets	2,085	138	10	1	**2,234**
Investments in subsidiaries and associates	21,455	3,473	0	0	**24,928**
Intangible assets	3,496	0	0	0	**3,496**
Tangible assets	6,575	6	0	0	**6,581**
Total assets	**574,812**	**101,118**	**11,601**	**1,926**	**689,457**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	17,655	2,059	153	37	**19,904**
Negative fair values of hedging financial derivatives	8,840	2,038	94	0	**10,972**
Amounts due to banks	11,266	18,131	2,401	47	**31,845**
Amounts due to customers	430,721	45,006	7,876	2,366	**485,969**
Securities issued	38,017	0	0	0	**38,017**
Current tax liabilities	568	0	0	0	**568**
Deferred tax liabilities	4,712	0	0	0	**4,712**
Accruals and other liabilities	7,625	1,064	156	76	**8,921**
Provisions	829	125	44	6	**1,004**
Subordinated debt	0	0	0	0	**0**
Equity	87,432	112	0	0	**87,544**
Total liabilities	**607,666**	**68,535**	**10,724**	**2,532**	**689,457**
Net FX position at 31 December 2012	**(32,854)**	**32,583**	**877**	**(606)**	**0**
Off-balance sheet assets*	959,470	231,308	67,709	5,147	**1,263,634**
Off-balance sheet liabilities*	928,108	261,750	68,624	4,494	**1,262,976**
Net off-balance sheet FX position at 31 December 2012	**31,362**	**(30,442)**	**(915)**	**653**	**658**
Total net FX position at 31 December 2012	**(1,492)**	**2,141**	**(38)**	**47**	**658**

Note: * Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.

(G) Operational risk

Since 2008, the Bank has adopted the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) or Scenario Analysis (SA), the Bank developed and deployed also the permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. In 2013, the process of risk self-assessment was performed in close co-operation with the mapping of risks for the purposes of internal audit. This resulted in increased effectiveness of both procedures and simultaneously in decreased time consumption from the management of the Bank. The Bank continuously develops all the aforementioned operational risk instruments and supports the continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the management of the Bank. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process of new product development and validation.

(H) Legal risk

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

(I) Estimated fair value of assets and liabilities of the Bank

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

(a) Cash and current balances with central banks
The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Amounts due from banks
The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis, the fair value of a loss loans is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers
The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) Held-to-maturity investments
The fair value of held-to-maturity portfolio is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered at the financial statements date.

(e) Amounts due to central banks, banks and customers
The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand at the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values at the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values at the financial statements date.

(f) Securities issued
The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair value:

	31 Dec 2013		31 Dec 2012	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	43,831	43,831	27,659	27,659
Amounts due from banks	119,661	119,893	55,863	56,132
Loans and advances to customers	423,295	436,088	396,189	408,577
Held-to-maturity investments	194	198	179	189
Financial liabilities				
Amounts due to central banks	1	1	1	1
Amounts due to banks	45,946	45,938	31,845	31,858
Amounts due to customers	552,253	552,324	485,969	486,081
Securities issued	48,145	48,806	38,017	39,753
Subordinated debt	0	0	0	0

The hierarchy of fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair value:

	31 Dec 2013				31 Dec 2012			
(CZKm)	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	43,831	0	0	43,831	27,659	0	0	27,659
Amounts due from banks	119,893	0	0	119,893	56,132	0	0	56,132
Loans and advances to customers	436,088	0	0	436,088	408,577	0	0	408,577
Held-to-maturity investments	198	198	0	0	189	189	0	0
Financial liabilities								
Amounts due to central banks	1	0	0	1	1	0	0	1
Amounts due to banks	45,938	0	0	45,938	31,858	0	0	31,858
Amounts due to customers	552,324	0	0	552,324	486,081	0	0	486,081
Securities issued	48,806	0	0	48,806	39,753	0	0	39,753
Subordinated debt	0	0	0	0	0	0	0	0

(J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2013	Level 1	Level 2	Level 3	31 Dec 2012	Level 1	Level 2	Level 3
Financial assets								
Financial assets at fair value through profit or loss								
– emission allowances	381	381	0	0	813	813	0	0
– debt securities	20,397	6,599	13,798	0	33,149	7,577	25,572	0
– derivatives	17,340	222	17,118	0	17,945	426	17,519	0
Financial assets at fair value through profit or loss	**38,118**	**7,202**	**30,916**	**0**	51,907	8,816	43,091	0
Positive fair value of hedging financial derivatives	**18,235**	**0**	**18,235**	**0**	26,027	0	26,027	0
Available-for-sale financial assets								
– shares and participation	2	0	0	2	2	0	0	2
– certificates								
– debt securities	93,553	74,202	19,351	0	94,379	65,600	28,779	0
Available-for-sale financial assets	**93,555**	**74,202**	**19,351**	**2**	94,381	65,600	28,779	2
Financial assets at fair value	**149,908**	**81,404**	**68,502**	**2**	172,315	74,416	97,897	2
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– sold securities	1,195	1,195	0	0	2,481	2,481	0	0
– derivatives	17,348	95	17,253		17,423	56	17,367	0
Financial liabilities at fair value through profit or loss	**18,543**	**1,290**	**17,253**	**0**	19,904	2,537	17,367	0
Negative fair value of hedging financial derivatives	**11,248**	**0**	**11,248**	**0**	10,972	0	10,972	0
Financial liabilities at fair value	**29,791**	**1,290**	**28,501**	**0**	30,876	2,537	28,339	0

	2013		2012	
(CZKm)	Available-for-sale financial assets	Total	Available-for-sale financial assets	Total
Balance at 1 January	**2**	**2**	2,773	2,773
Comprehensive income/(loss)				
– in the Income Statement	0	0	(107)	(107)
– in Other Comprehensive Income	0	0	190	190
Purchases	0	0	0	0
Sales	0	0	(890)	(890)
Settlement	0	0	(1,964)	(1,964)
Transfer from Level 1	0	0	0	0
Balance at 31 December	**2**	**2**	2	2

Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows, which was used for the original valuation.

43 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as at 31 December 2013:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set of by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	35,575	0	35,575	21,613	5,897	8,065
Negative fair value of derivatives	28,596	0	28,596	21,613	6,763	220

Note: * This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as at 31 December 2012:

(CZKm)	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities set of by financial liabilities/assets	Net amount of financial assets/liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	43,972	0	43,972	25,151	10,686	8,135
Negative fair value of derivatives	28,395	0	28,395	25,151	2,514	730

Note: * This item includes also counterparties with only positive or negative fair value of derivatives.

44 Assets under management

As at 31 December 2013, the Bank held client assets on its balance sheet in the amount of CZK 1,513 million (2012: CZK 1,028 million) and also managed assets in the amount of CZK 313,845 million (2012: CZK 287,932 million). No held or managed assets were from the Bank's subsidiaries.

45 Post balance sheet events

Reclassification of certain debt securities held in the portfolio of Available-for-sale financial assets

Since January 2014, the Bank has started to review the accounting recognition of certain debt securities held in the portfolio of 'Available-for-sale financial assets' (hereafter only "AFS") which the Bank intends to hold until their maturity. Till the issuance of these Separate Financial Statements, the Bank concluded that all regulatory and accounting requirements, as well as internal limits, are satisfied for recognition of the debt securities in the nominal value of CZK 50,260 million in the portfolio of 'Held-to-maturity investments' (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains or losses in the Shareholders' Equity of CZK 4,474 million are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security.

Report on Relations among Related Entities for the Year Ended 31 December 2013

(hereinafter called the *"Report on Relations"*)

Komerční banka, a.s., with its registered office in Prague 1, Na Příkopě 33/969, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies maintained at the Metropolitan Court of Prague, Section B, File 1360, (hereinafter called **"KB"** or **"Komerční banka"**), is part of a business group (holding company) in which the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entity (hereinafter called **"related entities"**) exist.

This report on relations between the entities stated below was prepared in accordance with the provision of Section 66a (9) of Act 513/1991 Coll., as amended (the Commercial Code) for the year ended 31 December 2013, that is, from 1 January 2013 to 31 December 2013 (hereinafter called the **"reporting period"**).

I. Introduction

In the period from 1 January 2013 to 31 December 2013, KB was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter called "SG" or "SG Paris").

During the course of the 2013 reporting period, the Bank entered into arrangements with the following related entities:

(a) SG's Head Office and branch offices

Company	Registered office
SG Paris*	29 Boulevard Haussmann, Paris, France
SG London	SG House, 41 Tower Hill 99132, EC3N 4SG, London, Great Britain
SG New York	1221 Avenue of the Americas, 10020, New York, USA
SG Istanbul	Nispetye Cad. Akmerkez E-3 Blok Kat. 9 ETILER 80600 Istanbul, Turkey
SG Zurich	Sihlquai 253, 8031 Zurich, Switzerland
SG Warsaw	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Neue Mainzer Strasse 46-50, 60311, Frankfurt am Main, the Federal Republic of Germany
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Vienna	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Milan	Via Olona 2, 20133 Milan, Italy
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, the Netherlands
SG Hong Kong	11-19A Queen's Road Central, Hong Kong, Hong Kong

* including the branch offices

(b) SG's subsidiaries

Company	Registered office	SG's share of voting power (%)
ALD (SIA)	K. Ulmana gatve 119, Riga, LV-2167, Latvia	75.00
ALD (UAB)	Ukmerges 283, Vilnius, LT -06313, Lithuania	75.01
ALD Automotive Hungary	1133 Budapest, Váci út 76, Hungary	99.99
ALD Automotive Polska sp. z.o.o.	Ostrobramska 101A, 04-041 Warsaw, Poland	100.00
ALD Automotive s.r.o.	U Stavoservisu 527/1, Prague 10, 10040, Czech Republic	100.00
ALD EESTI AS (Estonia)	Akadeemia tee 15A, 12618 Tallinn, Estonia	75.01
Banca Romana Pentrui Devzoltare (B.R.D.)	Boulevard Ion Mihalache no.1-7, sector I, Bucharest, Romania	58.32
Crédit du Nord	28 Place Rihour 59800 Lille, France	100.00
ESSOX SK s.r.o., v likvidácii	Cukrová 14, 811 08, Bratislava, Slovakia	100.00
European Fund Services, SA	18 Boulevard Roya, 2449, Luxembourg	100.00
Franfinance, SA	57-59 Avenue De Chatou, 92500 Rueil Malmaison, France	100.00
HITEX Hungary	1061 Budapest, Andrássy út 10. 3. emelet Hungary	100.00
Inter Europe Conseil	29 Boulevard Haussmann, 75009, Paris, France	100.00
Komerční pojišťovna, a.s.	Karolinská 1/650, Prague 8, 186 00, Czech Republic	100.00
Lyxor International Asset Management (LIAM)	Tour Société Générale, 17 Cours Valmy, 92800 Puteaux, France	100.00
Newedge Group (Frankfurt branch)	Neue Mainzer Strasse 52, 60311 Frankfurt am Main, Federal Republic of Germany	100.00
Newedge Group Financial Limited (UK Branch)	10 Bishops Square, London, E1 6EG, Great Britain	100.00
Newedge UK Finacial Limited	10 Bishops Square, London, E1 6EG, Great Britain	100.00
PEMA Polska sp. z.o.o.	Ul. Krzysztofa Kolumba 3, 62-052 Komorniki, woj. Wielkopolskie, Poland	100.00
PEMA Praha, spol. s.r.o.	Ul. Dopraváků 723, 184 00 Prague 8, Czech Republic	100.00
PEMA Slovakia, spol. s.r.o.	Pri Prachárni 20, 04001 Košice, Slovakia	100.00
Rosbank	11 Masha Poryvaeva Street, 107 078 Moscow, Russian Federation	82.40
SG Algerie	Résidence EL KERMA, 16 105 Gué de Konstantine, Algeria	100.00
SG Asset Management	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Asset Management Alternative Investments (SGAM AI)	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Cyprus Ltd.	20 Agias Paraskevis, 2002 Strovolos, Nicosia, Cyprus	51.00
SG Equipment Finance Hungary Plc.	1062 Budapest, Váci út 1-3, Hungary	99.85
SG Equipment Leasing Hungary Ltd	1062 Budapest, Váci út 1-3, Hungary	99.97
SG Equipment Leasing Polska	Marszalkowska 111 St., 00-102 Warsaw, Poland	100.00
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	99.72
SG China Ltd.	Taikang International Tower, Wudinghou Street, Xicheng District, 100140 Peking, China	100.00
SG Issuer S.A.	15 Boulevard du Prince Henri Luxembourg, 1724, Luxembourg	100.00
SG Marocaine de Banques	55, Boulevard Abdelmoumen, Casablanca, Morocco	56.91
SG Private Banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneve 11, Switzerland	100.00
SG Private Banking Belgique	Rue des Colonies, 11,1000 Brussels Belgium	100.00
SG Securities (London) Ltd.	Exchange House – 12 Primrose Street, London EC2A 2EG, Great Britain	100.00
SG Securities Services	Via Benigno Crespi 19A, Milano, Italy	100.00
SG Sucursal en Espana	Genova 26, Madrid, Spain	100.00
SG Option Europe	17 Cours Valmy, La Defense Cedex, Paris, France	100.00
SG Splitska Banka	Rudjera Boskovica 16, 21000 Split, Croatia	100.00
SG Vehicle Finance Hungary Plc.	1062 Budapest, Váci út 1-3, Hungary	100.00
SGA Société Générale Acceptance N.V.	PO Box 837, Curacao De Ruyterjade 58A, Netherlands Antilles	100.00
SGBT Luxembourg	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100.00
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	99.72
Sogecap	50 Avenue du Général de Gaulle, 92093 Paris, la Défense CEDEX, France	100.00
Sogeprom Česká republika s.r.o.	Legerova 802/64, Prague 2 – Vinohrady, 120 00, Czech Republic	100.00

c) KB's subsidiaries

Company	Registered office	SG's share of voting power (%)
ESSOX s.r.o.	Senovážné náměstí 231/7, České Budějovice, 370 21, Czech Republic	100.00
Factoring KB a.s.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, 155 00, Czech Republic	100.00
Modrá pyramida stavební spořitelna, a.s.	Bělehradská 128, č. p. 222, Prague 2, 120 21, Czech Republic	100.00
KB Penzijní společnost, a.s.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, 155 00, Czech Republic	100.00
Protos, uzavřený investiční fond, a.s.	Dlouhá 34, č. p. 713, Prague 1, 110 15, Czech Republic	100.00
Bastion European Investments S.A.	Rue des Colonies, 11,1000, Brussels, Belgium	100.00
SG Equipment Finance Czech Republic s.r.o.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, 155 00, Czech Republic	100.00
KB Real Estate s.r.o.	Václavské náměstí 625/42, 110 00, Prague 1, Nové Město, Czech Republic	100.00
VN 42, s.r.o.	Václavské náměstí 796/42, 10 00, Prague 1, Nové Město, Czech Republic	100.00
NP 33, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1, Nové Město, Czech Republic	100.00

The information on the relations between KB and these subsidiaries is stated in the reports on the relations of the individual subsidiaries of KB with the exception of the company Bastion European Investments S.A.

II. Arrangements with Related Entities

A. Contracts and Agreements with the Controlling Entity and Other Related Entities

Banking Transactions

During the reporting period, KB entered into the following contractual arrangements with controlled entities that were subject to banking secrecy restrictions:

Deposit Arrangements
In the deposit segment, KB entered into arrangements with 31 branches and subsidiaries of the SG Group as at the end of the reporting period. As at 31 December 2013, KB maintained a total of 58 accounts, of which 31 were loro accounts for branches and subsidiaries of the SG Group, 23 were current accounts and 4 overdraft accounts opened for non-banking entities of the SG Group. The average monthly overdraft balance (borrowing) on loro accounts was CZK 29.7 million; the average monthly credit balance (deposit) was CZK 263.2 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 178.6 million; the average monthly overdraft balance on these accounts was CZK 70.6 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 0.35 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 4.07 million. For the year ended 31 December 2013, KB paid CZK 0.07 million to clients arising from deposits on current and overdraft accounts.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, B.R.D, SG New York, SG Warszawa, SG Express Bank, Rosbank, SG Splitska Banka and SG China. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 71.3 million; the average monthly overdraft balance on nostro accounts was CZK 33.1 million. Interest income on nostro accounts for the reporting period was CZK 0.033 million; interest expenses amounted to CZK 0.025 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 13.5 million; income fees (i.e. provided discounts from credit operations on nostro accounts) amounted to CZK 1.86 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 1.86 million. Interest expenses paid by KB on loro accounts amounted to CZK 0.01 million and interest income amounted to CZK 0.11 million in the reporting period.

One SG subsidiary held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 761.3 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 3.5 million for the reporting period.

Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

Loan Arrangements
In the loan segment, in 2013 KB provided loans to one SG Group subsidiary – 123 loans in the aggregate amount of CZK 3,044.1 million. The average monthly balance of the loans during the reporting period was CZK 2,811.1 million. The aggregate amount of interest income was CZK 57.1 million.

At the end of the reporting period, KB provided 1 entity from the SG Group with a confirmed export letter of credit in the aggregate amount of CZK 46.8 million, 3 entities were provided with bank guarantees (payment, non-payment) in the amount of CZK 350.1 million.

At the end of the reporting period, KB received guarantees from 2 SG Group entities as collateral for the loans provided to clients in the aggregate amount of CZK 3,708.7 million. The aggregate amount of expense fees for guarantees received in the reporting period amounted to CZK 11.8 million.

Investment Banking Arrangements

In the investment banking segment, KB carried out transactions with 13 branches and subsidiaries from within the SG Group. The total number of transactions was 25,429 (2,377 on-balance sheet transactions and 23,052 off-balance sheet transactions) in the aggregate amount of CZK 1,385,872.3 million. The income from the investment banking transactions amounted to CZK 20,770.3 million and the costs were equal to CZK 23,040.6 million.

The aggregate amount of on-balance sheet transactions was CZK 626,398.7 million, of which:

– depository transactions – a total of 2,039 transactions in the aggregate amount of CZK 562,836.3 million;
– securities held for trading - a total of 338 transactions in the aggregate amount of CZK 63,562.4 million.

The aggregate amount of off-balance sheet transactions was CZK 759,473.6 million, of which:

– foreign currency transactions (spots, forwards, swaps) in the total number of 6,698 transactions in the aggregate amount of CZK 356,410.8 million;
– interest rate derivative transactions (interest rate swaps and futures) in the total number of 767 transactions in the aggregate amount of CZK 257,252.2 million;
– option transactions with currency instruments in the total number of 13,771 transactions in the aggregate amount of CZK 122,858 million;
– commodity transactions were realized only with SG Paris; KB implemented 1,718 transactions in the aggregate amount of CZK 21,491.3 million;
– emission allowance transactions - KB realized a total of 98 transactions in the aggregate amount of CZK 1,461.3 million with SG Paris during the reporting period.

All of the banking products were provided under standard terms and conditions, according to KB’s price list, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

Other Arrangements

1. Contracts and Agreements Entered into during the Reporting Period

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Notification of termination of agreement on the organisation of periodic control	SG UAB	Termination of a control agreement	Termination of a control agreement	None
Agreement - outsourcing of HR services	ALD Automotive s.r.o.	Provision of HR related services	Contractual fee	None
Cooperation agreement	ALD Automotive s.r.o.	Framework cooperation within the Czech Republic and the Slovak Republic	Framework cooperation within the Czech Republic and the Slovak Republic	None
Agreement for cooperation in the performance of the contract for employee group risk insurance	ALD Automotive s.r.o.	Mediation of insurance and regulation of mutual rights and duties	Regulation of mutual rights and duties	None
Framework agreement	ALD Automotive s.r.o.	Contractual fee	Leasing of vehicles	None
Amendment No. 2 to the Contract for employee group risk insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 3 to the Contract for employee group risk insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 3 to the Contract for the distribution of TRAVEL INSURANCE	Komerční pojišťovna, a.s.	Mediation of and entering into insurance contracts	Commission	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Amendment No. 4 to the Framework agreement for cooperation in the Spectrum insurance program	Komerční pojišťovna, a.s.	Mediation of and entering into insurance contracts	Commission	None
Amendment No. 4 to the Contract for the MERLIN and PROFI MERLIN collective insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 5 to the Contract for the collective insurance of consumer loans	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 5 to the Contract for the collective insurance of payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 6 to the Contract for the collective insurance of payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 18 to the Contract for the distribution of VITAL INVEST	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Amendment No. 19 to the Contract for the distribution of VITAL INVEST	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Agreement to terminate a contract – Contract for the collective insurance of the payment cards MC, VISA and AMEX	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Agreement to terminate a contract – Contract for cooperation in the provision of insurance for the payment cards American Express	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Agreement to terminate a contract – Contract for cooperation in the provision of insurance for the payment cards EC/MC and VISA	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 1 to the Contract for the mediation of sale of "Vital Premium" in EUR	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Framework agreement to make deals in the financial market	Komerční pojišťovna, a.s.	Making deals in the financial market	Making deals in the financial market	None
Contract for the provision of BI consulting	Komerční pojišťovna, a.s.	Provision of Business inteligence services	Contractual fee	None
Contract for optional collective insurance of consumer loans	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
3x Contract to pledge securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	None
Contract for the mediation of sale of the "Moje Jistota" risk life insurance	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the revocation of the Contract of lease of non-residential premises, movable things and payment of services linked with their use - Pilsen	Komerční pojišťovna, a.s.	Provision of non-residential premises	Rent	None
Minutes of the agreement to cut the commission for the Vital extraordinary insurance premium	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Framework agreement to indemnify clients	Komerční pojišťovna, a.s.	Client indemnification	Client indemnification	None
Contract for the mediation of sale of the Pension Insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the collective insurance of corporate cards and golden corporate cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Agreement on the Organization of Periodic Control	Komerční pojišťovna, a.s.	Provision of internal audit services	Contractual fee	None
Minutes of the agreement to cut the commission for the lump-sum, ordinary and extraordinary insurance premium for Brouček, Vital Invest and Vital Premium	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Commitment Letter – Certus and Certus 2 in CZK	Komerční pojišťovna, a.s.	Agreement as to the sale of Vital invest, Certus and Certus 2 secured fund	Commission	None
Convention – Contract for the purchase of the EMC Documentum licences	SG	Contractual fee	Provision of a licence and maintenance services	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Appointment of process agent for Komerční banka, a.s.	SG London	No fees	Transfer of information on any action against KB filed in the UK in connection with the ISDA Master Agreement	None
Memorandum of understanding – Alpha platform	SG London	Determination of the financial limit	Software development	None
Agreement	SG Paris	Cooperation in the area of audit	Contractual fee	None
Amendment for incoming or outgoing XML SEPA Credit Transfer and SEPA Direct Debit messages - Euro Account Maintenance & Clearing Service Agreement	SG Paris	No fees	Technical conditions and formatting	None
Amendment to Service Level Agreement	SG Paris	No fees	Backup procedure conditions	None
Bankers Blanket Bond	SG Paris	Insurance premium	Banking risk insurance	None
Business Interruption	SG Paris	Insurance premium	Business interruption insurance	None
Cooperation Transfer Pricing Agreement for Advisory business	SG Paris	Agreement on setting transfer prices regarding the cooperation between KB and SGCIB in the area of consulting	Agreement on setting transfer prices regarding the cooperation between KB and SGCIB in the area of consulting	None
Directors & Officers Liability	SG Paris	Insurance premium	Liability insurance for the board of directors	None
Amendment No. 1 to the Contract for temporary assignment of employee	SG Paris	Extension of the Contract for assignment of employee	Contractual fee	None
Contract for extension of temporary assignment of employee	SG Paris	Extension of the Contract for assignment of employee	Contractual fee	None
Professional Indemnity	SG Paris	Insurance premium	Liability insurance	None
MASTER COOPERATION AGREEMENT SG ON TRANSFER PRICING including the amendment Anal. Joint Venture KB PRIV/BHFM and SG PRIV	SG Paris, SGBT Luxembourg	Contractual fee	Provision of services to make deals with investment certificates	None
MASTER COOPERATION AGREEMENT SG ON TRANSFER PRICING including the amendment Analytical Joint Venture KB PRIV/BHFM and SG PRIV	SG Paris, SGBT Luxembourg	Contractual fee	Provision of services to make deals with investment funds	None
SERVICE LEVEL AGREEMENT in respect of a Custody contract	SG Splitska Banka	Setting further conditions for services provided under the Custody agreement	Free of charge	None

2. Consideration Received and Provided during the Reporting Period under Contracts Entered into in Prior Reporting Periods

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Separate VoIP Agreement No. 1	ALD Automotive s.r.o.	Provision of voicemail	Contractual fees	None
Network package	ALD Automotive s.r.o.	Provision of connectivity services	Contractual fee based on the volume of provided services	None
Lease of non-residential premises	ALD Automotive s.r.o.	Provision of premises	Rent	None
Framework agreement for full-service lease and finance lease with subsequent purchase	ALD Automotive s.r.o.	Contractual fee	Finance lease including operative lease	None
Operative leasing framework agreement	ALD Automotive SK	Contractual fee	Operative leasing	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Custodian services agreement	B.R.D.	Fees according to the price list	Provision of custody services	None
Service Level Agreement	B.R.D.	Fees according to the price list	Provision of custody services	None
Service Level Agreement	European Fund Services S.A.	Mediation of the purchase of securities	Settlement of securities transactions	None
Framework contract for personal data processing	Komerční pojišťovna, a.s.	Personal data processing	Provision of information	None
Framework contract for the Spektrum insurance program in the wording of amendment No.1	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the collective insurance for payment cards including Amendments Nos. 1, 2, 3 and 4	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the collective business loan insurance	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the collective insurance of the „ A KARTA“ and „LADY“ credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the collective insurance of purchase of goods on credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the PATRON collective insurance in the wording of amendment No. 1	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the collective insurance of MERLIN and PROFI MERLIN including Amendments Nos. 1, 2 and 3	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Confidentiality Agreement	Komerční pojišťovna, a.s.	Provision of data and protection of information	Provision of data and protection of information	None
Contract for the provision of services – outsourcing	Komerční pojišťovna, a.s.	Provision of HR services	Contractual fee	None
Contract for the acceptance of payment cards – internet, including Amendment No. 1	Komerční pojišťovna, a.s.	Acceptance of payment cards	Fees according to the price list	None
Contract of cooperation in portfolio assessment	Komerční pojišťovna, a.s.	Investment instruments assessment	Contractual fee	None
Contract for the cooperation in the group registration for VAT	Komerční pojišťovna, a.s.	Representation of group members in respect of VAT payments	Contractual fee	None
Contract for mutual cooperation including Amendment No. 1	Komerční pojišťovna, a.s.	Provision of services	Provision of services	None
Contract to pledge securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	None
Contract for the mediation of MERLIN and PROFI MERLIN including Amendment No. 1	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of PATRON and PROFI PATRON	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of VITAL INVEST including amendments	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of VITAL PREMIUM including amendments Nos. 1, 2, 3, 4, 5 and 6	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of Brouček including amendments Nos. 1 and 2	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of VITAL PLUS including amendments Nos. 1, 2, 3 and 4	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract for the mediation of RISK LIFE FOR MORTGAGE LOANS including amendments Nos. 1, 2, 3 and 4	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of TRAVEL INSURANCE including amendments Nos. 1 and 2	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Contract for the mediation of VITAL, VITAL GRANT and VITAL PLUS including amendments Nos. 1 and 2	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Contract of cooperation	Komerční pojišťovna, a.s.	Cooperation in product development and other business activities	Commission	None
Minutes of the agreement to cut the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
5x Contract of lease of non-residential premises, movable things and payment of services linked with their use – Brno, Pilsen, Hradec Králové and Jihlava	Komerční pojišťovna, a.s.	Provision of premises	Rent	None
Framework agreement for the provision of IT services	Komerční pojišťovna, a.s.	Provision of services in the area of technical infrastructure	Fee based on hourly rate	None
Accession to the rules of cooperation between KB and Group members in the area of sourcing and acquisitions	Komerční pojišťovna, a.s.	Free of charge	Free of charge	None
Contract for the provision of call centre services	Komerční pojišťovna, a.s.	Provision of call centre services	Contractual fee	None
Minutes of a change in the conditions for the payment of commissions for KP mature contracts	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Agreement to terminate the contract for the connection to KB's voice information system	Komerční pojišťovna, a.s.	Free of charge	Free of charge	None
Agreement for the clearing of fees	Komerční pojišťovna, a.s.	Free of charge	Free of charge	None
Contract for the collective insurance of consumer loans including 4 amendments	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Agreement to send electronic notifications of clearing	Komerční pojišťovna, a.s.	Sending electronic notifications of clearing	Fees according to the price list	None
Framework distribution contract including 1 amendment	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the collective insurance of KB credit cards including 2 amendments	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Group personal life insurance contract including 8 amendments	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract of cooperation in payment arrangements	Komerční pojišťovna, a.s.	cooperation in payment arrangements	Contractual fee	None
Licensing contract	Komerční pojišťovna, a.s.	Provision of KB's trade mark	Contractual fee	None
Contract for the collective insurance of consumer loans including 3 amendments	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance, insurance payment	None
Contract of cooperation	Komerční pojišťovna, a.s.	Cooperation in product development and other business activities	Cooperation in product development and other business activities	None
Contract for the collective insurance of KB credit cards including 2 amendments	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance, insurance payment	None
Cooperation agreement	Komerční pojišťovna, a.s.	Cooperation in product development and other business activities	Cooperation in product development and other business activities	None
Partial contract No. 5 for the provision of notification services	Komerční pojišťovna, a.s.	Provision of IT services	Contractual fee	None
Custody contract including 1 amendment	Komerční pojišťovna, a.s.	Administration and settlement of securities transactions	Contractual fee	None
Custody contract for the VITAL INVEST FORTE product	Komerční pojišťovna, a.s.	Administration of securities	Contractual fee	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Contract for the “Moje pojištění plateb” collective insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Agreement to cut the commission for the extraordinary insurance premium on the Brouček, Vital and Vital Invest products	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Agreement to cut the basis for the calculation of the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Agreement for cooperation in the performance of the contract for employee group risk insurance	Komerční pojišťovna, a.s.	Insurance premium and regulation of mutual rights and duties	Provision of insurance and regulation of mutual rights and duties	None
Individual pricing agreement	Komerční pojišťovna, a.s.	Provision of banking services	Fees according to the price list	None
Framework agreement to make deals in the financial market	Komerční pojišťovna, a.s.	Making deals secured by security transfer of securities	Contractual fee	None
Employee group risk insurance contract including amendment No. 1	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract to pledge securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	None
Contract for the mediation of sale of “Vital Premium“ in EUR	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts in EUR	Commission	None
Contract for the mediation of sale of Vital including amendments Nos. 1, 2, 3 and 4	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Partial contract No.1 - 4 regarding Framework contract for the provision of IT services	Komerční pojišťovna, a.s.	Provision of services in the area of IT infrastructure	Contractual fee	None
Contract for the “Profi pojištění plateb” collective insurance including 1 amendment	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contact Bank Agreement including Amendments No. 1 and 2	LIAM	Mediation of the sale of participation certificates	Commission	None
Distribution Agreement Amendments No. 1 and 2	LIAM	Mediation of the sale of participation certificates	Commission	None
Global Terms of Business	Newedge Group (UK branch)	Contractual fees	Maintenance of clearing accounts and brokerage services	None
Transfer of Futures Accounts	Newedge Group (UK branch)	Contractual fees	Futures operations in an organized market	None
Novation agreement	Newedge UK Financial Limited	Free of charge	Broker’s services	None
Agreement on meaning and maintaining correspondent account on non-resident-credit Institution, including amendments no.1 a 2.	Rosbank	Fees according to the price list	Maintenance of and payments from and to KB‘s nostro account denominated in RUB.	None
Cross-Border RMB Agent Settlement Agreement	SG China	Fees according to the price list	Maintenance of a nostro account denominated in jüan	None
Appointment of process agent for Komerční banka, a.s.	SG London	Free of charge	Transmission of information as to whether an action has been filed against KB to a court in GB	None
Terms for Business for Treasury Equities, Derivates and Fixed Income Products	SG London	Free of charge	Business conditions for provision of investment services	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Appointment of process agent for Komerční banka, a.s., including an amendment	SG New York	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the US	None
Service Level Agreement	SG New York	Fees according to the price list	Processing of payments	None
Revisions of written texts	SG Paris	Free of charge	Revision making	None
Consultancy on the macroeconomic situation	SG Paris	Free of charge	Consultancy on the macroeconomic situation in the world economy	None
Consultancy on the development of the economic situation with SG analysts	SG Paris	Free of charge	Consultancy on the development of the economic situation in the following quarter with SG analysts	None
Consultancy on financial market development	SG Paris	Free of charge	Consultancy on world financial market development	None
Contract for temporary assignment of employee	SG Paris	Assignment of employee	Provision of know how	None
Sending reports to SG Thematic Research	SG Paris	Provision of information on Central and Eastern Europe	Free of charge	None
Entering KB's analytical reports, economic/strategic analyses in an SG database	SG Paris	Any analyses in English are available to every SG employee	Free of charge	None
Sending reports by SG Economic Research	SG Paris	Free of charge	Sending SG (Economic Research) reports to KB employees	None
Sending reports to SG Economic Research	SG Paris	Sending Economic & Strategy Research reports to SG employees	Free of charge	None
Sending reports by SG Equity Research	SG Paris	Free of charge	Sending SG (Equity Research) reports to KB employees	None
Sending reports to SG Equity Research	SG Paris	Sending Equity reports to SG employees	Free of charge	None
Sending reports by SG Strategy Research	SG Paris	Free of charge	Sending SG (Strategy Research) reports to KB employees	None
Sending reports to SG Strategy Research	SG Paris	Sending Strategy Research reports to SG employees	Free of charge	None
ACPI – subscribing product of SG at KB's points of sale	SG Paris	Mediation of the sale of selected SG products	Contractual fee	None
Agreement	SG Paris	Contractual fee	HR-related consulting	None
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	Mediation of the sale of derivative instruments	Contractual fee	None
Analytical coverage of the Czech Republic for the needs of SG Research	SG Paris	Opinions and consultancy on macroeconomics and financial markets in the CR	Contractual fee	None
Bi-Lateral Agreement on Rate Reset and Payment Notices produced by the ISDA Operations Committee	SG Paris	Agreement to terminate sending Swap exchange rates	Agreement to terminate sending Swap exchange rates	None
Agreement relating to the use of the Class Custody Tool	SG Paris	Contractual fees	Custody activities	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Cash letter service agreement	SG Paris	Payment of cheques	Issuance of cheques	None
Contingency agreement	SG Paris	Free of charge	Adjustment of conditions of the payment operations in n the case of accident or failure of SWIFT	None
Credit Support Annex	SG Paris	Transactions with financial collateral to secure transactions with emission allowances	Contractual fee	None
Custodian Services Agreement	SG Paris	Contractual fees	Custody services	None
Custody contract	SG Paris	Administration of securities traded on stock exchange	Fees according to the price list	None
GENERAL TERMS AND CONDITIONS FOR USE OF E-CONFIRMATION	SG Paris	Conditions of confirmation sending	Conditions of confirmation sending	None
Agreements and contracts relating to the provision of management and advisory services “Management Support Agreement“ (including Amendments Nos. 1 and 2)	SG Paris	Contractual fee	Provision of management and advisory services	None
EUR Account Maintenance & Clearing Service Agreement	SG Paris	Fees according to the price list	Conditions and terms for the maintenance of and payments related to KB’s NOSTRO account denominated in EUR and maintained by SG Paris	None
Global Master Repurchase Agreement	SG Paris	Contractual fee	Framework contract to make repo and buy-and-sell-back transactions	None
Hosting contract	SG Paris	Contractual fee	Data processing	None
ISDA Master Agreement	SG Paris	Mediation of transactions with emission allowances	Contractual fee	None
ISDA Master Agreement	SG Paris	Fees	Mediation of transactions with all types of derivative financial instruments on the interbank market	None
Protection agreement	SG Paris	Contractual fees	Protection of personal information within the appraisal system (APE)	None
Service Level Agreement	SG Paris	Free of charge	Contract for the mediation of foreign payments	None
Service Level Agreement	SG Paris	Administration of benefits of expatriates	Administration of benefits of expatriates	None
Access To The SWIFTNet Network And Related Services Master Agreement	SG Paris	Contractual fees	Swift transactions; checking swift notifications as to the legalisation of proceeds from criminal activities and other restrictions (embargos)	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
SG Paris – Pay Away	SG Paris	Free of charge	Mediation of foreign payments at the payer's order to selected African countries	None
SG Paris – Sure Pay	SG Paris	Free of charge	Contract for the mediation of payments to selected Euro zone countries	None
SG Paris - Word Pay	SG Paris	Fees	Processing and transfer of payments	None
T3C competence centres contract	SG Paris	Consulting and technical assistance in the creation of SG branch infrastructure	Contractual fees	None
Contract for the provision of communication services	SG Paris	Fees	Provision of communication services	None
Contract for Cooperation	SG Paris	Definition of framework conditions of cooperation in the internal audit area	Definition of framework conditions of cooperation in the internal audit area	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Administration of securities traded in France	None
2 x Contract for temporary assignment of employee	SG Paris	Assignment of employee	Provision of know how	None
3 x Amendments to the Contracts for temporary assignment of employee	SG Paris	Assignment of employee	Provision of know how	None
11 x Agreement relating to the structured products which indicate terms and conditions and enclosed	SG Paris	Mediation of the sale of or subscription for structured products	Contractual fee	None
16 x Agreement on the Organization of Periodic Control including 15 amendments to these contracts	SG Paris and the relevant SG Group company	Internal audit services	Contractual fee	None
Custody contract	SG Securities Services	Custody services	Contractual fees according to the price list	None
Custody Agreement	SG Splitska Banka	Custody services	Contractual fees	None
Custody Agreement	SG Splitska Banka	Contractual fee	Custody services	None
Custody Account Agreement	SG Warsaw	Fees according to the price list	Custody services (administration and settlement of securities)	None
Service Level Agreement	SG Warsaw	Fees according to the price list	Custody services (administration and settlement of securities)	None
Brokerage Conformity Agreement	SGAM AI	Distribution of securities issued by SGAM FUND in the CR	Contractual fee	None
Introduction Broker Agreement	SGAM AI	Mediation of purchases of SGAM funds	Contractual fee	None
EURO Medium Term Note Master Purchase Agreement	SGAM Banque	Contractual fees	Securities transactions	None
Novation Agreement	SGAM Banque	Contractual fees	Regulation of the conditions to trade in securities	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
ISDA Master Agreement	SGBT Luxembourg	Framework contract to make foreign exchange transactions	Contractual fee	None
Sub-Custody & Brokerage Service Agreement	SGBT Luxembourg	Contractual fee	Custody services	None
Accession to the rules of cooperation in the area of sourcing and purchases between KB and group members	Sogeprom Česká republika s.r.o.	Provision of services	Payment of price and cooperation	None
Confidentiality Agreement	Sogeprom Česká republika s.r.o.	Protection of information and banking secret	Protection of information and banking secret	None

B. Other Legal Acts Implemented by the Bank in the Interest of the Controlling Entity and Other Related Entities

Pursuant to a decision of the General Meeting held on 24 April 2013, the shareholder, SG Paris, received dividends for the year 2012 in the aggregate amount of CZK 5,287,297,270.00.

On the basis of an agreement to purchase bonds entered into with SG Paris, KB received interest of 2.84 percent p.a., that is, CZK 74.6 million, for the year 2013.

C. Measures Taken or Implemented by the Bank in the Interest of or at the Initiative of the Controlling Entity and Other Related Entities

During the reporting period, KB did not take or implement any measures that would be in the interest of or at the initiative of the related entities.

III. Conclusion

The Bank's Board of Directors has reviewed all arrangements put in place between the Bank and the related entities during the 2013 reporting period and states that the Bank incurred no damage as a result of any contracts, agreements, any other legal acts or any other measures taken or implemented by the Bank in the reporting period.

In Prague on 28 February 2014

Albert Le Dirac'h
Chairman of the Board of Directors
Komerční banka, a.s.

Pavel Čejka
Member of the Board of Directors
Komerční banka, a.s.

Securities Issued by KB

Komerční banka Shares

Kind:	ordinary share
Type:	bearer share
Form:	dematerialised
Total value of the issue:	CZK 19,004,926,000
Total number of shares:	38,009,852
Nominal value per share:	CZK 500
ISIN:	CZ0008019106

Public tradability

Komerční banka shares are publicly traded on exchange markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů, a.s.

Rights vested in the shares[1]

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and with the Bank's Articles of Association as approved by the General Meeting. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. Each CZK 500 of nominal share value is equivalent to one vote.

The shareholder shall be entitled to a proportion of the Bank's profit (dividends) approved for distribution to the shareholders by the General Meeting while taking into account the Bank's financial results and terms and conditions established by the generally binding legal regulations and the payment of which was decided upon by the Board of Directors in fulfilling of the terms and conditions established by the generally binding legal regulations.

In accordance with the Articles of Association, the right to a share in profit shall accrue to any shareholder registered as owning shares in the statutory records of the securities' issuer seven calendar days prior to the date of the General Meeting which approved the share of the profit to be distributed among shareholders. The share in profit shall become payable upon expiration of 30 days following the date of the General Meeting at which the resolution on the dividend payment was adopted.

The right to claim a payment of the dividend shall lapse three years from the day when the shareholder learnt of the due date for the payment of the share in profit or when he could or should have learnt this, however, no later than within 10 years of the due date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

Upon the Bank's liquidation and dissolution, the means of liquidation is governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

For further information about trading in the shares, their prices and the share in profit, please refer to the chapter Komerční banka Share on the Capital Market.

Komerční banka global depository receipts

Global depository receipts (GDRs) were issued for shares of Komerční banka administered by The Bank of New York ADR Department (the shares are held on its asset account at the Securities Centre). In principle, GDRs bear the same rights as do shares of the Bank and they may be reconverted into shares. One GDR represents one-third of one share of Komerční banka.

1) Effective as of the date of KB's 2014 Annual General Meeting. Certain terms describing rights vested in KB shares changed following entry into force of the Act on Business Corporations on 1 January 2014 and subsequent implementation of the changes into KB's Articles of Association by the Extraordinary General Meeting on 28 January 2014. The description of the rights vested in the shares as applicable during 2013 remains unchanged from 2012 Annual Report.

The GDR programme was launched at the end of June 1995. In issuing the first tranche, Komerční banka marked its entry into the international capital markets. A second tranche followed in 1996. From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as at 31 December 2013 was 183,747.

Bonds issued by Komerční banka (outstanding bonds)

List of outstanding bonds issued by Komerční banka

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK (as at 31 December 2013)	Interest rate	Payout of interest
1.	HZL 2005/2015	CZ0002000565 [1]	2 August 2005	2 August 2015	5,200,000,000	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	quarterly
2.	HZL 2005/2015	CZ0002000664 [1]	21 October 2005	21 October 2015	11,490,000,000	4.40% p.a.	yearly
3.	HZL 2006/2016	CZ0002000854 [1]	1 September 2006	1 September 2016	EUR 12,801,000	3.74% p.a.	yearly
4.	HZL 2007/2019	CZ0002001142 [2]	16 August 2007	16 August 2019	3,000,000,000	5.00% p.a.	yearly
5.	HZL 2007/2037	CZ0002001324 [2]	16 November 2007	16 November 2037	1,200,000,000	Note A	stated
6.	HZL 2007/2037	CZ0002001332 [2]	16 November 2007	16 November 2037	1,200,000,000	Note A	stated
7.	HZL 2007/2037	CZ0002001340 [2]	16 November 2007	16 November 2037	1,200,000,000	Note B	stated
8.	HZL 2007/2037	CZ0002001357 [2]	16 November 2007	16 November 2037	500,000,000	Note B	stated
9.	HZL 2007/2037	CZ0002001365 [2]	16 November 2007	16 November 2037	1,000,000,000	RS minus 0.20% p.a.	stated
10.	HZL 2007/2037	CZ0002001373 [2]	16 November 2007	16 November 2037	1,000,000,000	RS minus 0.20% p.a.	stated
11.	HZL 2007/2037	CZ0002001381 [2]	16 November 2007	16 November 2037	500,000,000	RS minus 0.20% p.a.	stated
12.	HZL 2007/2037	CZ0002001399 [2]	16 November 2007	16 November 2037	500,000,000	RS minus 0.20% p.a.	stated
13.	HZL 2007/2037	CZ0002001431 [2]	30 November 2007	30 November 2037	1,200,000,000	RS minus 0.20% p.a.	stated
14.	HZL 2007/2037	CZ0002001449 [2]	30 November 2007	30 November 2037	1,200,000,000	RS minus 0.20% p.a.	stated
15.	HZL 2007/2037	CZ0002001456 [2]	30 November 2007	30 November 2037	1,200,000,000	RS minus 0.20% p.a.	stated
16.	HZL 2007/2037	CZ0002001464 [2]	30 November 2007	30 November 2037	500,000,000	RS minus 0.20% p.a.	stated
17.	HZL 2007/2037	CZ0002001472 [2]	30 November 2007	30 November 2037	500,000,000	RS minus 0.20% p.a.	stated
18.	HZL 2007/2037	CZ0002001480 [2]	30 November 2007	30 November 2037	500,000,000	RS minus 0.20% p.a.	stated
19.	HZL 2007/2037	CZ0002001498 [2]	7 December 2007	7 December 2037	500,000,000	RS minus 0.20% p.a.	stated
20.	HZL 2007/2037	CZ0002001506 [2]	7 December 2007	7 December 2037	700,000,000	RS minus 0.20% p.a.	stated
21.	HZL 2007/2037	CZ0002001514 [2]	7 December 2007	7 December 2037	1,000,000,000	RS minus 0.20% p.a.	stated
22.	HZL 2007/2037	CZ0002001522 [2]	7 December 2007	7 December 2037	1,000,000,000	RS minus 0.20% p.a.	stated
23.	HZL 2007/2037	CZ0002001530 [2]	7 December 2007	7 December 2037	1,200,000,000	RS minus 0.20% p.a.	stated
24.	HZL 2007/2037	CZ0002001548 [2]	7 December 2007	7 December 2037	1,200,000,000	RS minus 0.20% p.a.	stated
25.	HZL 2007/2037	CZ0002001555 [2]	12 December 2007	12 December 2037	1,200,000,000	RS minus 0.20% p.a.	stated
26.	HZL 2007/2037	CZ0002001563 [2]	12 December 2007	12 December 2037	1,200,000,000	RS minus 0.20% p.a.	stated
27.	HZL 2007/2037	CZ0002001571 [2]	12 December 2007	12 December 2037	1,200,000,000	RS minus 0.20% p.a.	stated
28.	HZL 2007/2037	CZ0002001589 [2]	12 December 2007	12 December 2037	1,200,000,000	RS minus 0.20% p.a.	stated
29.	2007/2017	CZ0003701427 [1]	18 December 2007	1 December 2017	306,800,000	4.216% p.a.	yearly
30.	HZL 2007/2017	CZ0002001761 [1]	19 December 2007	19 December 2017	514,480,000	4.09% p.a.	yearly
31.	HZL 2007/2037	CZ0002001753 [1]	21 December 2007	21 December 2037	6,330,000,000	RS plus 1.5% p.a.	yearly
32.	HZL 2007/2037	CZ0002001746 [1]	28 December 2007	28 December 2037	1,240,000,000	RS plus 1.5% p.a.	yearly
33.	HZL 2012/2022	CZ0002002801 [1]	21 December 2012	21 December 2022	3,000,000,000	2.55% p.a.	yearly
34.	2012/2014	CZ0003703563 [1]	21 December 2012	21 December 2014	2,000,000,000	2.75% p.a.	yearly
35.	2012/2015	CZ0003703571 [1]	21 December 2012	21 December 2015	2,000,000,000	3.00% p.a.	yearly
36.	2012/2016	CZ0003703589 [1]	21 December 2012	21 December 2016	3,000,000,000	3.25% p.a.	yearly
37.	2012/2017	CZ0003703597 [1]	21 December 2012	21 December 2017	3,000,000,000	3.50% p.a.	yearly
38.	2012/2018	CZ0003703605 [1]	21 December 2012	21 December 2018	5,000,000,000	Note C	yearly
39.	2012/2019	CZ0003703613 [1]	21 December 2012	21 December 2019	5,000,000,000	Note D	yearly
40.	HZL 2013/2018	CZ0002003064 [1)]	14 March 2013	14 March 2018	1,747,000,000	6M PRIBOR plus 0.50% p.a.	semiannually

Notes:

HZL = mortgage bond
RS = reference rate
1 dematerialised bonds
2 bonds in paper form

Note A: 5.06% p.a. for the first twelve annual periods, afterwards the relevant RS minus 0.20% p.a.

Note B: 5.02% p.a. for the first eleven annual periods, afterwards the relevant RS minus 0.20% p.a.

Note C: 1.50% p.a. for the first year period
2.50% p.a. for the second year period
4.00% p.a. for the third year period
4.50% p.a. for the fourth year period
5.00% p.a. for the fifth year period
5.50% p.a. for the sixth year period

Note D: 1.50% p.a. for the first year period
2.00% p.a. for the second year period
2.50% p.a. for the third year period
5.00% p.a. for the fourth year period
5.50% p.a. for the fifth year period
6.00% p.a. for the sixth year period
6.50% p.a. for the seventh year period

All bonds are made out to the bearer and, with the exception of mortgage bond ("HZL") ISIN CZ0002000854, are denominated in CZK.

HZL ISIN CZ0002000565 was issued under the KB Debt Issuance Programme approved by a decision of the Czech Securities Commission dated 6 May 2003. This 10-Year Debt Issuance Programme with the maturity for any single issue of up to 10 years enables the Bank to issue mortgage bonds in a maximum amount of CZK 15 billion outstanding.

The bonds listed in the table under numbers 4–40 were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. This 30-Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding.

Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act and the Act on Capital Market Undertakings, as amended. The bonds' prospectuses, the base prospectuses of the bond programmes or issuance terms and conditions and supplements to the bond programmes were approved, if required by law, the Czech National Bank or the Czech Securities Commission (in the case of bonds issued before 1 April 2006).

Public tradability and transferability
HZL ISIN CZ0002000565, CZ0002000664, CZ0002002801 and CZ0002003064 were admitted for trading on the Regulated Market of the Prague Stock Exchange.

The transferability of the bonds is not limited.

Rights vested in the bonds
Rights and obligations pertaining to the bonds are governed and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the issuance terms and conditions for each issue.

Bonds bear interest from the date of issue, and coupon payments are made quarterly, semiannually, yearly or at stated intervals. The bonds' returns are paid by the issuer – Komerční banka.

The bonds will be redeemed by Komerční banka in the whole amount of the nominal value (with the exception of HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bond ISIN CZ0003701427) on the maturity day. HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bond ISIN CZ0003701427 are amortised bonds.

History and Profile of KB

Komerční banka is the parent company of KB Group and is a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services – such as pension savings and building society schemes, leasing, factoring, consumer lending and insurance – accessible through KB's branch network, its direct banking channels, and the subsidiaries' own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients.

History

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company. KB's shares have been listed on the Prague Stock Exchange since its inception in 1993, as well as within the RM-System. Global depository receipts (GDRs) representing KB shares have been traded on the London Stock Exchange since 1995. In 2001, the state's 60% holding in Komerční banka was purchased by Société Générale. Following privatisation, KB began significantly to develop its activities for individual customers and entrepreneurs while continuing to build on its traditionally strong position in the enterprises and municipalities market. In developing its retail activities, KB purchased in 2006 the remaining 60% of shares in Modrá pyramida it did not already own. Thereby, Komerční banka attained full control over the Czech Republic's third largest building society. Another important step in extending the offer of financial solutions to our clients was the acquisition in May 2011 of a 50.1% stake in SGEF, a leading provider of asset-backed financing in the Czech Republic and in Slovakia.

Société Générale Group

Komerční banka has been an important part of Société Générale Group's international retail banking since October 2001. Société Générale is one of the largest European financial services groups. Based on a diversified universal banking model, the group combines financial solidity with a strategy of sustainable growth, and aims to be the reference for relationship banking, recognised on its markets, close to clients, chosen for the quality and commitment of its teams.

Société Générale has been playing a vital role in the economy for 150 years. With more than 154,000 employees, based in 76 countries, the group serves 32 million clients throughout the world on a daily basis. Société Générale's teams offer advice and services to individual, corporate and institutional customers in three core businesses:
- Retail banking in France with the Société Générale branch network, Credit du Nord and Boursorama, offering a comprehensive range of multichannel financial services on the leading edge of digital innovation;
- International retail banking, financial services and insurance with a presence in emerging economies and leading specialised businesses; and
- Corporate and investment banking, private banking, asset management and securities services, with recognised expertise, top international rankings and integrated solutions.

Société Générale is included in the main socially responsible investment indices: Dow Jones Sustainability Index (Europe), FSTE4Good (Global and Europe), Euronext Vigeo (Global, Europe, Eurozone and France) and 5 of the STOXX ESG Leaders indices.

The Bank's Identification Details as at 31 December 2013

Komerční banka, a.s., entered in the Commercial Register maintained with the Metropolitan Court of Prague Section B, File No. 1360

Date of registration:
5 March 1992

Registered office:
Prague 1, Na Příkopě 33, building identification number 969, postal code 114 07

Identification number:
45317054

Legal form:
Public limited company

Business activities:

I. The Bank shall carry on business pursuant to Act No. 21/1992 Coll., the Banking Act, as amended. The business activities of the Bank shall include:

a) acceptance of deposits from the public,
b) granting of loans,
c) investing in securities on the Bank's own account,
d) financial leasing,
e) making and receiving payments and administration of a clearing system,
f) issuing of payment instruments, such as payment cards and traveller's cheques,
g) provision of guarantees,
h) issue of letters of credit,
i) provision of collection services,
j) provision of investment services including:
  – main investment services of reception and transmission, on behalf of investors, of orders in relation to one or more investment instruments,
  – main investment services of execution of orders on behalf of investors in relation to one or more investment instruments,
  – main investment services of dealing in investment instruments for the Bank's own account,
  – main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more investment instruments,
  – main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues,
  – ancillary services of safekeeping and administration in relation to one or more investment instruments,
  – ancillary services of safe custody,
  – ancillary services of granting credits or loans to an investor to allow him to carry out a transaction in one or more investment instruments, where the firm granting the credit or loan is involved in the transaction,
  – ancillary services of advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings,
  – ancillary services related to underwriting,
  – ancillary services of investment advice concerning one or more investment instruments,
  – ancillary services of foreign-exchange service where these are connected with the provision of investment services;
k) dealing on the Bank's own account or on the client's account in foreign currencies and gold,
l) financial brokerage,
m) foreign exchange operations (purchase of foreign currency),
n) provision of depository services,
o) provision of banking information,
p) rental of safe-deposit boxes,
q) issue of mortgage bonds,
r) activities directly related to those mentioned in paragraphs a) - q)

II. Furthermore, the business activities comprise activities carried out for another as long as these activities relate to the operation of the Bank and to the operation of other banks controlled by it, of financial institutions and of businesses which provide ancillary banking services in the scope specified below:

a) accounting consultants activities, book-keeping, tax record keeping,
b) procurement of deals,
c) engineering activities in investment production,
d) administration and maintenance of real property,
e) organisation of specialised courses, training, and other educational programmes including teaching,
f) business, financial, organisational, and economic consulting,
g) data processing, database services, network (web) administration.

Authorised body - Board of Directors:

– Chairman of the Board of Directors: Albert Marie Le Dirac'h, born on 16 October 1954, date of assuming office: 2 August 2013*, member since: 2 August 2013*
– Member of the Board of Directors: Vladimír Jeřábek, born on 7 April 1968, member since: 2 June 2012*
– Member of the Board of Directors: Aurélien Gérard Étienne Viry, born on 2 November 1966, member since: 1 January 2011*
– Member of the Board of Directors: Charles Karel Vasak (Karel Vašák), born on 9 August 1960, member since: 1 August 2012*
– Member of the Board of Directors: Pavel Čejka, born on 13 December 1964, member since: 1 August 2012*
– Member of the Board of Directors: Peter Palečka, born on 3 November 1959, member since: 8 October 2013*

* with reference to the current term

Method of performing acts in law:
Acting on behalf of the Bank: The Board of Directors, as the Bank's authorised body shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.

Signing on behalf of the Bank: Either all members of the Board of Directors jointly or any two of its members jointly shall sign on behalf of the Bank.

Supervisory Board:
- Chairman of the Supervisory Board: Jean-Luc André Joseph Parer, born on 16 April 1954, date of assuming office: 1 May 2013, member since 25 April 2013
- Vice-Chairman of the Supervisory Board: Giovanni Luca Soma, born on 21 August 1960, date of assuming office: 1 May 2013, member since 1 May 2013
- Member of the Supervisory Board: Bernardo Sanchez Incera, born on 9 March 1960, member since 22 April 2011
- Member of the Supervisory Board: Laurent Goutard, born on 13 May 1961, member since 1 May 2013
- Member of the Supervisory Board: Petr Laube, born on 8 July 1949, member since 1 May 2013
- Member of the Supervisory Board: Ing. Bořivoj Kačena, born on 24 February 1943, member since 30 April 2012
- Member of the Supervisory Board: Pavel Jelínek, born on 18 May 1971, member since 1 June 2013
- Member of the Supervisory Board: Dana Neubauerová, born on 7 May 1964, member since 1 June 2013
- Member of the Supervisory Board: Karel Přibil, born on 14 December 1954, member since 1 June 2013

Shares:
38,009,852 pieces of uncertificated listed ordinary bearer shares, each of a nominal value of CZK 500

Registered capital:
CZK 19,004,926,000; of which paid up: 100%

Method of the Company's establishment:
In accordance with the privatisation project of the state financial institution Komerční banka, with its registered office at Prague, Na Příkopech 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole founder, established the public limited company Komerční banka, a.s., based on the Deed of Incorporation of 3 March 1992 under Sec. 172 of the Commercial Code.

Branches of the business:
Name: Komerční banka, a.s., pobočka zahraničnej banky
Registered office: Bratislava, Hodžovo námestie 1A, postal code 811 06, Slovak Republic
Head of the branch: Katarína Kurucová, born on 14 June 1974

Notes

Notes

This annual report is printed on FSC certified paper.

Forest Stewardship Council (FSC) is an independent, non-governmental, not-for-profit organization established to promote environmentally appropriate, socially beneficial and economically viable management of the world's forests.

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