Komerční banka, a.s.

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

Table of Contents

Building a better working world

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.

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

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

Michaela Kubýová

Michaela Kubýová
Auditor, License No. 1810

4 March 2014
Prague, Czech Republic

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

Year ended 31 December 2013

Consolidated Income Statement for the year ended 31 December 2013

(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**

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

Consolidated Statement of Comprehensive Income for the year ended 31 December 2013

(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	0	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 Officer

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

(CZKm)	Share capital	Capital and reserve funds and retained earnings/*	Remea-surement 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.

TABLE OF CONTENTS

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
NV 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, Praha 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.

Standard	Impact/Comments
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*

Standard	Summarised content	Effective for reporting period beginning on or after
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*

Standard	Summarised content	Effective for reporting period beginning on or after
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 lenght 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'* in 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'*.

<u>The Group as lessee</u>

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;
- *Investment 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

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:

(CZKm)	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 Dec 2013		31 Dec 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)	31 Dec 2013	31 Dec 2012
Country of Issuer	**Fair value**	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:

	31 Dec 2013		31 Dec 2012	
(CZKm)	**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*
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
EFSF	566	561	1,040	1,029
EIB	1,436	1,250	2,503	2,250
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 follow:

(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 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:

(CZKm)	**31 Dec 2013**		31 Dec 2012	
	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:

(CZKm)	**31 Dec 2013**		31 Dec 2012	
Country of Issuer	**Fair value**	**Cost***	Fair value	Cost*
France	198	193	189	177
Total held-to-maturity investments	**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 undertakins 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.	49.00	482	1,084	482	971
Czech Banking Credit Bureau, a. s.*	20.00	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					
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
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 (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)	2013	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 percentage
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 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 adequancy 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:

	31 Dec 2013			31 Dec 2012		
(CZKm)	**Total commit-ments and contin-gencies collateral***	**Discounted commit-ments and contingen-cies collateral value****	**Applied commit-ments and contin-gencies collateral value*****	Total commit-ments and contin-gencies collateral*	Discounted commit-ments and contingen-cies collateral value**	Applied commit-ments and contin-gencies 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. 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 Dec 2013	31 Dec 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:

	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	21,605	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:

(CZKm)	**Loans not past due**	**Past due loans, not impaired: 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:

(CZKm)	Loans not past due	Past due loans, not impaired: 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		31 Dec 2012		**31 Dec 2013**		31 Dec 2012	
	Notional value		Notional value		**Fair value**		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		31 Dec 2012		**31 Dec 2013**		31 Dec 2012	
	Notional value		Notional value		**Fair value**		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		
	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:

	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	5,892	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
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 fullfilment 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:

(CZKm)	**31 Dec 2013** Carrying value	**31 Dec 2013** Fair value	31 Dec 2012 Carrying value	31 Dec 2012 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:

(CZKm)	**31 Dec 2013** Fair value	**Level 1**	**Level 2**	**Level 3**	31 Dec 2012 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 certificates	2	0	0	2	2	0	0	2
- 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 set off 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 set off 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 Comprehensivelincome. Such amounts are amortised over the remaining life of the security.