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

Komerční banka, a.s.

NA PARTNERSTVÍ ZÁLEŽÍ

KB

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VISION AND MISSION

Long-term Mutually Beneficial Relationships with Clients and other Stakeholders

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

To Create Value for Clients, Shareholders and Employees

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

PRINCIPLES OF CORPORATE SOCIAL RESPONSIBILITY

Code of Conduct

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

Corporate Governance

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

Sustainable development

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

STRATEGIC ASSUMPTIONS

Although the Czech economy is not expected markedly to rebound from recession in 2013, a cornerstone of Komerční banka's strategy continues to be the assumption that the main trends in the Czech Republic's society, economy and banking system will continue over the long term to converge towards those levels seen in Western European countries. KB is confident that over time this convergence will manifest itself in relatively faster growth in economic output accompanied by gradual change and advancement in business and consumer attitudes and demands. The Bank expects financial intermediation to grow in importance, driven by increasing consumer wealth and sophistication with respect to requirements for financial services. Banking clientele from both corporate and retail segments can be anticipated to become more demanding, and thus it will be necessary to offer the various client segments more differentiated services corresponding to their distinct needs.

Demand for financing and banking services may remain restrained in the Czech Republic during 2013 due to a stagnating economy and high unemployment. Nevertheless, the country's structurally sound financial system and healthy, if not low, level of leverage among consumers and businesses provides room for continued growth in lending and financial services over the medium term. For the near future, the main growth potential has been identified in mortgage lending, loans to small businesses and to corporations including export financing. KB should be able to grow its lending activities successfully in comparison with the market as a whole by building upon its solid client franchise as well as the strength of its capital and liquidity. The relatively conservative savings structure among Czech households and the limited yields available from deposits in the environment of low market interest rates mean that the volume of non-banking financial assets of retail clients can be expected to grow faster than deposits.

The short-term revenues outlook is influenced by the historically low interest rates, which put pressure on returns from reinvested deposits. At the same time, some banks' efforts to boost liquidity are leading to very high rates being offered on the market for certain deposit products, and particularly on saving accounts. Moreover, strong competition will continue to limit growth in income from fees and commissions, despite increasing use of certain products and services, such as payment cards.

KB's leading performance is attributable to its enviable customer base of corporations, municipalities, small businesses and demanding individual clients. The quality of the services and products delivered to its customer groups must correspond to their high expectations.

In the highly competitive Czech market, Komerční banka aims constantly to reinforce its position as the reference bank. Beneath the umbrella of the Ambition 2015 transformation programme, initiatives have been undertaken and advanced since 2010 that aim to differentiate the Bank in terms of client and employee satisfaction, efficiency of processes and exploitation of synergies.

AMBITION 2015

During 2012, Komerční banka continued in implementing its Ambition 2015 programme, which had been defined and launched in the middle of 2010 with the objective to become the reference bank in the Czech market. KB understands the term of reference bank to entail more than just being the most respected bank in the market. It also means being the first bank of choice for clients considering any financial need and the first employer of choice for existing and highly qualified potential employees.

KB's universal-banking business model has proven itself through the years by its success in delivering growing value to clients and shareholders. Not only has the Bank set goals to retain its leading position and maintain its performance, KB also is pressing forward to continue building its market shares and boosting its overall performance. The programme is called Ambition 2015 precisely in recognition of the fact that achieving its goals will not be easy in an increasingly competitive and regulated market with a group of established challengers plus new entrants.

The Ambition 2015 programme builds on the following pillars:

- **Clients** – who are always in the first position and at the centre of our focus. Komerční banka wants its clients to be successful and satisfied, because only then will they be loyal to the Bank as well as recommend its products and services to others.
- **Employees** – because the Bank can achieve its objectives and have satisfied clients only with the most-talented and best-motivated employees.
- **Efficiency** – KB will not cease in its efforts to boost operating efficiency in order to improve service levels and deliver higher value to its clients and shareholders.
- **Synergies** – the goal is to maximise revenue and cost synergies and thereby deliver to clients – most effectively – the best of both KB Group and SG Group.

During 2012, the Bank continued to focus on further developing the advisory skills of its relationship managers, as well as on continuously measuring and improving clients' satisfaction. KB completely redesigned its internet and mobile banking so that its leading ergonomics and design will make this the best solution in the market. What's more, current and potential clients can now request support of a video banker when applying on-line for a product. KB has also launched new-generation ATMs which accept cash deposits and provide clients with personalised services.

To increase employees' satisfaction, KB is conducting its Talent Management Program with the goal to identify, develop and retain talents and key resources within KB Group. The new M'Academy, meanwhile, focuses on building skills essential to managing and developing people.

In the area of operating effectiveness, KB completed implementation of the regional cash centres with the goal to accelerate cash processing and transport while minimizing the cash stock in the branches.

Modrá Pyramida exemplifies the Group's emphasis on synergies. It has transformed itself from a building savings specialist to a company providing financial advisory while offering KB Group products which now meet clients' needs ranging from savings through financing to insurance.

Throughout 2013, KB will sustain its rapid pace in delivering innovations and improvements. A new state-of-the art advisory tool will enable relationship managers to set up long-term saving plans for clients, enabling them to reach various goals through combinations of savings and financing. Moreover, KB will deploy a tool for end-to-end automation of the credit process based on automated workflows of digital documents.

Internal simplification will be another area of focus. This will enable the Bank to provide better and faster services to the clients while decreasing operating costs. Simplifications will be made in the products portfolio, client documentation, business processes and internal operating procedures.

STRATEGY

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

Business development

As its main base for building mutual relationships, KB is constructing a branch network wherein a dedicated relationship manager is appointed to assist each client. The service model assigned to each client is tailored according to proper client segmentation. In addition to the modern and client-oriented branch network, clients are given access to a full range of distribution channels to accommodate their needs for efficiency, security and comfort. Modrá pyramida's platform will increasingly be used for selling a wider range of KB Group products, and it will complement other KB distribution networks.

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

In parallel, clients' loyalty and activity in retail segments will be underpinned by extending client reward schemes and targeting cross-selling initiatives. The Group's ambition in retail is to outperform market growth in the areas of consumer loans, mortgages, and lending to small business clients. KB aims to protect its deposit base and achieve profitable growth in the volume of clients' assets under management, especially by providing value-adding advisory to clients and developing a comprehensive solution for long-term savings and investments. Reflecting the implementation of pension reform in the Czech Republic, the Group is enriching its all-inclusive solution for clients' pension savings, including new offers within the second and third pillars of the Czech pension system.

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

Operational and financial performance

KB runs on an efficient operating model founded upon disciplined cost management wherein expenditures planning is closely tied to expected revenues development. The Group's attention is focused on finding and extracting additional cost efficiencies – primarily through streamlining organisation, furthering synergies within KB Group and with Société Générale Group, and exploiting technological advances. The Bank is pursuing a suite of initiatives directed to achieving such efficiencies.

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

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

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

MAIN CHALLENGES AND RISKS FOR THE BANK AND GROUP IN 2013 AND EXPECTED DEVELOPMENTS IN THE FINANCIAL SITUATION

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

Given its importance in the Czech economy and its universal-banking business model, KB Group's financial and business performance in 2013 will be affected by the Czech Republic's macroeconomic environment. Along with several other EU countries that include the Czech Republic's major trading partners, the country will be challenged to consolidate its public finances and boost long-term competitiveness in an atmosphere increasingly marked by electorates' fatigue from structural reforms and hostility to austerity measures. In this environment, the Czech National Bank, like other central banks, has cut the regulatory interest rates to the very minimum, thus negatively affecting the yields that liquid banks can achieve from reinvesting deposits. At the same time, the European banking system must deal with the stricter requirements from regulators.

Under KB's baseline scenario, the Czech economy will remain in recession through the first half of 2013, followed by modest recovery. The volume of real gross domestic product for the full 2013 will probably stay at a level similar to that of 2012. The main drivers of the real economy in 2013 will comprise:

(1) ongoing fiscal consolidation, manifesting itself in reduced public investments, increased taxation and limited welfare transfers;
(2) development in the euro zone – and especially in Germany – that will influence demand for Czech exports;
(3) loose monetary conditions set by the Czech National Bank, pushing down the level of market interest rates and possibly affecting the Czech crown's exchange rate;
(4) development of consumer confidence, which was at a very low level throughout 2012 and reflects increasing unemployment; and
(5) confidence among businesses and their associated willingness to make new investments, which will largely be governed by the aforementioned factors.

Net exports can be expected during 2013 to remain the main contributor to GDP growth, but household consumption and even government consumption should already reach a turning point to reverse their declining trends. Nevertheless, fixed investments will probably continue to decline, as will inventories.

The Czech economy and its banking system suffer from no major imbalances. The fiscal deficits have to a large extent been addressed by the government. This is true also from a longer-term perspective, thanks to changes implemented to the pension system. In aggregate, the financial position of Czech businesses and households is satisfactory, their indebtedness being low by international comparison. Clients and the banking system are not overexposed to currency risks. The findings of the Czech National Bank's stress tests demonstrate that the Czech banking sector is able to withstand possible adverse developments in the domestic and international economies, as well as financial turmoil. Banks' exposure to their foreign parent companies is scrupulously restricted by the CNB's limits.

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

Management expects that KB's loan portfolio will continue to grow in 2013, unless there will be marked deterioration in the macroeconomic environment which might weaken client demand for loans. Mortgages should remain the main contributor to that portfolio's expansion. Lending to corporations will also grow, mainly in relation to working capital financing, foreign trade activities, acquisitions and factoring. The dynamics of unsecured consumer lending are expected to remain subdued, affected by the weak labour market and low levels of consumer confidence. Volumes of deposits and client assets under management are expected to increase moderately, underpinned by the Group's strong relationships with its clients. In the situation of aggressive competition, wherein several banks are expected to strive to improve their liquidity by offering high rates for deposits and while the healthy state of the Czech banking market will attract new entrants keen to acquire market share and build operations to a scale sufficient to be sustainable, KB will carefully pursue its strategy of offering clients competitive returns on their deposits while still protecting the profitability of the deposit base.

The expected growth in business volumes will lay a foundation for maintaining the level of revenues, in spite of low market interest rates that reduce yields from reinvesting deposits and fee income which is not expected to grow because of diminishing average prices. Correspondingly, operating costs will be kept stable, benefiting from continuous improvements in the efficiency of the operating model and, at the same time, facilitating sustained development of KB's business. The cost of risk from lending will increase from 2012's low base, which was affected by write-backs on some exposures.

KB has been regularly stress testing its banking book and market book exposures, and the results always have been well above internationally or locally required minimums. A potential scenario of moderate economic recession in 2013 would mean slower growth or even moderate decline in business volumes and revenues along with increase in risk costs. In the short term, the Group would mitigate the impacts of such a scenario primarily by reducing operating expenses. KB Group's business model has proven its robustness, and the operations of the Group should remain profitable.

As of the beginning of 2013, the main regulatory challenges are seen in connection with the contemplated regulatory changes affecting the business models of European banks, and especially the EU requirements for banks' capital adequacy and liquidity. In the longer-term horizon, one cannot completely exclude the possibility that a financial transaction tax or banking tax might not also be imposed which will affect Czech banks.

Specifically in the Czech Republic, the main political and regulatory risks are linked to the following:

- Development of the second pillar of the Czech pension system, which was approved by the parliament in 2012 and launched as of 1 January 2013. This is under threat from the opposition ČSSD (Czech Social Democratic Party), which might abolish the system upon assuming government responsibility. The consequent losses for KB Group and/or its clients would depend upon the nature of the legal measures potentially taken.
- Restructuring of the system of building societies, including potential decrease in government subsidies for savings in the system and potentially additional limitation on the ways in which the government subsidy may be utilised by clients.
- Further postponement or outright abandonment in implementing the new Civil Code approved by the parliament in 2012. This would result in a loss of costs incurred by KB Group in preparing for the implementation.

Komerční banka stands ready to meet the new regulatory requirements on capital and liquidity as formulated in the Basel III framework, regardless of the manner in which the state debt problems of Europe's peripheral countries will be resolved. The financial stability ratios confirm KB Group's strong position. In the conditions envisaged at the beginning of 2013, management expects the Bank's operations will generate sufficient profit in 2013 to cover the Group's capital needs ensuing from the growing volume of assets as well as to pay dividends, even if the macroeconomic situation becomes worse than anticipated.

Report on Business Activities

CLIENTS OF KB GROUP AND THEIR SERVICE

As of the end of the year, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,602,000 clients (flat year on year), of which 1,343,000 were individuals. The remaining 259,000 customers comprised entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 609,000 customers, and the number of pension insurance participants at Penzijní fond reached 571,000. ESSOX's services were being used by 266,000 active clients.

The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,119,000 by the end of the year and corresponds to 69.9% of all clients. Customers held 1,612,000 active payment cards, of which 209,000 were credit cards. The number of active credit cards issued by ESSOX came to 148,000. The year 2012 brought a significant increase in use of internet banking, the number of its clients rose by 12% to 944,000. Increasing number of financial products was sold on-line, for example 8% of KB's consumer loans were provided without visiting the branch.

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

Komerční banka's clients had at their disposal 400 banking branches (including one in Bratislava), 702 ATMs, and full-featured direct banking channels supported by two call centres, and consumer financing from ESSOX was available through its network of 2,600 merchants. Modrá pyramida's customers had at their disposal 218 points of sale and 1,230 advisors. SG Equipment Finance (SGEF) was providing its leasing services through nine branches (two of which are in Slovakia), as well as through KB's network.

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

In order efficiently to fine-tune the service model to the needs of closely defined customer groups, Komerční banka is developing a system of detailed segmentation. The highest level segments in the Bank are the following:
– Individuals,
– Small Businesses (the indicative criterion being annual turnover up to CZK 60 million),
– Medium Enterprises and Municipalities (annual turnover up to CZK 1.5 billion), and
– Top Corporates (annual turnover exceeding CZK 1.5 billion).

A set of sub-segments within these segments is elaborated, but the essential objectives remaining valid for all groups are to
– ensure a long-term personal approach to each client,
– offer a palette of key products corresponding to actual needs,
– satisfy the clients' rigorous demands, and
– provide individual financial advisory through active service.

INDIVIDUALS

The healthy condition of the Czech banking sector and surplus of deposits to loans resulted during 2012 in greater competitive activity, including the appearance of new names on the market. Heightened competition was particularly apparent in the Individuals segment, as demonstrated especially by the efforts of some banks to strengthen their liquidity by offering high-interest savings accounts and to attract clients by offering low prices for financial services.

In an environment of ultra-low interest rates and weak economic activity, Komerční banka responded to this situation by bolstering the long-term sustainability of its business model, including its profitability and stability. The Bank's business continued to display healthy growth.

In 2012, Komerční banka reconfirmed its position as the third largest bank on the Czech market in the Individuals segment. The Bank acquired more than 120,000 new clients in this segment, representing a year-on-year increase of 0.5%. The total number of clients thus exceeded 1,342,000. KB also maintains a leading position in the children and youth segment with more than 410,000 accounts. It is important for the Bank to see growth in the number of clients actively using its services.

Komerční banka achieved excellent results in this segment, especially for loan products. KB reinforced its market share for individual mortgages, as their volume grew by 8.4% to CZK 133.3 billion in 2012.

Both generally and in the Individuals segment, KB endeavours to satisfy its clients by offering a comprehensive range of high-quality and innovative products and services and by providing advisory that creates added value for customers. The objective is to become the reference bank in the Czech market. An important tool for improving customer satisfaction, loyalty and activity is the MojeOdměny (MyRewards) programme. In addition to the developing business activities, a number of recognitions awarded to the Group, including first place in the prestigious Bank of the Year award organised by Fincentrum and Hospodářské noviny's Best Bank competition, also confirm the ongoing execution of this strategy.

KB Group's competitive position was further strengthened through the business synergies among the Group's individual companies. The most important activities in the Individuals segment included to adjust the business model of Modrá pyramida, whose distribution network is being transformed into that of a provider of comprehensive financial advisory with a complete offer of products – from building savings and residential financing to investments. Group companies, and in particular Penzijní fond KB, Komerční banka and Komerční pojišťovna, but also the sister company IKS KB, devoted great effort to preparing new funds in the second and third pillars of the pension system and to transforming PF KB in relation to the pension reform.

PRIVATE BANKING

KB offers Private Banking services to clients with financial assets exceeding CZK 20 million in Prague, Brno and Ostrava, and starting from 2013 also in Pilsen and Hradec Králové. Clients with assets in excess of CZK 8 million utilise selected Private Banking products at all the Bank's regional branches.

In 2012, KB's Private Banking recorded double-digit year-on-year gains both in its number of clients and in the volume of assets under management. The Bank built upon its strong position on the Czech market for prestigious banking services and investment solutions offered through an open architecture of selected global fund managers. The prerequisites for further successful development of KB's Private Banking are created especially by internal synergies established within the Bank, opportunities identified on the local market, and benefits of co-operation with the SG Private Banking Expert Centres in the areas of investment solutions and analytical support.

Despite weak interest rates for deposit products, Private Banking managed to maintain and increase the volume of assets and deposits under management. Investors were drawn especially to issues of corporate bonds, a Lombard loan became a new part of the offer, and clients also expressed interest in State Savings Bonds. Clients again allocated a significant portion of their assets to subscriptions for a guaranteed savings insurance policy offered in co-operation with Komerční pojišťovna.

During 2012, KB's Private Banking successfully rounded off its services offer for selected clients of Commerzbank AG's Prague branch in connection with the discontinuation of that bank's services in the private banking segment. Clients gave a positive reception to KB's comprehensive offer and high-standard services.

SMALL BUSINESSES

The year 2012 was a difficult one for small businesses. On top of recession in the Czech economy, changes in the regulatory environment in the areas of tax obligations and social benefits as well as employment also had mixed impacts. Relatively more entrepreneurs closed down their businesses, and the number of bankruptcies also rose.

Regardless of the economic cycle, Komerční banka has long held a leading position on the small business market. As of the end of 2012, it was serving more than 248,000 clients. Client deposits at KB grew year on year by 0.7% (from CZK 111.9 billion to CZK 112.7 billion) in this segment. The Bank also fared well in financing, as the volume of loans to entrepreneurs increased year on year by 4.1% (from CZK 27.8 billion to CZK 28.9 billion).

To reinforce its competitive advantage consisting in the quality of bank advisors and level of provided services, KB invested in training for bank advisors and optimisation of sales processes. The Bank also introduced important product innovations for entrepreneurs.

Client service in the Small Businesses segment is provided according to the KB Business Service concept that is based on mapping a client's needs and wishes in detail then following up with quick and reliable delivery of services without unnecessary paperwork. Optimal selection of products and services for clients is facilitated by the comprehensiveness of the Group's product portfolio. The quality of advisory provided by its advisors stems from the Bank's competence and long experience in corporate banking. The advantageousness for entrepreneurs of having a relationship with Komerční banka is emphasised by the expansion rewards under the MojeOdměny programme.

ENTERPRISES AND MUNICIPALITIES

Due to economic recession in 2012 and an uncertain outlook, medium-sized enterprises were cautious about investing into new capacities. Municipal clients also felt the effect of austerity measures on their budgets. In such environment, the volume of investment loans provided on the market was limited and the share of operating capital financing for clients increased. Meanwhile in this segment, there was growing volume of deposits from enterprises as reserves in case of adverse developments or for carrying out deferred investments. Strong competitive activity prevailed in this segment, most significantly evidenced by aggressive pricing with the objective of acquiring deposits and establishing client relationships.

In this environment, KB managed an increase of the total volume of loans and deposits. The total volume of loans provided in the Enterprises and Municipalities segment during 2012 expanded by 0,8% year on year to CZK 101.6 billion. Deposits grew by 3,2% to CZK 131.0 billion. These results confirm KB´s stable and leading market position. 51% of medium-size and large companies in the Czech Republic based on market research are KB clients. In 2012, the Bank served approximately 10,500 clients in the Enterprises and Municipalities segment.

Corporate clients from the private and public sectors are served by KB at 20 specialised Business Centres spread evenly throughout the Czech Republic. Each client has at its disposal a personal bank advisor having access to teams of specialised experts (in the areas of EU funds, Trade Finance, Investment Banking). As a result, KB clients benefit from a personal approach that offers consulting, services and products conforming to their actual needs.

Also in development is a sector-based approach through which KB is building a knowledge advantage over the competition and can respond flexibly to the changing needs of specific client groups. The Bank has at its disposal expert teams for the sectors agriculture, health care, real estate, public administration, foreign trade, EU grants (under the KB EU Point concept), engineering, energy, high-tech and, newly, also church entities. Co-operation with professional associations and unions, together with participation in the most important events for individual sectors, plays an irreplaceable role in this process.

Key events include the signing of a co-operation agreement with the Federation of the Food and Drink Industries of the Czech Republic in May 2012, the Bank's participation in the Techagro International Fair of Agricultural Technology in Brno and the Země živitelka (Bread Basket) international agricultural fair in České Budějovice, its traditional participation at the International Engineering Fair in Brno, and a series of industry conferences focused on support for exporters which the Bank prepares in co-operation with the government agency CzechTrade. In the export/import area, Komerční banka provided clients with the magazine Export Journal and became a partner of the magazine Trade News. In the EU area, it continued issuing KB EU Point News. During 2012, KB was general partner of the "Barometer of Czech Medicine 2012" research project, which is one of the most comprehensive projects providing feedback from the directors of hospitals and health insurance companies concerning current and expected developments in Czech health care. With the objective of supporting innovative businesses in the Czech environment, the Bank became a partner in 2012 of the "Business Project of the Year" project organised by CzechInvest in co-operation with the Ministry of Industry and Trade.

TOP CORPORATIONS

Despite the Czech economy's declining output during 2012, Komerční banka boosted loan volumes provided to large corporations and the amount of acquired deposits. The tempo of loan growth in this segment especially accelerated in the second half due to financing of some substantial acquisitions. Owing to its successful business model, KB managed to reconfirm its strong position in the Czech Republic's top corporations segment. That was despite continuing efforts in 2012 by a number of important competitors to re-establish relationships and positions among clients weakened during the financial crisis.

In this segment comprised of large corporations, financial institutions and public sector companies, the Bank's strategy consists in developing and securing its relationships and individual approach to clients. Detailed knowledge of the clients and markets enabled us to propose solutions reflecting the specifics of individual sectors. The Bank implements individual solutions to meet client requirements through a team of bank advisors who go beyond fulfilling clients' wishes to bring them innovative solutions while proactively and optimally meeting their financial needs.

Komerční banka continuously monitors market developments and anticipates changes. In 2012, there occurred a shift from traditional simple loans to structured financing and greater use of capital market products and services. On the top corporations market, KB co-operated with SG Corporate and Investment Banking in rating advisory and bond issuance on the local and European markets. With the support of Komerční banka, SG was selected as one of the advisors in bringing EPE Group to the European bond market. KB also continued its successful co-operation with ČEZ and the Ministry of Finance. The Bank participated in the entire process of preparing an issue of State Savings Bonds of the Czech Republic and was again one of the banks appointed for their distribution.

KOMERČNÍ BANKA, A.S., POBOČKA ZAHRANIČNEJ BANKY

Following the cross-boundary merger of Komerční banka with its subsidiary company Komerční banka Bratislava, the Bank began to operate on the Slovak market as a foreign branch in 2011. In addition to KB, subsidiary company SGEF also conducts business in Slovakia as a branch.

The new business strategy of KB's Slovak branch (KB SK) is focused primarily on the top corporations segment. Unlike Komerční banka's other divisions in the Top Corporations department, which are business units, the Slovak branch also is in charge of other processes and departments in order to satisfy regulators' requirements concerning its banking licence and be better equipped to provide high-quality services to its clients. In co-operation with expert teams at KB's headquarters, the Slovak branch is able to provide healthy competition in the areas of export financing, investment banking and specialised financing in the energy and real estate sectors. The transformation into a foreign branch boosted the efficiency of processes and enabled the Slovak branch to participate directly in large transactions owing to the strength of KB's balance sheet.

The year 2012 was marked by many changes on the Slovak market. Two foreign branches discontinued their activities and the banking sector was burdened by a bank tax that negatively impacts banks' deposit bases. This is perceived to be the primary reason for a drop in profitability within the Slovak banking sector. As the country is part of the euro zone, banks operating in Slovakia are required to make fundamental system investments in relation to the SEPA (Single Euro Payments Area) project.

KB was very successful in Slovakia in this situation, achieving its best ever net profit for as long as it has operated in Slovakia, regardless of legal form. The year-on-year increase in net profit was 155%. The Slovak branch was successful in both client financing and deposits acquisition. Even as through the year the margins from loans and deposits decreased on the market, KB SK acquired into its portfolio clients with high-quality credit profiles. In combination with well-established credit risk management processes, influence of provisioning on the net profit was adequate.

KB again participated during 2012 in a large portion of Slovak state bonds issues in co operation with the Agency for Debt and Liquidity Management (ARDAL). KB's clients in Slovakia include prominent Slovak and international companies. According to EUROMONEY, the Group was a party to more than 50% of all foreign currency transactions executed in that market's corporate segment. The Group's objectives in Slovakia are to defend this position in the months and years ahead and to reinforce the synergies with SGEF and Société Générale Group affiliate ALD.

INVESTMENT BANKING

For the European economy, 2012 was a period of continuing struggle with the debt crisis. Another wave of fiscal consolidation contributed to the European economy's decline into recession. Central banks responded with further monetary easing. This environment was reflected, too, in developments on global financial markets.

In the Czech Republic, state bond yields continued to diminish. This resulted from successful fiscal consolidation, but it also reflected recession in the Czech economy. Yields on 10-year Czech state bonds dropped from 3.61% in early 2012 to 1.84% at the year's end. The Czech crown remained with no clear trend at a level slightly weaker than its equilibrium value. Late in the year, the Czech National Bank verbally intervened against the Czech currency. In cutting its key interest rate, the central bank used up all room for further necessary monetary easing through the interest rate channel. The exchange rate essentially took over the role of monetary policy instrument.

Through the first half of 2012, the Prague Stock Exchange's performance lagged significantly behind those of global and regional indices. In the final quarter, however, it outperformed most other markets. In the end, the PX Index strengthened by 14%, which was in line with the European Stoxx 600 and American S&P 500 indices.

From a business perspective, the first half of 2012 was very successful. Standard volatility on FX markets combined with very low interest rates created a good basis for trades with those clients who perceived a good opportunity for hedging their risks. We also closed several larger and longer hedging transactions which generated further added returns.

The second half of the year was already less successful, especially due to a decrease in volatility and the level of the CZK/EUR exchange rate. The CNB's reducing its standard repo rate to 0.05% significantly curbed client activity in the area of short-term deposits, as they shifted most of their available funds into standard bank deposit products outside of investment banking. In revenue terms, however, this deficit was partially offset by trading in emissions allowances, where the increased intensity in trading of phase III (2013–2020) allowances created a number of business opportunities.

Overall, the Bank achieved better results in transactions with corporate clients than in the previous year, especially due to its focus on products with higher added value. Greater revenues were also obtained in transactions with financial institutions, mainly in the areas of derivatives, primary placement of bonds and their trading on the secondary market.

The Debt Capital Markets team was transformed during 2012 into the Global Finance Platform in order to further develop co-operation on debt transactions within the new organisational structure utilising the expertise of Société Générale specialists. The large and structured financing market was active in the Czech Republic, and the team successfully executed a total of 30 credit financing deals in the areas of structured financing, acquisition financing, club and syndicated loans, and primary subscriptions of bonds on the Czech market. In a number of these deals, KB took the leading role as underwriter, mandated lead arranger, facility agent or club co-ordinator. Global Finance Platform executed several transactions in co-operation with SG's Investment Banking Department.

PAYMENT PRODUCTS AND OPERATIONS

Payment cards

As of 31 December 2012, KB recorded 1.61 million active payment cards in its portfolio, most of which (1.40 million) were debit cards. During 2012, KB continued to expand its network of retailers accepting payment cards. At the end of the year, the Bank was accepting cards at more than 14,000 retailers (a gain of 8.2%).

The trend among payment card holders of shifting from ATM transactions to payments at retailers persisted also in 2012. In relation to this trend, the amount of the average transaction made with a KB card at a retailer continued to decline, dropping by 4.8% and only slightly exceeding CZK 1,000. The number of payments made at retailers increased by 18.9% year on year while the value of such payments rose by 13.2%. The number and volume of transactions at ATMs grew only by a very slight 0.8% and 0.3%, respectively. The number of KB cards decreased by 3%. Payments made by payment card over the internet still constitute the most dynamically growing area. In 2012, the number of payments made using KB cards at internet retailers increased year on year by 46.2% and the volume of payments by 40%.

Non-cash transactions

KB has long maintained a stable market share in the area of domestic non-cash payment operations. It recorded a year-on-year gain of 3.4% in the number of foreign payment operations.

Komerční banka again introduced several innovations in non-cash payment operations for its clients. Clients may now submit standing orders between accounts in different currencies. Moreover, KB introduced the possibility of establishing automatic transfers which enable moving funds above an agreed limit from a current account to a savings account and re crediting the current account according to the client's needs. For those accepting payment cards, the possibility to download electronic statements in TXT format was introduced into the MultiCash application.

For foreign payments, the deadlines for submitting payment orders through direct banking were improved. KB's foreign exchange list was expanded with a new currency – the Croatian kuna (HRK) – with the possibility of processing non-cash payments in this currency.

Cash transactions

Komerční banka successfully completed its project to centralise cash processing. Seven cash centres were established (Prague, Brno, Hradec Králové, Ostrava, Pilsen, Tábor and Ústí nad Labem) for processing client cash deposits in packages. The volume of these deposits grew by CZK 29.9 billion year on year to total CZK 93.3 billion. This represents an increase of 47.2% versus 2011, when most client deposits made by closed packages or via night vaults were processed at the branches.

The volume of cash deposits carried out by clients via bank tellers was CZK 344.9 billion (a 9.4% decrease versus 2011), while the total volume of withdrawals via tellers and ATMs reached CZK 358.5 billion (rise of 3.8%). The total number of cash withdrawals in 2012 came to 29.2 million, representing a 0.3% increase year on year. ATM withdrawals account for 90.5% of all cash withdrawals at KB.

FOURTH KB HEADQUARTERS BUILDING

Komerční banka's new office building is its fourth headquarters structure in Prague, joining those at Na Příkopě, Václavské náměstí and Vysočanská, where the Bank's business-support activities have been concentrated. The newly constructed building in the Stodůlky district has nearly 17,000 m^2 of office space. In addition to modern offices, the new headquarters provides the employees of Komerční banka and other Group companies with a wide range of services and work-break zones.

Construction had begun in autumn 2010. The building was completed in March 2012 and handed over for operation in July 2012. By the end of the year, some 900 KB employees, over 50 Penzijní Fond KB employees and almost 50 Factoring KB employees had moved in. Simultaneously, the process of optimization of the KB Group office space portfolio in Prague, where 9 office buildings had been abandoned, had been completed.

The new building was erected within the newly constructed neighbourhood of Západní město (Western City), which is becoming the fastest growing administrative and residential district in Prague. The building is very easily accessible by public transport, and its operation is also exceptionally economical and kind to the environment. It is one of the first buildings in Prague to obtain a BREEAM certificate, with a result of "VERY GOOD" for environmentally friendly structures.

As early as in the design and construction phases for the new building in Prague Stodůlky, KB had emphasised that environmental impacts should be as low as possible and the building should be energetically efficient, environmentally friendly and sustainable. This state-of-the-art and ecological building uses smart solutions for internal energy management, including for air conditioning, ventilation, heating, lighting, and controlling of blinds. All together it contributes not only to significant savings in energy, water and sewage, lower CO_2 production, but also to heightened comfort for the people inside the building.

DESCRIPTION OF REAL ESTATE OWNED BY THE BANK

Komerční banka manages real estate used mostly for the business activities for which it is licensed under the applicable legal regulations.

Summary of the real estate managed by the Bank:

As of 31 December 2012	Number	Of which KB owns
Buildings CR	424	118
Buildings SR	2	0
Total	**426**	**118**

Note: See also Notes to the Unconsolidated Financial Statements according to IFRS, notes nos. 19 – Assets held for sale and 26 – Tangible fixed assets.

Comments on the IFRS consolidated financial results

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 13,953 million for 2012 under International Financial Reporting Standards (IFRS). This represents 47.3% increase in comparison with 2011. The lower risk costs were the main driver for the growth in the Group's attributable net profit.

KB maintained a solid basis for further growth of its business. The Group's Core Tier 1 capital adequacy ratio came to a strong 14.7% under Basel II standards. Liquidity remained excellent with the net loans-to-deposits ratio at 78.0%.

PROFIT AND LOSS STATEMENT

Net interest Income

Net interest income, the largest component of total revenues, slightly declined by 1.1% to CZK 21,947 million, was underpinned by growing volumes of loans and deposits, but the significantly diminished market rates through the year put pressure on yields from reinvested deposits. At the same time, efforts by some banks to boost liquidity lead to very high rates being offered on the market for certain deposit products, and particularly on saving accounts.

Standalone KB's share in the consolidated net interest income was 81.1%. Within KB Group, net interest income grew fastest at SGEF (by 45.3%). The average net interest margin therefore slipped to 3.1% from 3.3% in the previous year.

Net Fees and Commissions

Net income from fees and commissions decreased by 3.9% to CZK 7,018 million. Fees from account maintenance and for transactions were lower as KB expanded the MojeOdměny client reward scheme. This category was also influenced by higher acquisition commissions related to strong sales of pension fund policies before the former pension fund was locked up for new clients in preparation for the pension reform. Income from card transactions rose, driven by clients' more frequent use of payment cards, and revenues from trade finance services also increased.

Net Profit From Financial Operations

Net gains from financial operations improved by 13.9% to CZK 3,598 million. The underlying results were driven by solid demand from clients for hedging of financial risks and in the area of debt capital markets. The overall result, however, was affected by several one-off items, among which there were positive impacts from adjustments in the portfolio of Penzijní fond KB, as well as from selling the equity interest in Bohemian–Moravian Guarantee and Development Bank (CMZRB). On the other hand, sale of the remaining Greek and Portuguese government bonds in the second quarter had a negative effect.

Other Income

Other income grew by 13.5% to CZK 126 million. In 2012, other income primarily comprised revenues from intermediation and property rental.

Operating Costs

Operating costs remained under control (up by a slight 0.2% year on year to CZK 13,511 million). Within this category, personnel costs grew by 4.0% to CZK 6,786 million. The average number of employees decreased by 0.2% to 8,758. General administrative expenses decreased by 2.6% to CZK 5,019 million. Savings were achieved in many areas, most notably in IT and communications costs, marketing, and on transportation of cash. Real estate expenses slightly increased in connection with the move of certain functions to the new building in Prague – Stodůlky. Depreciation, impairment and disposal of fixed assets was lower by 5.7%, totalling CZK 1,706 million, due to lower amortisation of certain software equipment.

Gross Operating Income

Gross operating income for 2012 was down by 0.5% to CZK 19,178 million.

Cost of Risk

Total cost of risk diminished by a significant 74.5% year on year to CZK 1,871 million. The decline was for the most part due to the fact that impairment of Greek government bonds totalling CZK 5,355 million had been recorded in 2011. The total cost of risk in relative terms decreased to 41 basis points in comparison with 175 basis points in the previous year. Cost of risk excluding securities declined by 5.0%, as the Group observed only moderate shifting of exposures to the default category and the overall quality of the loan portfolio remained very good. Furthermore, KB managed to successfully resolve certain defaulted corporate exposures, and that led to release of the relevant provisions.

Share of Profit of Pension Scheme Beneficiaries

The share of profit of pension scheme beneficiaries declined to CZK 489 million from CZK 575 million in the previous year. This line represents an amount for which participants in PF KB pension schemes are eligible under Czech regulations (85% of the pension fund's net profit), unless the General Meeting of the fund decides on the distribution of a higher proportion among participants.

Profit before Taxes

Consolidated profit before income taxes increased by 47.9% year on year to CZK 16,939 million.

Income Taxes

Income taxes rose by 55.8% to CZK 2,708 million.

Net Profit

KB Group's consolidated net profit for 2012 came to CZK 14,231 million, which was 46.4% more than in the previous year. Of this, CZK 278 million was profit attributable to holders of minority stakes in KB's subsidiaries; the profit attributable to the Bank's shareholders amounted to CZK 13,953 million (up 47.3% year on year).

Other Comprehensive Income, Net of Tax

Other comprehensive income, which derives from hedging of cash flows, hedging of currency risk for foreign net investments, and profits and losses from financial assets available for sale, net of tax, reached CZK 10,631 million in comparison with CZK 5,735 million in 2011.

Comprehensive Income, Net of Tax

The Group's comprehensive income for 2012 amounted to CZK 24,862 million, higher by 60.9% year on year.

STATEMENT OF FINANCIAL POSITION

KB Group's total assets as of 31 December 2012 increased by 4.2% year on year to CZK 786.8 billion.

ASSETS

Amounts Due from Banks

Amounts due from banks decreased by 36.8% to CZK 64.1 billion. The largest component of this item is loans to central banks as part of reverse repo operations, which were lower by 61.2% at CZK 22.9 billion, and term placements with other banks that increased by a slight 0.5% to CZK 18.8 billion.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss rose by 47.7% to CZK 51.6 billion. That portfolio comprises the Group's proprietary trading positions.

Loans and Advances to Customers

Total net loans and advances grew by 4.0% to CZK 451.5 billion. The gross amount of client loans and advances expanded by 4.1% to CZK 469.3 billion. Standalone KB had an 87% share in the loan portfolio. Modrá pyramida had a share of 10% in the consolidated portfolio.

Of the total amount of loans, credits to individual clients comprised 45%, increasing by 4.0% from the year earlier. Mortgages constituted the main driver for growth in lending to individuals, as demand was underpinned by low client interest rates and property prices generally stabilised at diminished levels. The portfolio of mortgages to individuals grew by 9.1% to CZK 134.8 billion. The volume in Modrá pyramida's loan portfolio decreased by 4.1% to CZK 49.3 billion, because clients on the market generally were preferring mortgages to building society loans and, furthermore, Modrá pyramida's sales agents had begun selling KB mortgages in line with an overhaul of the company's business model. Unsecured consumer lending (from KB and ESSOX) continued to be affected by customers' uncertainty as to the economic outlook, and it declined by 0.4% to CZK 27.5 billion.

The Group's business loans reached CZK 259.0 billion, which represents an increase of 2.8%. Within this segment, lending to small businesses and entrepreneurs grew by 4.1% to CZK 28.9 billion. The volume of credit granted by KB to corporate clients in the Czech Republic and Slovakia climbed by 5.1% to CZK 203.6 billion. Factor finance outstanding at Factoring KB grew by 6.4% to CZK 3.0 billion, and SGEF's total credit and leasing amounts outstanding declined by a slight 0.8% year over year to CZK 20.3 billion.

The loan portfolio's quality has improved compared to 2011. The share of standard loans within the total represented 91.9% (CZK 431.0 billion) while the proportion of watch loans was 2.4% (CZK 11.1 billion). Loans under special review (substandard, doubtful and loss) comprised 5.8% of the portfolio with volume of CZK 27.0 billion. The volume of provisions created for loans reached CZK 17.7billion, which was 7.0% more than at the end of 2011.

Securities Available for Sale

The portfolio of available-for-sale securities expanded by 12.6% to CZK 141.8 billion. The book value of shares and participation securities in the available-for-sale portfolio is negligible since KB's second-quarter sale of its stake in CMZRB. From the CZK 141.8 billion total volume of debt securities, Czech government bonds represented CZK 96.9 billion and foreign government bonds CZK 24.3 billion.

Investments Held to Maturity

The volume of securities in the held-to-maturity portfolio decreased by a slight 1.1% to CZK 3.3 billion. This portfolio consists entirely of bonds.

Tangible and Intangible Fixed Assets

The net book value of tangible fixed assets rose by 15.3% to CZK 8.0 billion, primarily due to recognising the new KB headquarters building. Intangible fixed assets increased by 1.7% to CZK 3.9 billion.

Goodwill

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

LIABILITIES

Total liabilities were 2.0% higher in comparison to the end of 2011, reaching CZK 686.3 billion.

Amounts Due to Banks

In 2012, amounts due to banks increased by 3.9% to CZK 38.9 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

Amounts Due to Customers

The consolidated volume of deposits climbed by 3.3% year on year to CZK 579.1 billion. Deposits from businesses expanded by 4.4% to CZK 308.0 billion and deposits at KB from individual clients decreased by 2.1% to CZK 152.6 billion.

Client assets with Penzijní fond KB grew by 4.9% to CZK 31.9 billion. From 1 January 2013, these assets have been held in the "transformed fund" operated by KB Penzijní společnost. The deposit book of Modrá pyramida gained 1.3% year on year to reach CZK 71.8 billion. The volume of technical reserves in life insurance at Komerční pojišťovna rose by 19.2% to CZK 28.5 billion.

Securities issued

The outstanding volume of issued securities rose by 7.0% to CZK 19.6 billion. The majority of this item is comprised of mortgage bonds issued during 2005–2007.

Provisions

Provisions decreased by 9.3% to CZK 1.0 billion. This line item does not include provisions for loan losses, which are reflected at the item "Loans and advances to customers". It includes provisions for contractual commitments and provisions for other credit commitments, comprising provisions for off-balance sheet commitments and provisions for undrawn loan facilities.

Shareholders' Equity

KB Group's shareholders' equity expanded year over year by 22.9% to CZK 100.6 billion. The generation of net profit contributed to the growth, as did increase in the available-for-sale portfolio revaluation reserve and rise in hedging instruments, both reflecting lower market interest rates and narrower credit spreads on bonds. KB paid out the dividend of CZK 6.1 billion in the second quarter of 2012. KB's share capital remained stable at CZK 19.0 billion.

The cash flow hedging, which reflects the change in the fair value of hedging derivatives, increased from CZK 9.8 billion at the end of 2011 to CZK 14.3 billion at the end of 2012, while the available-for-sale portfolio revaluation reserve expanded from CZK 2.1 billion to CZK 8.1 billion.

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

For the purposes of capital adequacy under Basel II standards, revaluation of the the cash flow hedging and the available-for-sale portfolio is not included in calculating the regulatory capital. Comprised solely of Core Tier 1 capital, the regulatory capital of the consolidated Group according to the CNB methodology (Basel II) reached CZK 53.7 billion. KB Group's capital adequacy, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 14.7%.

TRADEMARKS, LICENCES AND SUB-LICENSES

Komerční banka, a.s., as part of its activities uses trademarks for labelling its particular products and services both in the Czech Republic and the Slovak Republic. For the reason of legal protection of these trademarks, it is necessary that these trademarks were registered with national registries in the Czech Republic and the Slovak Republic.

In 2012, Komerční banka, a.s. registered a total number of 174 trademarks with the Industrial Property Office in the Czech Republic. In case of further 2 trademarks, a registration process has been initiated, however the process has not been completed yet. In the Slovak Republic, 7 trademarks were registered with the Industrial Property Office of the Slovak Republic.

In the course of cooperation with its subsidiaries, Komerční banka, a.s., provides certain subsidiaries licenses for its trademarks. In some cases, Komerční banka, a.s., is also a licensee and sub-licensee, typically from providers of IT services.

FINANCIAL AND NON-FINANCIAL INVESTMENTS

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

CZK million, IFRS	31 December 2012	31 December 2011
Bonds and treasury bills	127,707	101,495
Shares	2	709
Emissions allowances	813	0
Equity investments in subsidiary and associated undertakings	24,928	24,586
Total	**153,450**	**126,790**

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

CZK million, IFRS	31 December 2012	31 December 2011
Tangible fixed assets	6,581	6,536
Intangible fixed assets	3,496	3,449
Total tangible and intangible fixed assets	10,077	9,985
Tangible fixed assets held under financial leases	0	0

Note: * Net book value of investments

See also Notes to the Unconsolidated Financial Statements according to IFRS, notes no. 25 – Intangible fixed assets and 26 – Tangible fixed assets.

Main ongoing investments – excluding financial investments

In 2012, the Bank made non-financial investments in a total above CZK 1.63 billion. Most of that amount was invested in the area of information technologies (over CZK 1 billion) for the acquisition and development of software and hardware. Significant amounts were also invested into the development and reconstruction of real estate owned by the Bank. In 2012 a new building in Prague Stodůlky was finished and became the fourth building of the headquarters. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2013 should not exceed CZK 1.6 billion. The Bank will continue to invest mainly into maintenance and development of the distribution network, improvements of the service quality and of operational efficiency, including investments in information technologies. The Bank's investment plans may be adjusted in accordance with developments in the external environment.

ACQUISITION OF TREASURY SHARES IN 2012

Komerční banka held 238,672 of its own shares as of 31 December 2012. These securities were purchased during 2006 and 2011 in accordance with decisions by the Bank's general meetings of 28 April 2005, 26 April 2006 and 21 April 2011 allowing KB to acquire its own shares into treasury. In addition, Komerční banka intermediated transactions in KB shares for clients. In the latter case, it acted at each such client's request and immediately sold on to the client those shares that had been purchased.

Komerční banka shares in treasury

	Number/nominal value as of 1 January 2012	Proportion of share capital as of 1 January 2012	Number/nominal value as of 31 December 2012	Proportion of share capital as of 31 December 2012
	(pcs/CZK thousand)	(%)	(pcs/CZK thousand)	(%)
Trading portfolio	0	0	0	0
(Trading book)	0		0	
Portfolio available for sale	238,672	0.628	238,672	0.628
(Banking book)	119,336		119,336	

Trading volumes in Komerční banka shares carried out by KB in 2012

	Number/nominal value of acquired shares	Number/nominal value of sold shares	Sum of purchase prices of acquired shares	Min. and max. acquisition price	Sum of selling prices of sold shares	Min. and max. selling price
	(pcs/CZK thousand)	(pcs/CZK thousand)	(CZK thousand)	(CZK)	(CZK thousand)	(CZK)
Trading portfolio	11,310	11,310	44,239	3,426	44,237	3,426
(Trading book)	5,655	5,655		4,179		4,180
Portfolio available for sale	0	0	0	0	0	0
(Banking book)	0	0		0	0	0

Based upon the consent of the General Meeting convened on 26 April 2012, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions:

- The maximum number of shares that can be held by the Bank at any specific point in time shall be 3,800,985 ordinary shares representing the total nominal value of CZK 1,900,492,500.
- The acquisition price must be at least CZK 1 per share and not greater than CZK 6,000 per share.
- The period during which the Bank may acquire its own shares is 18 months.
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in § 161a (1)(b), (c) and (d) of the Commercial Code.

During the valid period, the Bank may buy and sell shares repeatedly without further limitations.