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 OF 31 DECEMBER 2014

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Building a better working world

(Translation of a report originally issued in Czech)

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 2014, 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 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Michaela Kubýová, Auditor
License No. 1810

27 February 2015
Prague, Czech Republic

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Year ended 31 December 2014

Consolidated Statement of Income for the year ended 31 December 2014

(CZKm)	Note	2014	2013
Interest income and similar income	5	31,222	32,230
Interest expense and similar expense	5	(9,801)	(11,025)
Dividend income	5	2	2
Net interest income and similar income		**21,423**	21,207
Net fee and commission income	6	6,752	7,077
Net profit/(loss) on financial operations	7	2,386	2,489
Other income	8	116	121
Net operating income		**30,677**	30,894
Personnel expenses	9	(6,754)	(6,728)
General administrative expenses	10	(4,489)	(4,666)
Depreciation, impairment and disposal of assets	11	(1,791)	(1,754)
Total operating expenses		**(13,034)**	(13,148)
Profit before allowances/provisions for loan and investment losses, other risk and income taxes		**17,643**	17,746
Allowances for loan losses	12	(1,271)	(1,733)
Provisions for other risk expenses	12	(25)	(6)
Cost of risk		**(1,296)**	(1,739)
Income from share of associated undertakings		191	208
Share of profit of pension scheme beneficiaries		(508)	(484)
Profit before income taxes		**16,030**	15,731
Income taxes	13	(2,669)	(2,825)
Net profit for the period	14	**13,361**	12,906
Profit attributable to the Non-controlling owners		**376**	378
Profit attributable to the Group's equity holders		**12,985**	12,528
Earnings per share/diluted earnings per share (in CZK)	**15**	**343.78**	331.68

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2014

(CZKm)	Note	2014	2013
Net profit for the period	14	**13,361**	12,906
Items that will not be reclassified to Statement of Income			
Remeasurement of retirement benefits plan, net of tax	39	(13)	2
Items that may be reclassified subsequently to Statement of Income			
Cash flow hedging			
- Net fair value gain/(loss), net of tax	40	11,124	(3,112)
- Transfer to net profit/(loss), net of tax	40	(3,324)	(2,976)
Foreign exchange gain/(loss) on translation of a foreign net investment		1	2
Net value gain/(loss) on available-for-sale financial assets, net of tax	41	449	(1,907)
Net value gain/(loss) on available-for-sale financial assets, net of tax (associated undertakings)	24	76	(14)
Other comprehensive income for the period, net of tax		**8,313**	(8,005)
Comprehensive income for the period, net of tax		**21,674**	4,901
Comprehensive income attributable to the non-controlling owners		**377**	380
Comprehensive income attributable to the Group's equity holders		**21,297**	4,521

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position

As of 31 December 2014

(CZKm)	Note	31 Dec 2014	31 Dec 2013
ASSETS			
Cash and current balances with central banks	16	152,903	44,405
Financial assets at fair value through profit or loss	17	41,968	37,133
Positive fair value of hedging financial derivatives	42	29,216	18,249
Available-for-sale financial assets	18	77,440	141,200
Assets held for sale	19	63	84
Amounts due from banks	20	59,698	125,735
Loans and advances to customers	21	494,706	473,089
Revaluation differences on portfolios hedge items		29	7
Held-to-maturity investments	22	76,519	4,200
Current tax assets		233	82
Deferred tax assets	34	93	36
Prepayments, accrued income and other assets	23	3,983	3,280
Investments in associates	24	1,234	1,084
Intangible assets	25	3,758	3,772
Tangible assets	26	7,666	7,872
Goodwill	27	3,752	3,752
Total assets		**953,261**	863,980
LIABILITIES AND EQUITY			
Amounts due to central banks		2	1
Financial liabilities at fair value through profit or loss	28	23,470	17,530
Negative fair value of hedging financial derivatives	42	14,777	12,262
Amounts due to banks	29	61,360	49,680
Amounts due to customers	30	701,867	649,158
Revaluation differences on portfolios hedge items		761	(218)
Securities issued	31	22,584	22,417
Current tax liabilities		109	744
Deferred tax liabilities	34	5,308	3,496
Accruals and other liabilities	32	12,181	11,228
Provisions	33	1,348	1,144
Total liabilities		**843,767**	767,442
Share capital	35	19,005	19,005
Share premium and reserves		87,358	74,654
Non-controlling equity		3,131	2,879
Total equity		**109,494**	96,538
Total liabilities and equity		**953,261**	863,980

The accompanying Notes form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Board of Directors on 27 February 2015.

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

(CZKm)	Share capital	Capital and reserve funds and retained earnings/*	Remeasurement of retirement benefits plan	Cash flow hedging	Translation of a foreign net investment	Available-for-sale financial assets	Total equity	Non-controlling interest	Total equity, including non-controlling interest
Balance as of 31 Dec 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 as of 31 Dec 2013	**19,005**	**60,266**	**(9)**	**8,181**	**5**	**6,211**	**93,659**	**2,879**	**96,538**
Treasury shares, other	0	149	0	0	0	0	149	1	150
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)	(126)	(8,868)
Transactions with owners	**0**	**(8,593)**	**0**	**0**	**0**	**0**	**(8,593)**	**(125)**	**(8,718)**
Profit for the period	0	12,985	0	0	0	0	12,985	376	13,361
Other comprehensive income for the period, net of tax	0	76**	(13)	7,799	1	449	8,312	1	8,313
Comprehensive income for the period	**0**	**13,061**	**(13)**	**7,799**	**1**	**449**	**21,297**	**377**	**21,674**
Balance as of 31 Dec 2014	**19,005**	**64,734**	**(22)**	**15,980**	**6**	**6,660**	**106,363**	**3,131**	**109,494**

* *Capital and reserve funds and retained earnings consist of statutory reserve funds in the amount of CZK 3,621 million (2013: CZK 3,621 million), other funds created from profit in the amount of CZK 1,049 million (2013: CZK 1,049 million), share premium and purchased treasury shares in the amount of CZK -366 million (2013: CZK -427 million), net profit from the period in the amount of CZK 12,985 million (2013: CZK 12,528 million) and retained earnings in the amount of CZK 47,445 million (2013: CZK 43,495 million).*

** *This amount represents the gain from the revaluation of available-for-sale financial assets (the impact of the consolidation of an associated company using the equity method).*

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2014

(CZKm)	2014		2013	
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest receipts	27,016		28,735	
Interest payments	(7,804)		(15,757)	
Fee and commission receipts	8,438		8,710	
Fee and commission payments	(1,764)		(1,863)	
Net income from financial operations	657		6,709	
Other income receipts	14		(29)	
Cash payments to employees and suppliers, and other payments	(10,663)		(11,288)	
Operating cash flow before changes in operating assets and operating liabilities	**15,894**		15,217	
Amount due from banks	65,420		(64,678)	
Financial assets at fair value through profit or loss	(4,561)		14,045	
Loans and advances to customers	(22,612)		(22,062)	
Other assets	(480)		1,157	
(Increase)/decrease in operating assets	**37,767**		(71,538)	
Amounts due to banks	(852)		13,921	
Financial liabilities at fair value through profit or loss	5,724		(1,366)	
Amounts due to customers	52,635		70,705	
Other liabilities	549		141	
Increase/(decrease) in operating liabilities	**58,056**		83,401	
Net cash flow from operating activities before taxes	111,717		27,080	
Income taxes paid	(3,404)		(2,796)	
Net cash flow from operating activities		**108,313**		24,284
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Dividends received	120		80	
Purchase of held-to-maturity investments	(7,912)		(891)	
Maturity of held-to-maturity investments*	5,177		158	
Purchase of available-for-sale financial assets	(9,667)		(20,113)	
Sale and maturity of available-for-sale financial assets *	11,110		22,649	
Purchase of tangible and intangible assets	(1,574)		(1,542)	
Sale of tangible and intangible assets	26		34	
Net cash flow from investment activities		**(2,720)**		375
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid**	(8,656)		(8,657)	
Paid dividends (non-controlling interest)	(126)		(271)	
Purchase of treasury shares	0		0	
Securities issued	1,766		3,671	
Securities redeemed*	(3,264)		(2,526)	
Net cash flow from financing activities		**(10,280)**		(7,783)
Net increase/(decrease) in cash and cash equivalents	**95,313**		16,876	
Cash and cash equivalents at the beginning of the year	43,367		26,391	
FX differences on cash and cash equivalents at beginning of year	18		100	
Cash and cash equivalents at the end of the year (see Note 36)		**138,698**		43,367

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

** *The amount also includes dividends received from own shares and time-barred dividends.*

The accompanying Notes form an integral part of these Consolidated Financial Statements.

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1 *Principal activities*

The Financial Group of Komerční banka, a.s. (henceforth the "Group") consists of Komerční banka, a.s. (the "Bank") and 11 subsidiaries and two 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 follows:

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 the preponderant 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, 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% (2013: 60.35%) of the Bank's issued share capital.

The main activities of the Bank's subsidiary companies as of 31 December 2014:

Company's name	**Direct holding %**	**Group holding %**	**Principal activity**	**Registered office**
KB penzijní společnost, a.s.	100.0	100.0	Financial services	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
Cataps, s.r.o.	100.0	100.0	Financial services	Prague
KB Real Estate s.r.o.	100.0	100.0	Support services	Prague
NP 33, s.r.o	100.0	100.0	Support services	Prague
NV 42, s.r.o.	100.0	100.0	Support services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice

* *Transformovaný fond KB Penzijní společnost, a.s. is fully consolidated for the year 2013 and 2014*

The main activities of the Bank's associated undertakings as of 31 December 2014:

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 2014*

Dividends declared in respect of the year ended 31 December 2013

At the General Meeting, held on 30 April 2014, the shareholders approved a dividend for the year ended 31 December 2013 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 126 million in dividends to non-controlling owners of SG Equipment Finance Czech Republic s.r.o.

Changes in the Bank's Financial Group

In May 2014 the equity in Bastion European Investments S.A. was decreased by EUR 2.9 million (equivalent to CZK 82 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

In June 2014, the equity of KB Penzijní společnost, a.s. was increased by CZK 220 million in the form of increasing other capital funds.

In December 2014, the Bank established a new subsidiary, Cataps, s.r.o., with a share capital of CZK 4 million. Cataps, s.r.o. is a business providing ancillary banking services and was established in connection with potential future optimisation in providing certain transaction and payment services.

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 2014.

The Consolidated Financial Statements include a Statement of Financial Position, a Statement of Comprehensive Income presented in two constituent statements (a Consolidated Statement of Income and a Consolidated Statement of Comprehensive Income), a Statement of Changes in Shareholders' Equity, a Statement of Cash Flows , and Notes to the Consolidated Financial Statements containing accounting policies and explanatory disclosures.

The presented Consolidated Financial Statements for the year ended 31 December 2014 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 as of 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 Consolidated Statement of Cash Flows , 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 constitute 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 as of the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of 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 and 3.5.10);
- provisions recognised under liabilities (refer to Note 3.5.11);
- the 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 as of 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. the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 of 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 of 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 voting rights, but it does not exercise control. Equity accounting involves recognising in the Consolidated Statement of Income and in the 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 in the Statement of Financial Position is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

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 of 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 or issued standards and interpretations, and/or their amendments:

- Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11 Joint Arrangements)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets)
- Agriculture: Bearer Plants (Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture)
- Equity Method in Separate Financial Statements (Amendments to IAS 27 Separate Financial Statements)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)
- Annual Improvements to IFRS 2012-2014 Cycle
- Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures)
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

3.4.2 Standards and interpretations adopted in the current period

The following standards were adopted with effect from 2 January 2013 to 1 January 2014 inclusive. They have no impact in the current period (and/or prior period).

Standard	Impact/Comments
IAS 27 Separate Financial Statements – revised standard*	The revised standard does not change current requirements related to Separate Financial Statements.

Standard	Impact/Comments
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 these. In the Consolidated Financial Statements, joint ventures will be newly consolidated using only the equity method.
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 conclusion regarding consolidation did not 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 an entity's judgement.
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.
IFRS 12 Disclosure of Interests in Other Entities – new standard*	The new standard enhances disclosures to be published about consolidated and unconsolidated entities.
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – amendment: "Transition Guidance"*	The amendments specify that the "date of initial application" in IFRS 10 (as well as 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 conclusion about consolidation reached at the date of initial application is different when applying IFRS 10 as compared with applying IAS 27/SIC-12. Relief from retrospective application of IFRS 10 applies 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 as of the date of initial application.
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 a new disclosure requirements for investment entities.
IAS 32 Financial Instruments: Presentation – amendment "Offsetting Financial Assets and Financial Liabilities"	The amendment newly adds into the application guidance explanation of the criterion that an entity "currently has a legally enforceable right to set off the recognised amounts".

Standard	Impact/Comments
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.
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.

* *The European Commission has approved these standards for reporting periods beginning on or after 1 January 2014 whereas according to the IASB they are already effective for the reporting periods beginning on or after 1 January 2013.*

3.4.3 Issued standards and interpretations not applied for the current period

The standards and interpretations or their amendments described below are valid. However, they do not apply to the reporting periods beginning on 1 January 2014 and the Group has decided not to early adopt them. 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 the existing standard IAS 39. It introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges. Accounting for macro hedging was separated from the IFRS 9 project. IASB is still working on developing a new macro hedging model, the first discussion paper was issued in April 2014.

The application of the new classification and measurement methodology means, that financial assets will have to be classified upon initial application of the standard based on both the entity's business model for managing the financial assets (held to collect, held for selling/trading or both) and the financial asset's contractual cash flow characteristics. Financial assets are newly measured at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income. No impcact is expected for debt instruments classified in the current portfolio held-to-maturity, loans and receivables and fair value through profit or loss category no impacts are expected. Debt instruments classified in the portfolio of available-for-sale are expected to be newly measured at amortised cost rather than at fair value through other comprehensive income. With respect to equity instruments classified in this portfolio, the Group will have to decide upon the initial application of the standard whether it will measure these through profit or loss or whether it will use the possibility to recognise changes in their fair value in other comprehensive income.

The application of the new impairment methodology, superseding the current IAS 39 incurred loss model and with methods close to Basel III requirements means earlier recognition of expected credit losses from the point at which financial instruments are originate or are acquired. Initial application of the standard will have a negative impact on equity. From a capital adequacy perspective it will nevertheless have a neutral impact, as it will simply shift the effect from a core Tier 1 deduction to an impact on book value. As the Group uses the IRB approach, no large changes in methodology and systems are expected.

Standard	Summarised content	Effective for reporting period beginning on or after
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*	Annual Improvements amend seven standards in a 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*	Annual Improvements amend four standards 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
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)*	The amendment defines principles for recognition of employee contributions within defined benefit plans distinguishing the procedure for contributions the amounts of which are not dependent upon the length of service and for those the amounts of which are so dependent.	1 July 2014
IFRS 14 Regulatory Deferral Accounts – new standard	The interim standard concerns accounting for balances on deferral accounts that arise from rate-regulated activities. IFRS 14 is only applicable to first-time adopters of IFRS, which are conducting rate-regulated activities and already recognise balances on regulatory deferral accounts under local (previous) GAAP. Such entities are permitted to continue in applying their previous GAAP accounting policies.	1 January 2016
Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11 Joint Arrangements)	The amendments provide guidance on the accounting for acquisition of interests in existing joint operations in which the activity constitutes a business as defined in IFRS 3 Business Combinations. It also apply to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation on its formation. The amendments require an investor to apply, to the extent of its share, the principles of business combination accounting and disclosures required in IFRS 3 and other IFRS (if not conflicting with IFRS 11), in particular: measuring identifiable assets and liabilities at fair value (beside exceptions in IFRS 3), expensing acquisition-related costs, recognising deferred tax assets and liabilities arising from the initial recognition of assets or liabilities (except for deferred tax liabilities from initial recognition of goodwill), recognising goodwill and its testing for impairment. The scope of the business combination exemption in IFRS 1 has been expanded to include acquisitions of interests in joint operations that are businesses.	1 January 2016

Standard	Summarised content	Effective for reporting period beginning on or after
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets)	The amendments prohibit the use of revenue-based depreciation for property, plant and equipment (IAS 16). In case of intangible assets (IAS 38) this depreciation method can be used only in very limited circumstances for intangible rights.	1 January 2016
Agriculture: Bearer Plants (Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture)	The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. They will no longer be considered as one asset together with any agricultural produce growing on bearer plants accounted for under IAS 41. Instead the bearer plants will be separated and will fall within the scope of IAS 16.	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27 Separate Financial Statements)	The amendment allows an entity to account for investments in subsidiaries, associates and joint ventures in its separate financial statements using the equity method (described in IAS 28) as an alternative to the currently allowable accounting either at cost or as a financial asset in accordance with IFRS 9.	1 January 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	The amendment clarifies the accounting treatment for sale or contribution of assets between an investor and its associates or joint ventures. It resolves a current inconsistency between the existing requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures on how to calculate any gain or loss arising from this transaction. The accounting treatment depends on whether the non-monetary assets as subject of the transaction constitute a "business", as defined in IFRS 3 Business Combinations. If assets constitute a business, the gain or loss is recognised in full, otherwise only to the extent of the unrelated investors' interests in the associate or joint venture.	1 January 2016
Annual Improvements to IFRS 2012-2014 Cycle	Annual Improvements amend four standards in a total of five 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 January 2016

Standard	Summarised content	Effective for reporting period beginning on or after
Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	The amendments provide changes to IAS 1 to further encourage companies to apply professional judgement in determining what information to disclose and how to structure it in the financial statements. The amendments relate to the following areas: materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies, presentation of items of other comprehensive income arising from equity accounted investments. Given that the amendments clarify existing requirements in IAS 1 that do not directly affect an entity's accounting policies or accounting estimates there is no need under the transitional provisions to disclose the information otherwise required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures)	The amendments to IFRS 10 and IAS 28 clarify application of the consolidation exception to entities in group structures involving investment entities by addressing the following three issues. The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to an intermediate parent entity which is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Amendments to IAS 28 provide similar exception from applying the equity method for entities that are subsidiaries of an investment entity and hold interests in associates and joint ventures. The amendments to IFRS 10 also clarify for a subsidiary that provides services supporting the investment entity's investment activities that only a subsidiary that is not an investment entity itself should be consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 further clarify the application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity. When applying the equity method the non-investment entity may choose to retain the fair value measurement applied by the investment entity associate or joint venture to its interest in subsidiaries.	1 January 2016
IFRS 15 Revenue from Contracts with Customers – new standard	The new standard supersedes current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. It outlines a single comprehensive model for accounting and disclosure of revenue arising from contracts with customers to provide goods or services, regardless of the industry or the type of transaction (except those that are within the scope of other IFRS, such as IAS 17 Leases, IFRS 4 Insurance Contracts, financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial	1 January 2017

Standard	Summarised content	Effective for reporting period beginning on or after
	Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investment in Associates and Joint Ventures). It will apply also to the recognition and measurement of gains and losses on the sale of some non-financial assets being not an output of the entity's ordinary activities. Interest and dividend income is excluded from the scope of IFRS 15. The relevant recognition and measurement requirements have been moved to IFRS 9 or IAS 39. The new model consist of the following five steps for revenue recognition: identification of the contract(s) with customers, identification of the performance obligations in the contract, determination of the transaction price, allocation of the transaction price to the separate performance obligations and recognition of revenue when (or as) the entity satisfies a performance obligation (by transferring control of a promised good or service to the customer).	
IFRS 9 Financial Instruments – new standard	In July 2014, the final version of IFRS 9 was issued, replacing the current IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. It introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges. Accounting for macro hedging was separated from the IFRS 9 project and is part of a separate one (Discussion Paper, April 2014). The new IFRS 9 shall be applied retrospectively except for micro hedge accounting. The classification and measurement of financial assets depends on assessment of both the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The resulting measurement categories are: • amortised cost; • fair value through other comprehensive income; and • fair value through profit or loss. In comparison to IAS 39 the embedded derivatives in financial assets are no longer bifurcated. In respect to financial liabilities, IFRS 9 retains almost all of the existing requirements from IAS 39 except changes in the entity's own credit risk for financial liabilities designated at fair value through profit or loss using the fair value option, which are newly presented in other comprehensive income. The impairment requirements in the new standard are based on an expected credit loss model. For all financial assets in the scope of IFRS 9 that are not accounted for at fair value through profit or loss and excluding also equity instruments,	1 January 2018

Standard	Summarised content	Effective for reporting period beginning on or after
	entities are required to recognise from origination throughout the life of an asset either 12-month expected credit losses or lifetime expected credit losses, when credit risk significantly increases since initial recognition. The measurement of expected credit losses reflects a probability-weighted outcome, the time value of money and reasonable and supportable information. In November 2013, new requirements related to general hedge accounting (micro hedge accounting) were added to IFRS 9. These requirements align hedge accounting more closely with risk management, which means that more of entity's risk management activities may qualify for hedge accounting and more designations of groups of items as the hedged items are possible. The new model does not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness under IAS 39. However there is only prospective effectiveness test left newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) replacing the range of 80-125%. As a consequence of the new general hedge accounting rules in IFRS 9 additional hedge accounting disclosure requirements were introduced into IFRS 7 Financial Instruments: Disclosures.	

* *The European Commission has approved IFRIC 21 Levies for reporting periods beginning on or after 17 June 2014, Annual Improvements to IFRS 2010-2012 Cycle for reporting periods beginning on or after 1 February 2015, Annual Improvements to IFRS 2011-2013 Cycle for reporting periods beginning on or after 1 January 2015, Defined Benefit Plans: Employee Contributions for reporting periods beginning on or after 1 February 2015 and it permitted their early application.*

3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2014

The Group did not make use of the possibility for voluntary early application of standards or interpretations in the reporting period beginning 1 January 2014.

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 as of 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 are also recognised 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.

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 Statement of Income 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

This line includes net profit/loss on financial operations, which means 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 the functional currency, and realised gains/losses on available-for-sale financial assets.

In this line there is also recognised interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

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 Statement of Cash Flows 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) and the lowest priority to unobservable inputs (Level 3).

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 of 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 Statement of Income 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 Statement of Income 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 of 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 Statement of Income 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 Statement of Income. When an impairment of assets is identified, the Group recognises allowances in the Statement of Income 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 credit worthiness, 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 Statement of Income. When impairment of assets is identified, the Group recognises allowances in the Statement of Income 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/(loss) 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 Statement of Income 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 Statement of Income in the line *'Net profit/(loss) on financial operations'*.

Accrued interest income for debt securities is recognised in the Statement of Income 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 Statement of Income 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'*, *'Securities issued'* and *'Subordinated debt'*.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Income 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 of the date of their repurchase in the Statement of Income 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 assets 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 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. The fixed income securities quoted on an active market can be reclassified out of the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio if the Group's intention or ability to hold these securities has changed or upon expiry of the deadline during which securities has not permitted to be classified as securities held-to-maturity.

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 so-called "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 mainly a significant decrease of a client's credit worthiness, changes in tax laws or in legislative requirements, a business combination or the sale of a part of the business (segment), a significant increase in regulatory capital requirements or a significant increase in risk weights for held-to-maturity investments used in calculating the capital adequacy.

For a financial asset reclassified out of the *'Available-for-sale financial assets'* portfolio, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. Reclassification is at the election of management and is determined on an instrument-by-instrument basis.

3.5.5.6 Determination of financial instrument's fair value and its hierarchy

For the 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 are no quoted prices in an 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.);

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 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.

The existence of published price quotations in an active market is normally the best evidence of the fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held, the asking price.

The Group manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing fair values for the offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

When measuring the fair value of a financial asset or group of financial assets, the Bank incorporates into the valuation the adjustment for the risk of default of the counterparty, a so-called credit valuation adjustment (CVA).

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/Forbeared 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 judgement. 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 Statement of Income.

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 the economic activities of the client and the possible realisation of loan collateral.

The Group assesses all significant impaired credit exposures on an individual basis (i.e. those classified as Substandard, Doubtful or Loss according to the CNB classification). For individually material impaired uncovered credit exposures in the category Watch, the provisioning rate used is established within the Société Générale Group and is calculated based on the average probability of default and LGD for the unsecured part of the receivable.The remaining insignificant impaired exposures are assessed using statistical models based on a collective approach (refer to Note 42(A)). Assets that are not identified for impairment on an individual basis are included in the collective assessment of impairment.

For the purpose of assessing impairment, financial assets are grouped on the basis of the similar credit risk characteristics, i.e. client type, asset type, classification degree, obligor rating, collateral, past-due status and other relevant factors.

The future cash flows of financial assets groups that are not individually evaluated for impairment are estimated on the basis of historical loss experience for financial assets with similar credit risk characteristics using the provisioning model. Historical loss experience is adjusted on the basis of current observable data to reflect new loss observations and to have better discrimination ability, i.e. 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 flows 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 Statement of Income 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 Statement of Income 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 Statement of Income 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 Statement of Income. 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 Statement of Income, the impairment loss is reversed, with the amount of the reversal recognised in the Statement of Income. The Group cannot reverse any impairment loss recognised in the Statement of Income 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 line *‘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 even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and are 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 Statement of Income 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 Statement of Income 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 issued mortgage bonds and selected portfolios of building savings. The effectiveness of the hedge is 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.

In connection with the reclassification of certain debt securities from the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio, the Bank revoked the designation of respective interest rate swaps as fair value hedge and prospectively classifies them as cash flow hedge of interest rate risk associated with selected portfolios of assets or liabilities.

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 Statement of Income and classified as income or expense in the periods during which the hedged assets and liabilities affect the Statement of Income. The ineffective portion of the hedge is charged directly to the Statement of Income 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 42(C).

3.5.5.12 *Embedded derivatives*

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if, and only if, all of the following conditions are met:

- the embedded derivative as a separate instrument meets the definition of a derivative;
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- the host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

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 Statement of Income, 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 and 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 Statement of Income, 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 leases
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 Statement of Income 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 Statement of Income 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:

	2014	2013
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 5
Licences – software	5	5
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 Statement of Income when they occur.

3.5.10 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 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 subsidiary identifiable net assets on one side and the net of the identifiable assets and the liabilities assumed on other side. 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. Once recognized, impairment losses on goodwill are not reversed.

The Group tests goodwill for impairment on an 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 value in use as the present value of the future cash flow to be generated by a cash-generating unit from its continuing use in the business. The Group estimates future cash flow on the basis of a middle term financial plan of the cash generating 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 Capital Asset Pricing Model. This method is based on a risk free interest rate grossed up by a risk premium determined according to the underlying activities of the cash generating unit. As all respective 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 are calculated as perpetuity based on constant cash flows being the net operating income after taxes including growth rate derived from medium-term financial plan. Key assumptions used in the preparation of 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 Group's risk profile. 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 performance condition is based on the profitability of the Société Générale Group;
- in the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the performance condition is based on the profitability of the Komerční banka Group. Moreover, for investment banking employees there is the condition that the Group's net investment banking operating income be 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 of 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 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 accounts 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 accounts 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 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 nominal 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 not reported 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.

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Net interest income and similar income	12,596	12,385	7,002	6,807	135	123	1,690	1,892	21,423	21,207
Net fee and commission income	4,385	4,751	2,231	2,161	(68)	(41)	204	206	6,752	7,077
Net profit/(loss) on financial operations	846	856	1,114	1,211	376	319	50	103	2,386	2,489
Other income	83	98	(4)	(18)	132	163	(95)	(122)	116	121
Net banking income	**17,910**	18,090	**10,343**	10,161	**575**	564	**1,849**	2,079	**30,677**	30,894

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 rate conditions, including a liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Group's income is primarily, more than 98% (2013: more than 98%), generated within the territory of the Czech Republic.

5 Net interest income and similar income

Net interest income and similar income comprise the following:

(CZKm)	**2014**	2013
Interest income and similar income	31,222	32,230
Interest expense and similar expense	(9,801)	(11,025)
Dividend income	2	2
Net interest income and similar income	**21,423**	21,207
Of which net interest income and similar income from		
- loans and advances	17,972	18,861
- held-to-maturity investments	1,523	147
- available-for-sale financial assets	2,705	4,221
- financial liabilities at amortised cost	(4,578)	(5,108)

'Interest income and similar income' includes interest on Substandard, Doubtful and Loss loans due from customers of CZK 444 million (2013: CZK 570 million).

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 9,025 million (2013: CZK 9,001 million) and *'Interest expenses and similar expense'* includes interest expenses from hedging financial derivatives of CZK 5,226 million (2013: CZK 5,917 million). Net interest income from these derivatives amounts to CZK 3,799 million (2013: CZK 3,084 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

'Interest expense and similar expense' includes expense for insurance of deposits in the amount of CZK 856 million (2013: CZK 794 million).

6 *Net fee and commission income*

Net fee and commission income comprises the following:

(CZKm)	**2014**	2013
Transactions	4,179	4,212
Loans and deposits	2,440	2,911
Others	1,793	1,564
Total fee and commission income	**8,412**	8,687
Transactions	(1,042)	(1,013)
Loans and deposits	(380)	(327)
Others	(238)	(270)
Total fee and commission expenses	**(1,660)**	(1,610)
Total net fee and commission income	**6,752**	7,077

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 95 million (2013: CZK 69 million) and fee expense for these services in the amount of CZK 66 million (2013: CZK 44 million).

7 *Net profit/(loss) on financial operations*

Net profit/(loss) on financial operations comprises the following:

(CZKm)	**2014**	2013
Net realised gains/(losses) on securities held for trading	435	(206)
Net unrealised gains/(losses) on securities held for trading	515	68
Net realised gains/(losses) on securities available for sale	5	64
Net realised and unrealised gains/(losses) on security derivatives	(347)	293
Net realised and unrealised gains/(losses) on interest rate derivatives	(350)	94
Net realised and unrealised gains/(losses) on trading commodity derivatives	33	27
Net realised and unrealised gains/(losses) on foreign exchange operations	909	875
Net realised gains/(losses) on foreign exchange from payments	1,186	1,274
Total net profit/(loss) on financial operations	**2,386**	2,489

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).

A loss of CZK 2,732 million (2013: a gain of CZK 1,187 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, available-for-sale financial assets and issued mortgage bonds reported in the same line.

A gain of CZK 0 million (2013: a gain of CZK 1 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 116 million (2013: CZK 121 million). In 2014 and 2013, *'Other income'* was predominantly composed of the property rental income and income from intermediation.

9 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	**2014**	2013
Wages, salaries and bonuses	4,841	4,798
Social costs	1,913	1,930
Total personnel expenses	**6,754**	6,728
Physical number of employees at the end of the period*	8,573	8,703
Average recalculated number of employees during the period*	8,520	8,604
Average cost per employee (CZK)	**792,753**	781,992

* *Calculation according to Czech Statistical Office methodology.*

'Social costs' include costs of CZK 89 million (2013: CZK 88 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 49 million (2013: CZK 45 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include the release and use of a provision for restructuring in the amount of CZK 0 million (2013: CZK 10 million) relating to a project to reorganise the distribution network (refer to Note 33).

Indexed bonuses

In 2014, 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 29 million (2013: CZK: 36 million) and the total amount of CZK 48 million (2013: CZK 40 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 5 million (2013: CZK 9 million). The total number of Société Générale shares according to which bonuses indexed on the Société Générale share price are calculated is 6,232 shares (2013: 12,461 shares). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 17,310 shares (2013: 15,137 shares).

The changes in the numbers of shares were as follows:

	2014		2013	
(shares)	**SG shares**	**KB shares**	SG shares	KB shares
Balance as of 1 January	**12,461**	**15,137**	16,934	9,487
Paid out during the period	(6,229)	(3,242)	(4,473)	(4,314)
New guaranteed number of shares	0	5,415	0	9,964
Balance as of 31 December	**6,232**	**17,310**	12,461	15,137

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 319,592 shares (2013: 311,920 shares). For 2014, the total amount relating to the free shares program recognised in *'Personnel expenses'* is CZK 63 million (2013: CZK 52 million) and from the granting date a cumulative amount of CZK 218 million (2013: CZK 155 million) is recognised as *'Share premium'* in equity.

10 General administrative expenses

General administrative expenses comprise the following:

(CZKm)	**2014**	2013
Insurance	117	120
Marketing and representation	629	650
Sale and banking products expenses	309	323
Other employees expenses and travelling	145	143
Real estate expenses	1,083	1,188
IT support	964	984
Equipment and supplies	165	173
Telecommunications, postage and data transfer	311	347
External consultancy and other services	594	597
Other expenses	172	141
Total general administrative expenses	**4,489**	4,666

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise the following:

(CZKm)	**2014**	2013
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,790	1,758
Impairment and disposal of fixed assets	1	(4)
Total depreciation, impairment and disposal of assets	**1,791**	1,754

12 Cost of risk

Allowance for loan losses and provisions for other credit commitments

'Allowances for loan losses' in the total amount of CZK 1,271 million (2013: CZK 1,733 million) include a net loss from allowances and provisions for loans losses in the amount of CZK 1,846 million (2013: CZK 2,009 million), a net gain from loans written off and transferred in the amount of CZK 575 million (2013: CZK 271 million) and a net gain from allowances for other receivables in the amount of CZK 0 million (2013: net gain CZK 5 million).

The movements in allowances and provisions were as follows:

(CZKm)	**2014**	2013
Balance as of 1 January	**(19,109)**	(18,232)
Charge of allowances and provisions for loan losses		
- individuals	(2,474)	(2,827)
- corporates*	(5,299)	(5,234)
Release and use of allowances and provisions for loans losses		
- individuals	1,838	2,121
- corporates*	4,089	3,931
Impact of loans written off and transferred	1,724	1,378
Foreign exchange rate differences attributable to provisions	(321)	(246)
Balance as of 31 December	**(19,552)**	(19,109)

* *This item also includes allowances and provisions for loans granted to individual entrepreneurs.*

The balances of allowances and provisions as of 31 December 2014 and 2013 comprise the following:

(CZKm)	**2014**	2013
Allowances for loans to customers (refer to Note 21)	(18,834)	(18,520)
Allowances for other loans to customers (refer to Note 21)	(16)	(18)
Provisions for guarantees and other credit related commitments (refer to Note 33)	(702)	(571)
Total	**(19,552)**	(19,109)

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 153 million as of 31 December 2014 (2013: CZK 153 million).

Provisions for other risk expenses

The net loss of *'Provisions for other risk expenses'* of CZK 25 million (2013: CZK 6 million) consists mainly of the charge for provisions of CZK 23 million (2013: CZK 12 million) and the release and use of provisions of CZK 4 million (2013: CZK 6 million) for legal disputes, together with the net costs incurred by the Group as a result of the outcome of legal disputes of CZK 6 million (2013: CZK 0 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 follows:

(CZKm)	**2014**	2013
Tax payable – current year, reported in profit or loss	(2,667)	(2,869)
Tax paid – prior year	45	13
Deferred tax (refer to Note 34)	(1)	44
Hedge of a deferred tax asset against foreign currency risk	(46)	(13)
Total income taxes	**(2,669)**	(2,825)
Tax payable – current year, reported in equity	8	0
Total tax expense	**(2,661)**	(2,825)

The items explaining the difference between the Group's theoretical and effective tax rate are as follows:

(CZKm)	**2014**	2013
Profit before tax	**16,030**	15,731
Theoretical tax calculated at a tax rate of 19% (2013: 19%)	3,046	2,913
Tax on pre-tax profit adjustments	(199)	(82)
Non-taxable income	(1,104)	(1,558)
Expenses not deductible for tax purposes	1,039	1,629
Use of tax losses carried forward	(2)	(15)
Tax allowance	(3)	(3)
Tax credit	0	1
Hedge of a deferred tax asset against foreign currency risk	46	13
Movement in deferred tax	1	(44)
Tax losses	13	39
Impact of various tax rates of subsidiary undertakings	(92)	(31)
Tax effect of share of profits of associated undertakings	(31)	(24)
Income tax expense	**2,714**	2,838
Prior period tax expense	(45)	(13)
Total income taxes	**2,669**	2,825
Tax payable on available-for-sale financial assets reported in equity*	(8)	0
Total tax expense	**2,661**	2,825
Effective tax rate	16.65%	17.96%

* *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 tax non-deductible allowances and provisions. Expenses not deductible for tax purposes primarily include the recognition of tax non-deductible allowances and provisions and tax non-deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to the Czech Accounting Standards (CAS).

The corporate tax rate for the year ended 31 December 2014 is 19% (2013: 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 of 31 December 2014, the Group records unused tax losses in the amount of CZK 1,248 million (2013: CZK 158 million).

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	254	332	304	141	217

Further information about deferred tax is presented in Note 34.

14 Distribution of net profit

For the year ended 31 December 2014, the Group generated a net profit of CZK 13,361 million (2013: CZK 12,906 million). Distribution of profits for the year ended 31 December 2014 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 310 per share (2013: CZK 230 per share), which represents a total amount of CZK 11,783 million (2013: CZK 8,742 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting, held on 30 April 2014, the aggregate balance of the net profit of CZK 12,906 million for the year ended 31 December 2013 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 Bank's Articles of Association (i.e. 20% of the Group's share capital).

Moreover, the Group paid out dividends to non-controlling owners in the total amount of CZK 126 million (2013: CZK 271 million), of which CZK 0 million (2013: CZK 211 million) was paid to the non-controlling owners of ESSOX s.r.o. and CZK 126 million (2013: CZK 60 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 343.78 (2013: CZK 331.68 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 12,985 million (2013: CZK 12,528 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 (2013: 238,672 pieces).

16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Cash and cash equivalents	7,161	7,188
Current balances with central banks	145,742	37,217
Total cash and current balances with central banks (refer to Note 36)	**152,903**	44,405

Obligatory minimum reserves in the amount of CZK 126,755 million (2013: CZK 5,892 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2014, the interest rate was 0.05% (2013: 0.05%) in the Czech Republic and 0.05% (2013: 0.25%) in the Slovak Republic.

17 Financial assets at fair value through profit or loss

As of 31 December 2014 and 2013, 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 financial assets as *'Financial assets at fair value through profit or loss'*.

(CZKm)	31 Dec 2014	31 Dec 2013
Securities	20,208	20,778
Derivative financial instruments	21,760	16,355
Total financial assets at fair value through profit or loss	**41,968**	37,133

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 42(C).

Trading securities comprise the following:

	31 Dec 2014		31 Dec 2013	
(CZKm)	Fair value	Cost*	Fair value	Cost*
Emission allowances	**1,443**	**1,198**	381	407
Fixed income debt securities	10,403	10,042	6,278	6,241
Variable yield debt securities	2,520	2,512	3,340	3,337
Bills of exchange	1,873	1,872	373	372
Treasury bills	3,969	3,969	10,406	10,410
Total debt securities	**18,765**	**18,395**	20,397	20,360
Total trading securities	**20,208**	**19,593**	20,778	20,767

* *Acquisition cost for shares, participation certificates and emission allowances amortised acquisition cost excluding coupon 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 3,969 million (2013: CZK 10,406 million).

As of 31 December 2014, the portfolio of trading securities includes securities at fair value of CZK 13,839 million (2013: CZK 9,504 million) that are publicly traded on stock exchanges and securities at fair value of CZK 6,369 million (2013: CZK 11,274 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 2014	31 Dec 2013
Emission allowances		
Other currencies	1,443	381
Total emission allowances	**1,443**	381

Emission allowances at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Emission allowances issued by:		
Foreign financial institutions	1,443	381
Total emission allowances	**1,443**	381

Debt trading securities at fair value comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Variable yield debt securities		
Czech crowns	2,307	1,984
Other currencies	213	1,356
Total variable yield debt securities	**2,520**	3,340
Fixed income debt securities (including bills of exchange and treasury bills)		
Czech crowns	14,238	16,522
Other currencies	2,007	535
Total fixed income debt securities	**16,245**	17,057
Total trading debt securities	**18,765**	20,397

Debt trading securities at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Debt trading securities issued by:		
State institutions in the Czech Republic	15,657	16,876
Foreign state institutions	2,550	1,516
Financial institutions in the Czech Republic	546	1,952
Other entities in the Czech Republic	12	49
Other foreign entities	0	4
Total trading debt securities	**18,765**	20,397

Bonds issued by foreign state institutions as financial assets at fair value through profit or loss:

(CZKm)	31 Dec 2014	31 Dec 2013
Country of Issuer	**Fair value**	Fair value
European Investment Bank	85	182
Poland	63	66
Slovakia	2,402	1,268
Total	**2,550**	1,516

Of the debt securities issued by state institutions in the Czech Republic, CZK 9,786 million (2013: CZK 6,063 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 2014		31 Dec 2013	
(CZKm)	**Fair value**	**Cost***	Fair value	Cost*
Shares and participation certificates	**2**	**2**	2	2
Fixed income debt securities	54,576	49,377	118,595	108,872
Variable yield debt securities	22,862	22,308	22,603	22,222
Total debt securities	**77,438**	**71,685**	141,198	131,094
Total available-for-sale financial assets	**77,440**	**71,687**	141,200	131,096

* *Acquisition cost for shares and participation certificates amortised acquisition cost excluding coupon for debt securities*

As of 31 December 2014, the *'Available-for-sale financial assets'* portfolio includes securities at fair value of CZK 76,766 million (2013: CZK 141,198 million) that are publicly traded on stock exchanges and securities at fair value of CZK 674 million (2013: CZK 2 million) that are not publicly traded.

Shares and participation certificates available-for-sale at fair value comprise the following:

(CZKm)	**31 Dec 2014**	31 Dec 2013
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 2014**	31 Dec 2013
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

Debt securities available-for-sale at fair value comprise the following:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Fixed income debt securities		
Czech crowns	40,382	90,930
Other currencies	14,194	27,665
Total fixed income debt securities	**54,576**	118,595
Variable yield debt securities		
Czech crowns	17,989	17,562
Other currencies	4,873	5,041
Total variable yield debt securities	**22,862**	22,603
Total debt securities available-for-sale	**77,438**	141,198

Debt securities available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Debt securities available-for-sale issued by:		
State institutions in the Czech Republic	39,911	98,198
Foreign state institutions	9,107	17,384
Financial institutions in the Czech Republic	20,117	20,757
Foreign financial institutions	5,662	3,375
Other entities in the Czech Republic	1,708	499
Other foreign entities	933	985
Total debt securities available-for-sale	**77,438**	141,198

Debt securities available-for-sale issued by foreign state institutions comprise the following:

(CZKm)	31 Dec 2014		31 Dec 2013	
Country of Issuer	**Fair value**	**Cost***	Fair value	Cost*
Poland	1,447	1,265	5,930	5,431
Slovakia	6,209	5,416	9,452	8,840
EFSF	0	0	566	561
European Investment Bank	1,451	1,250	1,436	1,250
Total	**9,107**	**7,931**	17,384	16,082

* *Acquisition cost for shares and participation certificates amortised acquisition cost excluding coupon for debt securities*

Of the debt securities issued by state institutions in the Czech Republic, CZK 33,812 million (2013: CZK 83,634 million) consist of securities eligible for refinancing with the CNB.

During the year ended 31 December 2014, the Group acquired bonds with a nominal value of CZK 6,432 million, EUR 76 million (CZK equivalent of 2,097 million) and USD 40 million (CZK equivalent of 889 million) i.e with the total CZK equivalent of CZK 9,418 million), of which CZK 4,650 million comprised bonds issued by State institutions in the Czech Republic and EUR 45 million (CZK equivalent of 1,234 million) bonds issued by Foreign state institutions. Moreover, the Group acquired CZK 282 million bonds issued by Financial institution in the Czech Republic and bonds issued by Foreign financial institutions in the amount of CZK 700 million, EUR 31 million (CZK equivalent of 863 million), USD 40 million (CZK equivalent of 889 million) and other corporate bond in the amount of CZK 800 million. During the year ended 31 December 2014, the Group sold Czech government bonds in the nominal amount of CZK 500 million and EUR 8 million (in a total CZK equivalent of CZK 720 million) and bonds of financial institutions from other countries in the amount of CZK 250 million. During the year ended 31 December 2014, the Group had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 1,873 million, EUR 197 million and USD 23 million (a total CZK equivalent of CZK 7,786 million), of which CZK 3,944 million were issued by State institutions in the Czech Republic, CZK 2,432 million by Foreign state institutions, CZK 850 million by Financial institutions in the Czech Republic and CZK 560 million by Foreign financial institutions.

During the year ended 31 December 2013, the Group acquired bonds with a nominal value of CZK 10,705 million, EUR 272 million (CZK equivalent of CZK 7,053 million) and USD 41 million (CZK equivalent of CZK 809 million) i.e.in total CZK equivalent of 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 the year ended 31 December 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 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).

Reclassification of certain debt securities held in the portfolio of Available-for-sale financial assets

During the first quarter of 2014, the Group reviewed the accounting recognition of certain debt securities issued by State institutions held in the portfolio of *'Available-for-sale financial assets'* (hereafter only "AFS") on the basis of the Group's changing its intention for their classification. The Group concluded that all regulatory and accounting requirements, as well as internal limits, were satisfied for recognition of the debt securities in the nominal value of CZK 56,596 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 and losses in Equity of CZK 5,011 million as of reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security (refer to Notes 22 and 41).

19 Assets held for sale

As of 31 December 2014, the Group reported assets held for sale at a carrying amount of CZK 63 million (2013: CZK 84 million) mainly comprising of 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 2014**	31 Dec 2013
Current account with other banks (refer to Note 36)	838	1,710
Debt securities	11,977	10,055
Loans and advances to banks	12,108	12,631
Advances due from the CNB (reverse repo transactions)	20,000	87,001
Term placements with other banks	14,775	14,338
Total amounts due from banks, gross	**59,698**	125,735
Allowances for amounts due from banks	0	0
Total amounts due from banks, net	**59,698**	125,735

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 values of which are as follows:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Treasury bills	19,605	85,325
Debt securities issued by state institutions	2,368	2,517
Shares	573	0
Investment certificates	83	82
Total	**22,629**	87,924

Securities acquired as loans and receivables

As of 31 December 2014, the Group maintains in its portfolio bonds at an amortised cost of CZK 11,977 million (2013: CZK 10,055 million) and a nominal value of CZK 11,622 million (2013: CZK 9,898 million), of which CZK 5,817 million (2013: CZK 5,863 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 3,227 million (2013: CZK 3,273 million) is denominated in EUR, bears floating interest and will mature in 2026. During the year ended 31 December 2014, there was a partial repayment of the nominal value of this bond in the amount of EUR 2.9 million, an equivalent of CZK 82 million (2013: EUR 2.7 million, an equivalent of CZK 77 million).

Additionally, the Group holds in this portfolio securities with a nominal value of CZK 2,910 million (2013: CZK 1,410 million) and EUR 79 million (2013: EUR 70 million) issued by Financial institutions in the Czech Republic and CZK 705 million (2013: CZK 705 million) issued by Foreign financial institutions, i.e. a total CZK equivalent to CZK 5,805 million (2013: CZK 4,035 million).

During the year ended 31 December 2014, the Group acquired bonds with a nominal value of CZK 1,500 million and EUR 9 million (a total CZK equivalent of CZK 1,747 million) issued by Financial institutions in the Czech Republic.

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 2014	31 Dec 2013
Loans to customers	510,353	489,305
Bills of exchange	318	302
Forfaits	673	1,458
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**511,344**	491,065
Debt securities	2,072	461
Other amounts due from customers	140	101
Total loans and advances to customers, gross	**513,556**	491,627
Allowances for loans to customers		
individuals	(7,250)	(7,125)
corporates*	(11,584)	(11,395)
Total allowances for loans to customers (refer to Note 12)	**(18,834)**	(18,520)
Allowances for other amounts due from customers (refer to Note 12)	(16)	(18)
Total allowances for loans and other amounts due from customers	**(18,850)**	(18,538)
Total loans and advances to customers, net	**494,706**	473,089

* *This item also includes loans granted to individual entrepreneurs.*

As of 31 December 2014, loans and advances to customers include interest due of CZK 1,303 million (2013: CZK 1,365 million), of which CZK 601 million (2013: CZK 655 million) relates to overdue interest.

As of 31 December 2014, loans provided to customers under reverse repurchase transactions in the amount of CZK 90 million (2013: CZK 124 million) are collateralised by securities with a fair values of CZK 45 million (2013: CZK 66 million).

As of 31 December 2014, 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	474,888	216,804	258,013	0	474,817	0%
Watch	9,689	3,535	6,154	(971)	8,718	16%
Substandard	6,955	3,942	3,013	(1,696)	5,259	56%
Doubtful	1,493	568	925	(721)	772	78%
Loss	18,319	1,257	17,133	(15,446)	2,944	90%
Total	**511,344**	**226,106**	**285,238**	**(18,834)**	**492,510**	

As of 31 December 2013, 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	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	

Set out below is a breakdown of loans by sector (excluding Debt securities and Other amounts due from customers):

(CZKm)	**31 Dec 2014**	31 Dec 2013
Food industry and agriculture	17,077	17,254
Mining and extraction	3,914	4,863
Chemical and pharmaceutical industry	6,329	6,639
Metallurgy	9,728	9,039
Automotive industry	10,245	5,113
Manufacturing of other machinery	10,145	9,524
Manufacturing of electrical and electronic equipment	3,403	3,237
Other processing industry	7,827	8,601
Power plants, gas plants and waterworks	21,182	26,285
Construction industry	9,863	9,865
Retail	11,582	10,473
Wholesale	31,351	29,086
Accommodation and catering	996	1,014
Transportation, telecommunication and warehouses	23,255	21,918
Banking and insurance industry	20,269	18,780
Real estate	36,092	32,858
Public administration	33,908	35,539
Other industries	26,782	22,898
Individuals	227,396	218,079
Total loans to customers	**511,344**	491,065

The majority of loans, more than 89% (2013: 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 2014			31 Dec 2013		
(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	4,284	2,171	2,153	4,899	2,964	2,947
Bank guarantee	18,259	15,453	15,321	16,572	13,860	13,735
Guaranteed deposits	8,205	8,152	7,707	8,531	8,489	8,046
Pledge of real estate	371,292	237,621	171,589	353,233	223,472	161,127
Pledge of movable assets	14,597	2,586	2,529	15,886	2,614	2,568
Guarantee by legal entity	22,904	13,155	11,798	18,441	11,381	10,868
Guarantee by individual (natural person)	3,862	446	419	4,685	533	501
Pledge of receivables	34,863	608	26	28,972	508	47
Insurance of credit risk	14,980	14,231	14,231	15,351	14,571	14,571
Other	884	504	333	1,202	617	349
Nominal value of collateral	**494,130**	**294,927**	**226,106**	467,772	279,009	214,759

* *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 10% of total pledges on real estate (2013: 11%).

Debt securities designated as loans and receivables

As of 31 December 2014, the Group holds in its portfolio bonds at an amortised cost of CZK 899 million (2013: CZK 461 million) and a nominal value of CZK 877 million (2013: CZK 450 million), of which bonds with a nominal value of CZK 450 million (2013: CZK 450 million) are issued by State institutions in the Czech Republic, CZK 99 million (2013: CZK 0 million) are issued by Other entities in the Czech Republic and EUR 12 million (2013: EUR 0 million) are issued by Other foreign entities. Additionally, the Group holds in this portfolio bills of exchange at an amortised cost of CZK 1,132 million (2013: CZK 0 million) and a nominal value of CZK 1,133 million (2013: CZK 0 million), of which bills of exchange in the nominal value of CZK 183 million (2013: CZK 0 million) are issued by State institutions in the Czech Republic and CZK 950 million (2013: CZK 0 million) are issued by Other entities in the Czech Republic. The portfolio is hedged using fair value hedge derivatives with a fair value of CZK 41 million (2013: CZK 0 million).

During the year ended 31 December 2014, the Group acquired bonds with a nominal value of CZK 99 million and EUR 12 million (a total CZK equivalent of CZK 434 million), of which CZK 99 million comprised bonds issued by Other entities in the Czech Republic and CZK 335 million by Other foreign entities. The Group also acquired bills of exchange with a nominal value of CZK 1,354 million and EUR 73 million (a total CZK equivalent of CZK 3,370 million), of which CZK 404 million comprised bills of exchange issued by State institutions in the Czech Republic and CZK 2,966 million issued by Other entities in the Czech Republic. During 2014, the Group had regular repayment of bills of exchange at maturity in the aggregate nominal value of CZK 221 million and EUR 73 million (a total CZK equivalent of CZK 2,237 million), of which CZK 221 million were issued by State institutions in the Czech Republic and CZK 2,016 million by Other entities in the Czech Republic.

During the year ended 31 December 2013, there were no purchases, sales or redemptions

Loans and advances to customers – renegotiated/forbeared

(CZKm)	**31 Dec 2014**	31 Dec 2013
Individuals	1,848	1,528
Corporates*	4,112	4,690
Total	**5,960**	6,218

* *This item also includes loans granted to individual entrepreneurs.*

Finance lease

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 72 months (2013: 67 months), technology with an average lease instalment period of 37 months (2013: 41 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 65 months (2013: 67 months), agricultural vehicles and machines with an average lease instalment period of 57 months (2013: 56 months), machine technology with an average lease instalment period of 61 months (2013: 60 months), air transport equipment with an average lease instalment period of 92 months (2013: 98 months), hardware and software technology with an average lease instalment period of 52 months (2013: 53 months) and real estate with an average lease instalment period of 12 years (2013: 12 years).

Loans and advances to customers – leasing

(CZKm)	**31 Dec 2014**	31 Dec 2013
Due less than 1 year	4,526	4,492
Due from 1 to 5 years	7,072	6,899
Due over 5 years	650	782
Total	**12,248**	12,173

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Due less than 1 year	372	417
Due from 1 to 5 years	484	551
Due over 5 years	44	74
Total	**900**	1,042

As of 31 December 2014, the provisions recognised against uncollectible lease receivables amount to CZK 295 million (2013: CZK 828 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 of 31 December 2014, the Statement of Financial Position included loans to this client in the amount of CZK 1,593 million (2013: CZK 1,390 million) which were fully provided for. The increase in the balance between 2014 and 2013 arises from a foreign exchange rate difference. The Group did not report any off-balance sheet receivables from this client in 2014 and 2013. The Group is continuing to take action in all relevant jurisdictions to recover its funds.

22 *Held-to-maturity investments*

Held-to-maturity investments comprise the following:

	31 Dec 2014		31 Dec 2013	
(CZKm)	**Carrying value**	**Cost***	Carrying value	Cost*
Fixed income debt securities	76,519	74,780	4,200	4,071
Total held–to-maturity investments	**76,519**	**74,780**	4,200	4,071

* *Amortised acquisition cost excluding coupon.*

As of 31 December 2014, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 76,519 million (2013: CZK 4,200 million) which are publicly traded on stock exchanges.

Fixed income debt securities held-to-maturity comprise the following:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Fixed income debt securities		
Czech Crowns	63,152	4,006
Foreign currencies	13,367	194
Total fixed income debt securities	**76,519**	4,200

Fixed income debt securities held-to-maturity, allocated by issuer, comprise the following:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Fixed income debt securities issued by:		
State institutions in the Czech Republic	66,245	4,006
Foreign state institutions	10,274	194
Total fixed income debt securities	**76,519**	4,200

Debt securities held-to-maturity issued by foreign state institutions comprise the following:

(CZKm)	**31 Dec 2014**		31 Dec 2013	
Country of Issuer	**Fair value**	**Cost***	Fair value	Cost*
Slovakia	5,163	5,039	0	0
Poland	5,111	5,001	0	0
France	0	0	198	193
Total held-to-maturity investments	**10,274**	**10,040**	198	193

* *Amortised acquisition cost excluding coupon.*

During the year ended 31 December 2014, the Group acquired bonds with a nominal value of CZK 3,903 million and EUR 103.5 million (a total CZK equivalent of CZK 6,763 million), of which CZK 4,179 million comprised bonds issued by State institutions in the Czech Republic and CZK 2,584 million issued by Foreign state institutions. During 2014, the Group had regular repayment of debt securities at maturity in the aggregate nominal value of EUR 65 million (a CZK equivalent of CZK 1,801 million), of which CZK 1,607 million were issued by State institutions in the Czech Republic and CZK 194 million by Foreign state institutions.

During the first quarter of 2014, certain debt securities with a nominal value of CZK 56,596 million issued by State institutions held in the portfolio of *'Available-for-sale financial assets'* were reclassified to the portfolio of *'Held to maturity investments'*. The securities were reclassified at fair value. The corresponding unrealised gains or losses in the Equity of CZK 5,011 million as of reclassification date are retained in 'Other Comprehensive Income'. Such amounts are amortised over the remaining life of the security (refer to Notes (refer to Notes 18 and 41).

During 2013, the Group acquired bonds with a nominal value of CZK 760 million issued by state institutions in the Czech Republic. During 2013, 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 2014**	31 Dec 2013
Prepayments and accrued income	481	377
Settlement balances	338	405
Receivables from securities trading	18	22
Other assets	3,146	2,476
Total prepayments, accrued income and other assets	**3,983**	3,280

As of 31 December 2014, the item *'Other assets'* included receivables of CZK 718 million (2013: CZK 713 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 255 million (2013: CZK 240 million) and in particular also advances provided and receivables for other debtors.

24 Investments in associates and non-controlling interests in subsidiaries

Investments in associates comprise the following:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Investments in associated undertakings	1,234	1,084
Total investments in associates	**1,234**	1,084

The following companies are associated undertakings of the Group as of 31 December 2014:

(CZKm)		31 Dec 2014		31 Dec 2013	
Associates	**%**	**Net book value**	**Share of net assets**	**Net book value**	**Share of net assets**
Komerční pojišťovna, a. s.	49.00	837**	1,232	482	1,084
Czech Banking Credit Bureau, a. s.*	20.00	0	2	0	0
Total investments in associates		**837**	**1,234**	482	1,084

* *The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.*

** *In the year ended 31 December 2014, the whole impairment on Komerční pojišťovna, a.s. (hereafter only the "KP") in the amount of CZK 355 million (2013: 0 million CZK) was released. After years of uncertainty about the new regulatory framework for insurance and reinsurance industry in the European Union, the Solvency II directive will come into effect on 1 January 2016. After Solvency II impact analysis in KP it is expected that KP will be able to absorb regulatory capital requirements and to maintain or even increase current profit distribution. In order to assess the current level of impairment recoverable amount of 49% share owned by the Bank was determined. Recoverable amount was established as value in use based on the discounted cash flows model, where the discount rate corresponds to cost of equity determined using the Damodaran method on the basis of publicly available data on inflation and interest rates. Cash flows correspond to the expected distribution of KP profits in the future.*

(CZKm)	31 Dec 2014			
Associates	**Assets**	**Liabilities**	**Operating income**	**Profit**
Komerční pojišťovna, a. s.	51,487	48,973	765	387
Czech Banking Credit Bureau, a. s.	12	2	118	9

(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

Movements in share of associated undertakins

(CZKm)	**Komerční pojišťovna, a. s**	**Czech Banking Credit Bureau, a. s**	**Total**
As of 1 January 2013	971	0	971
Dividend payment	(81)	0	(81)
Share of profit / loss	208	0	208
Share of revaluation on Available-for-sale assets	(14)	0	(14)
As of 31 December 2013	1,084	0	1,084
Dividend payment	(117)	0	(117)
Share of profit / loss	189	2	191
Share of revaluation on Available-for-sale assets	76	0	76
As of 31 December 2014	**1,232**	**2**	**1,234**

Main financial information about the subsidiary that has non-controlling interest are following:

(CZKm)	31 Dec 2014			31 Dec 2013		
	Assets	**Liabilities**	**Profit**	Assets	Liabilities	Profit
SG Equipment Finance Czech Republic s.r.o.*	27,613	25,263	285	25,971	23,656	252
ESSOX s.r.o.**	10,214	6,276	534	10,042	6,640	610

* *Non-controlling interest of SG Equipment Finance Czech Republic s.r.o. subsidiary amounts to 49.9%.*

** *Non-controlling interest of ESSOX s.r.o. subsidiary amounts to 49.1%.*

Movements of non-controlling interests:

(CZKm)	**SG Equipment Finance Czech Republic s.r.o.**	**ESSOX s.r.o.**	**Total**
As of 1 January 2013	1,189	1,580	2,769
Dividend payment	-60	-211	-271
Profit / loss	79	299	378
Share based payment	0	1	1
Cash flow hedging	2	0	2
As of 31 December 2013	1,210	1,669	2,879
Dividend payment	-126	0	-126
Profit / loss	114	262	376
Share based payment	0	1	1
Cash flow hedging	1	0	1
As of 31 December 2014	**1,199**	**1,932**	**3,131**

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 follows:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
Cost					
As of 1 January 2013	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
As of 31 December 2013	9,471	2,500	68	649	12,688
Additions	751	192	0	1,128	2,071
Disposals/transfers	(63)	(32)	(12)	(958)	(1,065)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**10,159**	**2,660**	**56**	**819**	**13,694**
Accumulated amortisation and allowances					
As of 1 January 2013	(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)
As of 31 December 2013	(6,886)	(1,968)	(62)	0	(8,916)
Additions	(923)	(201)	(3)	0	(1,127)
Disposals	64	31	12	0	107
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**(7,745)**	**(2,138)**	**(53)**	**0**	**(9,936)**
Net book value					
As of 31 December 2013	2,585	532	6	649	3,772
As of 31 December 2014	**2,414**	**522**	**3**	**819**	**3,758**

* *Internally generated assets comprise mainly of software.*

During the year ended 31 December 2014, the Group invested CZK 204 million (2013: CZK 199 million) into research and development through a charge to *'Operating expenses'*.

26 Tangible assets

The movements in tangible assets were as follows:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
Cost					
As of 1 January 2013	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
As of 31 December 2013	358	12,283	5,351	277	18,269
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	0	160	313	472	945
Disposals/transfers	0	(1)	(485)	(473)	(959)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**358**	**12,442**	**5,179**	**276**	**18,255**
Accumulated depreciation and allowances					
As of 1 January 2013	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)
As of 31 December 2013	0	(6,016)	(4,381)	0	(10,397)
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	0	(358)	(305)	0	(663)
Disposals	0	1	469	0	470
Impairment charge	0	0	1	0	1
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**0**	**(6,373)**	**(4,216)**	**0**	**(10,589)**
Net book value					
As of 31 December 2013	358	6,267	970	277	7,872
As of 31 December 2014	**358**	**6,069**	**963**	**276**	**7,666**

As of 31 December 2014, the Group recognised allowances against tangible assets of CZK 2 million (2013: CZK 1 million). These allowances primarily included allowances charged in respect of buildings and improvements of leased assets.

27 *Goodwill*

Goodwill by companies as of 31 December 2014 was as follows:

(CZKm)	**31 Dec 2014**	31 Dec 2013
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 of 31 December 2014 and 2013, 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 2014**	31 Dec 2013
Sold securities	1,992	1,196
Derivative financial instruments	21,478	16,334
Total financial liabilities at fair value through profit or loss	**23,470**	17,530

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 42(C).

29 *Amounts due to banks*

Amounts due to banks comprise the following:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Current accounts (refer to Note 36)	15,041	2,747
Amounts due to banks	46,319	46,933
Total amounts due to banks	**61,360**	49,680

The fair value of securities and treasury bills used as collateral for repurchase loans received from banks was CZK 1,378 million (2013: CZK 6,978 million) of which CZK 1,378 million (2013: CZK 558 million) were securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'* and CZK 0 million (2013: CZK 6,420 million) from the portfolio of *'Available-for-sale financial assets'*. The carrying amount of associated liabilities was CZK 1,361 million (2013: CZK 6,760 million).

30 Amounts due to customers

Amounts due to customers, by type of deposit, comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Current accounts	416,106	365,388
Savings accounts	172,232	166,814
Term deposits	27,594	44,297
Depository bills of exchange	12,663	5,233
Amounts received from customers	25,745	24,547
Other payables to customers	47,527	42,879
Total amounts due to customers	**701,867**	649,158

The fair value of securities and treasury bills used as collateral for repurchase loans received from customers was CZK 25,673 million (2013: CZK 24,461 million), of which CZK 7,630 million (2013: CZK 2,515 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 7,697 million (2013: CZK 2,571 million).

Amounts due to customers, by type of customer, comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Private companies	226,350	211,033
Other financial institutions, non-banking entities	32,015	31,773
Insurance companies	2,882	2,285
Public administration	1,948	1,325
Individuals	284,963	265,413
Individuals – entrepreneurs	26,933	24,265
Government agencies	84,621	83,980
Other	14,317	12,251
Non-residents	27,838	16,833
Total amounts due to customers	**701,867**	649,158

31 Securities issued

Securities issued comprise mortgage bonds of CZK 22,584 million (2013: CZK 22,417 million). The Group issues mortgage bonds to fund its mortgage activities.

Debt securities according to their remaining time to maturity are analysed as follows:

(CZKm)	31 Dec 2014	31 Dec 2013
In less than one year	11,682	0
In one to five years	1,731	14,862
In five to ten years	1,009	1,011
In ten to twenty years	0	0
More than twenty years	8,162	6,544
Total debt securities	**22,584**	22,417

During the year ended 31 December 2014, the Group repurchased mortgage bonds with aggregate nominal volume of CZK 1,333 (2013: CZK 641 million) million and increased the nominal volume in issue by CZK 1,500 million (2013: CZK 3,447 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 2014 CZKm	31 Dec 2013 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	610	1,910
HZL Komerční banky, a.s., CZ0002000664	4.40%	CZK	21 Oct 2005	21 Oct 2015	11,072	11,191
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	8,162	6,544
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,009	1,011
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,731	1,761
Total debt securities					**22,584**	22,417

Six-month PRIBOR was 41 bps as as of 31 December 2014 (2013: 48 bps).

Three-month PRIBID was 4 bps as of 31 December 2014 (2013: 5 bps).

The value of the interest rate swap CZK sale average for ten years as of 31 December 2014 was 87 bps (2013: 207 bps).

32 *Accruals and other liabilities*

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Accruals and deferred income	240	253
Settlement balances and outstanding items	13	6
Payables from securities trading and issues of securities	1,930	1,548
Payables from payment transactions	5,287	4,609
Other liabilities	4,711	4,812
Total accruals and other liabilities	**12,181**	11,228

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 19 million (2013: CZK 21 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 2014**	31 Dec 2013
Provisions for contracted commitments (refer to Note 12 and 37)	646	573
Provisions for other credit commitments (refer to Note 12)	702	571
Provision for restructuring (refer to Note 9)	0	0
Total provisions	**1,348**	1,144

In 2013, the Group 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 Statement of Income line *'Personnel expenses'* (refer to Note 9).

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 2014**	31 Dec 2013
Provision for off-balance sheet commitments	625	385
Provision for undrawn loan facilities	77	186
Total (refer to Note 12)	**702**	571

Movements in the provisions for contracted commitments and for restructuring were as follows:

(CZKm)	**Retirement benefits plan**	**Provisions for loyalty and jubilee bonuses**	**Other provisions for contracted commitments**	**Provisions for restructuring**	**Total**
Balance as of 1 January 2013	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 as of 31 December 2013	160	3	410	0	573
Additions	9	1	116	0	126
Disposals	(11)	(1)	(66)	0	(78)
Accrual	4	0	0	0	4
Remeasurement	16	0	0	0	16
Foreign exchange difference	0	0	5	0	5
Balance as of 31 December 2014	**178**	**3**	**465**	**0**	**646**

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.

Net deferred tax assets are as follows:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	83	14
Difference between accounting and tax net book value of assets	0	17
Leases	3	5
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	0	1
Revaluation of hedging derivatives – equity impact (refer to Note 40)	2	3
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	0	0
Other temporary differences	5	(4)
Net deferred tax assets	**93**	36

Net deferred tax liabilities are as follows:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Banking provisions and allowances	326	267
Allowances for assets	106	1
Non-banking provisions	30	169
Difference between accounting and tax net book value of assets	(842)	(772)
Leases	(150)	(178)
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	5	2
Revaluation of hedging derivatives – equity impact (refer to Note 40)	(3,735)	(1,918)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	(1,067)	(1,127)
Other temporary differences	19	60
Net deferred tax liabilities	**(5,308)**	(3,496)

Movements in the net deferred tax assets/(liabilities) were as follows:

(CZKm)	**2014**	2013
Balance as of the beginning of the period	**(3,460)**	(5,439)
Changes in accounting policies	0	0
Movement in the net deferred tax – profit and loss impact (refer to Note 13)	(1)	44
Movement in the net deferred tax – equity impact (refer to Note 39, 40 and 41)	(1,754)	1,935
Balance as of the end of the period	**(5,215)**	(3,460)

35 Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary bearer shares in dematerialised form with a nominal value of CZK 500 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, Czech Stock Exchange. Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Companies and Co-operatives. 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 of 31 December 2014 was 167,442 pieces (2013: 183,747 pieces).

Set out below is a summary of the entities that hold more than 3% of the Bank's issued share capital as of 31 December 2014:

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	5.33
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	4.77

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 of 31 December 2014, the Group held 238,672 treasury shares at a cost of CZK 726 million (2013: CZK 238,672 treasury shares at a cost of CZK 726 million).

Capital management

New rules for capital adequacy management, known as Basel III and in EU regulation as CRR/CRD IV, have been in effect from the beginning of 2014. The Basel III rules did not change the process of Group's regulatory capital adequacy management, but they were taken into consideration when setting parameters of that process which concerns in particular the newly applied additional combined capital buffer on top of the minimum required capital ratio of 8.0%. The capital conservation buffer of 2.5% and the systemic risk buffer of 2.5% were applied to the Group under Pillar 1 in 2014, the countercyclical buffer was not effectively applied. The total required capital ratio under Pillar 1 is thus set on 13.0%. The systemic risk buffer of 2.5% and the specific Pillar 2 buffer of 3.4% were applied to the Group under Pillar 2, meaning that the total required capital ratio under Pillar 2 is set to 13.9%. Consequently the total required capital ratio under Pillar 2 is structured in such a way that it results – when compared to Pillar 1 – in an additional requirement of 0.9% over Pillar 1.

As, on the one hand, the Group has an uncomplicated capital structure from a regulatory point of view – consisting only of the highest quality capital, Common Equity Tier 1, and, on the other hand, the changes in capital requirements largely offset one another, the total impact of Basel III transition on the capital ratio was relatively small. Because its capital ratio stands well above the minimum level, the Group meets the newly defined minimum levels of the capital ratio with adequate reserve under both Pillars 1 and 2.

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 III capital adequacy regulation, just as under the previous Basel II regulation, in addition to the usual reporting of the capital 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.

Tthe Group regularly simulates 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 transactions' risk profile.

The Group compiles hypothetical macroeconomic scenarios on the basis of which it estimates 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 (i.e. capital requirements), 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 the Group's dividend policy, which is the primary tool for capital adequancy management in such situation that Group's capital is entirely classified as Common Equity Tier 1 capital.

The Group's capital principally consists of the following balances: share capital, reserve funds and retained earnings.

The Group did not purchase its own shares into treasury during 2014 and as of 31 December 2014 the Group holds in total 238,672 treasury shares at a total cost of CZK 726 million. These had been purchased in previous years (as of 31 December 2013: 238,672 treasury shares at a total cost of CZK 726 million). The purchase of treasury shares had been approved by the Bank's General Meeting especially for the purpose of managing the Group's capital adequacy.

With regard to the fact that the capital requirements of the Basel III regulation (particularly the capital buffers) can vary over time and a part of the detail regulatory rules is still being developed, the Group continuously monitors and evaluates the forthcoming changes in regulatory requirements affecting the capital and capital adequacy and it analyses their potential impact within the capital planning process.

The CNB, as the local regulatory authority, oversees the Group's compliance with the capital adequacy both on 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.

As of 31 December 2014, the amount of consolidated regulatory capital was CZK 63,095 million (2013: CZK 59,087 million)

36 *Composition of cash and cash equivalents as reported in the Statement of Cash Flows*

(CZKm)	31 Dec 2014	31 Dec 2013	Change in the year
Cash and current balances with central banks (refer to Note 16)	152,903	44,405	108,498
Amounts due from banks – current accounts with other banks (refer to Note 20)	838	1,710	(872)
Amounts due to central banks	(2)	(1)	(1)
Amounts due to banks – current accounts (refer to Note 29)	(15,041)	(2,747)	(12,294)
Cash and cash equivalents at the end of the year	**138,698**	43,367	**95,331**

37 *Commitments and contingent liabilities*

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2014. 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 302 million (2013: CZK 285 million) for these legal disputes (refer to Note 33). The Group has also recorded a provision of CZK 58 million (2013: CZK 49 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2014, 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 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 credit worthiness) on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2014, the Group had capital commitments of CZK 279 million (2013: CZK 266 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 it 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 framework agreements 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. The 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 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 credit worthiness) in accordance with the same algorithm as for loans.

Financial commitments and contingencies comprise the following:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Non-payment guarantees including commitments to issued non-payment guarantees	36,302	40,593
Payment guarantees including commitments to issued payment guarantees	11,952	12,894
Committed facilities and unutilised overdrafts	10,917	12,869
Undrawn credit commitments	40,260	44,075
Unutilised overdrafts and approved overdraft loans	12,613	14,067
Unutilised limits under framework agreements to provide financial services	11,992	8,740
Open customer/import letters of credit uncovered	618	719
Standby letters of credit uncovered	2,524	1,982
Confirmed supplier/export letters of credit	134	169
Total commitments and contingencies	**127,312**	136,108

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 of 31 December 2014, the Group recorded provisions for these risks in the amount of CZK 702 million (2013: CZK 571 million). Refer to Note 33.

Set out below is an analysis of financial commitments and contingencies by sector:

(CZKm)	**31 Dec 2014**	31 Dec 2013
Food industry and agriculture	8,374	9,041
Mining and extraction	784	2,315
Chemical and pharmaceutical industry	2,761	2,771
Metallurgy	4,328	4,194
Automotive industry	1,442	2,101
Manufacturing of other machinery	6,988	7,008
Manufacturing of electrical and electronic equipment	2,531	2,270
Other processing industry	1,856	2,247
Power plants, gas plants and waterworks	8,335	7,501
Construction industry	30,942	32,081
Retail	2,464	3,937
Wholesale	8,044	7,881
Accommodation and catering	364	323
Transportation, telecommunication and warehouses	5,059	5,587
Banking and insurance industry	3,479	2,229
Real estate	1,137	2,511
Public administration	4,149	5,547
Other industries	16,370	19,718
Individuals	17,905	16,846
Total commitments and contingencies	**127,312**	136,108

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 2014			31 Dec 2013		
(CZKm)	**Total commitments and contingencies collateral***	**Discounted commitments and contingencies collateral value****	**Applied commitments and contingencies collateral value*****	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***
Guarantees of state and governmental institutions	673	12	12	214	197	197
Bank guarantee	947	897	853	1,994	840	747
Guaranteed deposits	2,144	2,124	1,917	2,322	2,307	2,169
Pledge of real estate	8,352	4,940	3,976	7,796	4,553	3,630
Pledge of movable assets	586	60	57	221	20	11
Guarantee by legal entity	8,171	4,498	4,145	6,650	4,495	4,424
Guarantee by individual (natural person)	40	4	4	21	2	2
Pledge of receivables	2,196	0	0	1,909	0	0
Insurance of credit risk	1,984	1,810	1,810	2,233	2,102	2,102
Other	88	60	60	233	163	118
Total nominal value of collateral	**25,181**	**14,405**	**12,834**	23,593	14,679	13,400

* *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.*

In accordance with Act 427/2011, Supplementary pension saving, and in accordance with the Statute of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the "Fund") created after 1 January 2013, the Group guarantees at least zero return for clients on an annual basis and must to ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise the Group is required to contribute to the Fund assets necessary to adjust the difference at latest within 30 days after the end of the quarter in which such fact was identified. This transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

In accordance with the Fund's conservative strategy based on sensitivity analysis, the usage of the guarantee is not probable in the near future as of the financial statement date.

38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2014, 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 of 31 December 2014, the Group had deposits of CZK 1,049 million (2013: CZK 475 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 2,217 million (2013: CZK 1,698 million) and the negative fair value to CZK 1 million (2013: CZK 2 million). Komerční pojišťovna, a.s. held Bank's mortgage bonds in amortised cost of CZK 806 million.

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 922 million (2013: CZK 1,000 million) and interest expense on financial derivatives amounted to CZK 630 million (2013: CZK 635 million). Interest expense from deposits amounted to CZK 1 million (2013: CZK 10 million), fee income of the Group arising from intermediation amounted to CZK 322 million (2013: CZK 324 million), fee expense amounted to CZK 61 million (2013: CZK 56 million), insurance expenses amounted to CZK 47 million (2013: CZK 59 million) and other income amounted to CZK 13 million (2013: CZK 0 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include the following:

(CZKm)	**31 Dec 2014**	31 Dec 2013
ALD Automotive Czech Republic, s. s r. o.	3,773	3,182
BRD Romania	10	116
Rosbank	66	1
SG Bruxelles	20	21
SG Expressbank	2	1
SG London	0	238
SG New York	0	3
SG Paris	13,123	12,834
SG Private Banking /Suisse/ S.A.	0	0
SG Warsaw	257	68
SGA Société Générale Acceptance	3,295	3,345
Succursale Newedge UK	0	7
Splitska Banka	3	0
SGBT Luxembourg	1	0
Société Générale Newedge UK Ltd	9	0
Société Générale (China) Ltd	45	0
Total	**20,604**	19,816

Principal balances owed to the Société Générale Group entities include the following:

(CZKm)	31 Dec 2014	31 Dec 2013
BRD Romania	1	5
Credit du Nord	18	4
ESSOX SK s.r.o.	0	13
Inter Europe Conseil	4	2
Investiční kapitálová společnost KB	63	55
PEMA Praha	2	11
Rosbank	1	6
SG Amsterdam	15	32
SG CONSUMER FINANCE	15	0
SG Cyprus LTD	15	127
SG Frankfurt	2,560	178
SG Expressbank	1	0
SG Istanbul	0	10
SG London	12	2
SG New York	4	1
SG Paris	28,842	30,381
SG Private Banking /Suisse/ S.A.	334	276
SG Warsaw	334	34
SGBT Luxemburg	1,472	1,869
Splitska Banka	45	27
SOGEPROM Ceska republika s.r.o.	7	0
Total	**33,745**	33,033

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), issued bonds, deposited margins in favour of the counterparty and fair values of derivatives.

As of 31 December 2014, the Group also carried off-balance sheet exposures to Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 267,213 million (2013: CZK 221,835 million) and CZK 258,694 million (2013: CZK 209,495 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 of 31 December 2014 and 2013, the Group also carried other amounts due to and from Société Générale Group entities which are not significant.

During the year ended 31 December 2014, the Group had total income of CZK 26,264 million (2013: CZK 20,225 million) and total expenses of CZK 29,716 million (2013: CZK 22,861 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)	2014	2013
Remuneration to the Board of Directors members*	59	52
Remuneration to the Supervisory Board members**	6	5
Remuneration to the Directors' Committee members***	85	66
Total	**150**	123

* **Remuneration to the Board of Directors members** *includes amounts paid during the year ended 31 December 2014 to the current and former directors under mandate and management contracts, exclusive of bonuses for 2014 but including bonuses for 2013. Amounts for expatriate members of the Board of Directors include remuneration exclusive of bonuses for 2014 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Board of Directors does not include accommodation-related services.*

** **Remuneration to the Supervisory Board members** *includes amounts paid during the year ended 31 December 2014 to the current and former members of the Supervisory Board. Amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.*

*** **Remuneration to the Directors' committee members** *comprise the sum of compensation and benefits paid in 2014 under management contracts or under expatriate relocation contracts in respect of expatriates. This item does not reflect any compensation provided to the Board of Directors members (as that is reflected in the remuneration to the Board of Directors members). All the Board of Directors members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2014, the total balance reflects his/her aggregate annual remuneration.*

	31 Dec 2014	31 Dec 2013
Number of the Board of Directors members	6	6
Number of the Supervisory Board members	9	9
Number of the Directors' Committee members*	18	17

* *These figures include all members of the Board of Directors, who are also members of the Directors' Committee.*

As of 31 December 2014, the Group recorded an estimated payable (including indexed bonuses) of CZK 31 million (2013: CZK 28 million) for Board of Directors bonuses.

In respect of loans and guarantees as of 31 December 2014, the Group recorded receivables from loans granted to members of the Board of Directors, Supervisory Board and Directors' Committee totalling CZK 18 million (2013: CZK 11 million). During 2014, draw-downs of CZK 11 million (2013: CZK 12 million) were made under the loans granted. Loan repayments during 2014 amounted to CZK 3 million (2013: CZK 9 million). The increase of loans in 2014 is affected by new members of the Supervisory Board and the Directors' Committee already having loans in the amount of CZK 1 million (2013: CZK 3 million). The amount of loans of resigning members of the Directors' Committee amounted to CZK 2 million as of 31 December 2013.

39 Movements in the remeasurement of retirement benefits plan in the Equity

(CZKm)	2014	2013
Remeasurement of retirement benefits plan as of 1 January	(11)	(13)
Deferred tax asset/(liability) as of 1 January	2	2
Balance as of 1 January	**(9)**	(11)
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	(16)	2
Deferred tax	3	0
	(13)	2
Remeasurement of retirement benefits plan as of 31 December	(27)	(11)
Deferred tax asset/(liability) as of 31 December (refer to Note 34)	5	2
Balance as of 31 December	**(22)**	(9)

40 Movements in the revaluation of hedging instruments in 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)	2014	2013
Cash flow hedge fair value as of 1 January	10,096	17,621
Deferred tax asset/(liability) as of 1 January	(1,915)	(3,350)
Balance as of 1 January	**8,181**	14,271
Movements during the year		
Gains/(losses) from changes in fair value	13,726	(3,850)
Deferred tax	(2,603)	736
	11,123	(3,114)
Transferred to interest income/expense	(4,105)	(3,669)
Deferred tax	784	698
	(3,321)	(2,971)
Transferred to personnel expenses	(4)	(6)
Deferred tax	1	1
	(3)	(5)
Cash flow hedge fair value as of 31 December	19,713	10,096
Deferred tax asset/(liability) as of 31 December (refer to Note 34)	(3,733)	(1,915)
Balance as of 31 December	**15,980**	8,181

41 Movements in the revaluation of available-for-sale financial assets in the Equity

(CZKm)	2014	2013
Reserve from fair value revaluation as of 1 January	7,345	9,753
Deferred tax /income tax asset/(liability) as of 1 January	(1,135)	(1,635)
Balance as of 1 January	**6,211**	8,118
Movements during the year		
Gains/(losses) from changes in fair value	1,217	(2,343)
Deferred tax/income tax	(91)	388
	1,126	(1,955)
(Gains)/losses from the sale	5	(64)
Deferred tax	1	112
	6	48
(Gains)/losses from reclassified financial assets (refer to Notes 18 and 22)	(843)	0
Deferred tax	160	0
	(683)	0
Reserve from fair value revaluation as of 31 December	7,725	7,345
Deferred tax /income tax asset/(liability) as of 31 December (refer to Note 34)	(1,065)	(1,135)
Balance as of 31 December	**6,660**	6,211

Unrealised gains from Available-for-sale financial assets recognised in the equity of the Transformovaný fond KB Penzijní společnosti, a.s. in the amount of CZK 1,427 million as of 31 December 2014 (31 December 2013: CZK 971 million) were included within the available-for-sale reserve. When 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.

42 Risk management and financial instruments

(A) Credit risk

Assessment of borrower's credit rating

The assessment of credit risk is based on quantitative and qualitative criteria, which leads to a rating assignment. The 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 process of 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 2014, the Group focused mainly on three core areas: (1) updating selected credit risk models in order to optimally reflect the current macroeconomic situation and goals set by the Group; (2) increasing of effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management; and (3) optimizing the setting of approval authority with the objective of empowering business departments in areas with lower risk intensity.

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 III 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.

(b) Ratings for banks and sovereigns

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 indicative 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 as an input for regular updates of the probability of default of all client exposures reported in accordance with the Basel III requirements.

(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 contributes substantially to protecting the Group from risky entities.

(e) Credit bureaus

The evaluation of data from credit bureaus is 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.

(f) Credit fraud prevention

The Group uses an automated system for the detection of individual credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Group's main applications. A plan for developing tools preventing credit fraud was prepared during the year and the upgrade of processes and controls – including their extension to the Group level – was ongoing. The Bank will continue in these activities during 2015.

Credit concentration risk

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, simulation, sector analyses and limits). The Group maintains its objective not to take on 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 37 for quantitative information about credit concentration risk.

The Group's maximum credit exposure as of 31 December 2014:

(CZKm)	Total exposure			Applied collateral		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**145,742**	**x**	**145,742**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**41,968**	**x**	**41,968**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**29,216**	**x**	**29,216**	**0**	**x**	**0**
Available-for-sale financial assets	**77,440**	**x**	**77,440**	**0**	**x**	**0**
Amounts due from banks	**59,698**	**2,251**	**61,949**	**21,601**	**680**	**22,281**
Loans and advances to customers	**513,556**	**125,061**	**638,617**	**226,106**	**12,154**	**238,260**
Individuals	224,792	17,862	**242,654**	160,684	2,134	**162,818**
of which: mortgage loans	162,564	7,741	**170,305**	133,162	2,054	**135,216**
consumer loans	22,923	2,247	**25,170**	3,701	5	**3,706**
constructions savings scheme loans	35,689	1,165	**36,854**	23,820	44	**23,864**
Corporates**	286,552	107,199	**393,751**	65,422	10,020	**75,442**
of which: top corporate clients	119,835	64,787	**184,622**	34,533	5,449	**39,982**
Debt securities	2,072	x	**2,072**	0	x	**0**
Other amounts due from customers	140	x	**140**	0	x	**0**
Revaluation differences on portfolios hedge items	**29**	**x**	**29**	**0**	**x**	**0**
Held-to-maturity investments	**76,519**	**x**	**76,519**	**0**	**x**	**0**
Total	**944,168**	**127,312**	**1,071,480**	**247,707**	**12,834**	**260,541**

* *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 of 31 December 2013:

(CZKm)	Total exposure: Statement of financial position	Total exposure: Off-balance sheet*	Total exposure: Total credit exposure	Applied collateral: Statement of financial position	Applied collateral: Off-balance sheet*	Applied collateral: 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

* *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. 163/2014. 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). The classification of individuals reflects also the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel III 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 regulations 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, the 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 III 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 sale and the expected duration of the recovery process.

All significant, individually material impaired credit exposures (i.e. classified as 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, by recovery specialists. For individually material impaired uncovered credit exposures in the category Watch, the provisioning rate used is established within the Société Générale Group and is calculated based on the average probability of default and LGD for the unsecured part of the receivable.

In August 2014, the model used for the calculation of allowances for Retail was updated in order to reflect new loss observations and to improve diagnostic ability.

The following table shows the split of classified customer loans (Watch, Substandard, Doubtful and Loss) based on the type of assessment:

	31 Dec 2014		31 Dec 2013	
(CZKm)	**Individually**	**Statistical model**	Individually	Statistical model
Individuals	4,771	9,239	5,671	8,715
Corporates*	15,206	7,311	20,288	2,417
Total	**19,977**	**16,550**	25,959	11,132

* *This item also includes loans granted to individual entrepreneurs.*

As of 31 December 2014, 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	**57,993**	0	0	0	0	0	**0**	**57,993**
- watch	**1,705**	0	0	0	0	0	**0**	**1,705**
Total	**59,698**	**0**	**0**	**0**	**0**	**0**	**0**	**59,698**
Customers								
- standard	**470,565**	4,163	136	16	8	0	**4,323**	**474,888**
- watch	**628**	31	768	7	0	0	**806**	**1,434**
Total	**471,193**	**4,194**	**904**	**23**	**8**	**0**	**5,129**	**476,322**

As of 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

The amount of the collateral used in respect of past due loans not impaired was CZK 2,700 million (2013: CZK 6,006 million).

Loan collateral

The Group uses collateral as one of its techniques for mitigating credit risk. 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. 163/2014. 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. 163/2014.

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 for 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 corporate 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 2014, 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 and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estates depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, revaluation is performed regularly.

Recovery of receivables from borrowers

The Group continuously responded the changing legal environment and its impact on the collection of receivables, and in particular the impact of the new Civil Code. Given the size of the portfolio in recovery, the Group is continuously improving the efficiency and process of recovery. These efforts also involve intensified and enhanced use of external recovery capacities, which take in approximately 13% of the total portfolio of exposures in recovery and 70% of the total number of clients in recovery. During 2014, the Group continued in regular sales of uncollateralised retail receivables to selected investors so that the maximum achievable recovery rate is obtained. The main emphasis is on the further automation of the recovery process.

The Group paid increased attention to the application of the 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 derivative product, the remaining time until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2014, the Group posted a credit exposure of CZK 23,437 million (2013: CZK 19,798 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement costs at market rates as of 31 December 2014 for all outstanding agreements. The netting agreement is 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 active limit 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 and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash-and-carry positions in emission allowances.

Derivatives traded on the Market Book are used either for proprietary position-taking or with intent for their sale to clients.

More complex derivatives (options, commodity derivatives, structured derivatives) which are being sold to clients, are immediately offset on the market by doing "back-to-back" trades with other counterparties. This ensures that the Group is not exposed to market risks associated with these derivatives (e.g. volatility risk, among others).

Market risk in the Market Book

The Group has developed complex system of market risk limits with the objective of restricting 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 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and the third largest potential losses out of the 250 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK -17 million as of 31 December 2014 (2013: CZK -19 million). The average VaR was CZK -23 million in 2014 (2013: CZK -17 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 2014, none of the daily losses (actual or hypothetical) exceeded the 99% VaR although in several cases the loss was very close to the calculated VaR. Work on a project for improving the accuracy of the VaR calculation by implementing a more sophisticated VaR model is presently underway in co-operation with Société Générale, and its implementation is planned for the first quarter of 2015.

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 of 31 December 2014, the CZK interest rate risk sensitivity was CZK -682 million (2013: CZK -1,014 million), the EUR sensitivity was CZK -57 million (2013: CZK -141 million), the USD sensitivity was CZK -77 million (2013: CZK -5 million) and for other currencies it was CZK -66 million (2013: CZK -49 million) for the hypothetical assumption of a 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 nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading are as follows:

	31 Dec 2014		31 Dec 2013		31 Dec 2014		31 Dec 2013	
	Nominal value		Nominal value		Fair value		Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	637,149	637,149	553,479	553,479	12,099	12,825	9,189	9,485
Interest rate forwards and futures*	61,639	61,639	48,414	48,414	7	2	9	4
Interest rate options	6,905	6,905	6,873	6,873	24	24	21	21
Total interest rate instruments	**705,693**	**705,693**	608,766	608,766	**12,130**	**12,851**	9,219	9,510
Foreign currency instruments								
Currency swaps	198,939	198,709	135,547	136,171	1,387	1,165	723	1,358
Cross currency swaps	102,897	102,402	87,093	87,043	5,437	4,808	4,063	3,847
Currency forwards	20,339	19,948	31,456	30,830	470	113	978	383
Purchased options	42,697	43,391	48,525	49,581	844	0	868	0
Sold options	43,391	42,697	49,581	48,525	0	844	0	868
Total currency instruments	**408,263**	**407,147**	352,202	352,150	**8,138**	**6,930**	6,632	6,456
Other instruments								
Futures on debt securities	83	83	0	0	0	0	0	0
Forwards on emission allowances	1,375	1,597	847	720	15	238	222	95
Commodity forwards	1,461	1,461	1,296	1,296	38	37	19	18
Commodity swaps	19,080	19,080	11,674	11,674	1,268	1,251	105	97
Commodity cross currency swaps	738	738	3,903	3,903	46	46	137	137
Purchased commodity options	924	924	475	475	125	0	21	0
Sold commodity options	924	924	475	475	0	125	0	21
Total other instruments	**24,585**	**24,807**	18,670	18,543	**1,492**	**1,697**	504	368
Total	**1,138,541**	**1,137,647**	979,638	979,459	**21,760**	**21,478**	16,355	16,334

* *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 of 31 December 2014:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	196,144	276,813	164,192	637,149
Interest rate forwards and futures*	57,363	4,276	0	61,639
Interest rate options	796	5,010	1,099	6,905
Total interest rate instruments	**254,303**	**286,099**	**165,291**	**705,693**
Foreign currency instruments				
Currency swaps	197,296	1,643	0	198,939
Cross currency swaps	17,379	42,241	43,277	102,897
Currency forwards	16,245	4,094	0	20,339
Purchased options	26,204	16,493	0	42,697
Sold options	26,673	16,718	0	43,391
Total currency instruments	**283,797**	**81,189**	**43,277**	**408,263**
Other instruments				
Futures on debt securities	83	0	0	0
Forwards on emission allowances	897	478	0	1,375
Commodity forwards	1,461	0	0	1,461
Commodity swaps	16,037	3,043	0	19,080
Commodity cross currency swaps	738	0	0	738
Purchased commodity options	825	99	0	924
Sold commodity options	825	99	0	924
Total other instruments	**20,866**	**3,719**	**0**	**24,585**
Total	**558,966**	**371,007**	**208,568**	**1,138,541**

* *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 of 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

* *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 follows:

	31 Dec 2014		31 Dec 2013		**31 Dec 2014**		31 Dec 2013	
	Nominal value		Nominal value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Cross currency swaps for cash flows hedging	50,768	54,812	49,785	50,218	8	3,922	189	3,322
Cross currency swaps for fair value hedging	348	468	348	3,297	0	121	0	219
Currency swaps for fair value hedging	0	0	207	222	0	0	0	15
Forwards on stocks for cash flow hedging	46	46	32	32	11	0	11	0
Interest rate swaps for cash flow hedging	535,271	535,271	469,805	469,805	28,366	8,233	17,831	6,255
Interest rate swaps for fair value hedging	16,556	16,556	27,721	27,721	74	2,451	217	2,244
Interest rate swaps for portfolio fair value hedging	18,150	18,150	11,550	11,550	757	50	1	207
Total	**621,139**	**625,303**	559,448	562,845	**29,216**	**14,777**	18,249	12,262

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2014:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	6,251	36,473	8,044	50,768
Cross currency swaps for fair value hedging	348	0	0	348
Currency swaps for fair value hedging	0	0	0	0
Forwards on stocks for cash flow hedging	16	30	0	46
Interest rate swaps for cash flow hedging	96,966	246,277	192,028	535,271
Interest rate swaps for fair value hedging	21	1,200	15,335	16,556
Interest rate swaps for portfolio fair value hedging	2,600	4,600	10,950	18,150
Total	**106,202**	**288,580**	**226,357**	**621,139**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 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

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 2014			31 Dec 2013		
(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	**(387)**	**(1,681)**	**(1,566)**	(470)	(2,236)	(2,072)

The Group treats as hedges only those contracts for which it is able to demonstrate that all criteria set out in IAS 39 for recognising the transactions as hedges have been met.

During 2014, 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 swaps and a cross currency swap, respectively;

    b. The fair values of issued long-term mortgage bonds classified into the *'Securities issued'* portfolio are hedged by an interest rate swaps;

    c. The fair values of a portfolio of savings accounts from retail clients are hedged by a portfolio of interest rate swaps;

d. 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 Statement of Income on an ongoing basis);

e. Future cash flows from 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 Statement of Income 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 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 into 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	126,756	0	0	0	26,147	**152,903**
Financial assets at fair value through profit or loss	3,656	8,284	5,947	2,326	21,755	**41,968**
Positive fair values of hedging financial derivatives	0	0	0	0	29,216	**29,216**
Available-for-sale financial assets	58	17,783	31,392	28,207	0	**77,440**
Assets held for sale	0	0	0	0	63	**63**
Amounts due from banks	48,487	6,657	2,528	1,190	836	**59,698**
Loans and advances to customers, net	213,932	72,904	184,192	19,159	4,519	**494,706**
Revaluation differences on portfolios hedge items	0	0	0	0	29	**29**
Held-to-maturity investments	205	3,894	27,456	44,964	0	**76,519**
Current tax assets	0	138	0	0	95	**233**
Deferred tax assets	0	0	5	0	88	**93**
Prepayments, accrued income and other assets	3	721	0	0	3,259	**3,983**
Investments in subsidiaries and associates	0	0	0	0	1,234	**1,234**
Intangible assets	0	0	0	0	3,758	**3,758**
Tangible assets	0	0	0	0	7,666	**7,666**
Goodwill	0	0	0	0	3,752	**3,752**
Total assets	**393,097**	**110,381**	**251,520**	**95,846**	**102,417**	**953,261**
Liabilities						
Amounts due to central banks	2	0	0	0	0	**2**
Financial liabilities at fair value through profit or loss	1,993	0	0	0	21,477	**23,470**
Negative fair values of hedging financial derivatives	0	0	0	0	14,777	**14,777**
Amounts due to banks	50,758	5,961	346	0	4,295	**61,360**
Amounts due to customers	78,635	26,857	30,644	2,744	562,987	**701,867**
Revaluation differences on portfolios hedge items	0	0	0	0	761	**761**
Securities issued	610	11,072	9,901	1,001	0	**22,584**
Current tax liabilities	0	35	0	0	74	**109**
Deferred tax liabilities	0	0	37	19	5,252	**5,308**
Accruals and other liabilities	281	9	0	0	11,891	**12,181**
Provisions	0	0	0	0	1,348	**1,348**
Total liabilities	**132,279**	**43,934**	**40,928**	**3,764**	**622,862**	**843,767**
Statement of Financial Position interest rate sensitivity gap as of 31 Dec 2014	**260,818**	**66,447**	**210,592**	**92,082**	**(520,445)**	**109,494**
Derivatives*	447,675	344,824	292,756	344,428	0	**1,429,683**
Total off-balance sheet assets	**447,675**	**344,824**	**292,756**	**344,428**	**0**	**1,429,683**
Derivatives*	781,427	327,124	258,568	66,233	0	**1,433,352**
Undrawn portion of loans**	(3,101)	(3,301)	5,487	915	0	**0**
Undrawn portion of revolving loans**	(320)	320	0	0	0	**0**
Total off-balance sheet liabilities	**778,006**	**324,143**	**264,055**	**67,148**	**0**	**1,433,352**
Net off-balance sheet interest rate sensitivity gap as of 31 Dec 2014	**(330,331)**	**20,681**	**28,701**	**277,280**	**0**	**(3,669)**
Cumulative interest rate sensitivity gap as of 31 Dec 2014	**(69,513)**	**17,615**	**256,908**	**626,270**	**105,825**	**X**

* *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	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 at fair value 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
Total liabilities	140,048	22,467	51,884	4,790	548,253	767,442
Statement of Financial Position interest rate sensitivity gap as of 31 Dec 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 as of 31 Dec 2013	(95,955)	10,785	(31,837)	113,673	0	(3,334)
Cumulative interest rate sensitivity gap as of 31 Dec 2013	113,140	196,101	347,997	544,913	93,204	X

* *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 of 31 December 2014 and 2013 were as follows:

	31 Dec 2014			31 Dec 2013		
	CZK	**USD**	**EUR**	CZK	USD	EUR
Assets						
Cash and current balances with central banks	0.05%	x	x	0.02%	x	x
Treasury bills	0.08%	x	x	0.15%	x	x
Amounts due from banks	0.23%	0.28%	0.51%	0.15%	0.19%	0.65%
Loans and advances to customers	3.19%	1.96%	1.90%	3.25%	1.99%	2.24%
Interest earning securities	1.55%	0.62%	1.53%	2.19%	3.69%	3.06%
Total assets	**1.62%**	**1.27%**	**1.39%**	2.00%	1.29%	1.65%
Total interest earning assets	**1.90%**	**1.27%**	**1.42%**	2.33%	1.35%	1.98%
Liabilities						
Amounts due to central banks and banks	0.01%	0.27%	0.52%	0.08%	0.23%	0.96%
Amounts due to customers	0.10%	0.06%	0.11%	0.21%	0.09%	0.08%
Debt securities	2.25%	x	0.00%	3.23%	x	0.00%
Total liabilities	**0.28%**	**0.08%**	**0.23%**	0.28%	0.11%	0.39%
Total interest bearing liabilities	**0.29%**	**0.09%**	**0.25%**	0.36%	0.11%	0.41%
Off-balance sheet assets						
Derivatives (interest rate swaps, options, etc.)	1.28%	2.42%	1.01%	1.51%	2.26%	1.21%
Undrawn portion of loans	2.27%	2.97%	1.99%	2.98%	2.30%	2.42%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.72%	x	0.89%
Total off-balance sheet assets	**1.50%**	**2.42%**	**1.02%**	1.74%	2.25%	1.22%
Off-balance sheet liabilities						
Derivatives (interest rate swaps, options, etc.)	0.95%	2.15%	1.02%	1.17%	2.01%	1.25%
Undrawn portion of loans	2.27%	2.97%	1.99%	2.98%	2.30%	2.42%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.72%	x	0.89%
Total off-balance sheet liabilities	**1.18%**	**2.15%**	**1.02%**	1.42%	2.01%	1.26%

Note: The above table sets out the average interest rates for December 2014 and 2013 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 2014. Czech crown money market rates (PRIBOR) declined by as much as 0.09% (12M). The market spreads decreased by as much as 0.04% (6M) during 2014 and stagnated on the level of 15-36 basis points (1D-1Y). Interest rates in the derivatives market decreased by 15 to 121 basis points (2-10Y).

Euro money market rates decreased during 2014 by 0.20% (1M) to 0.30% (O/N), and derivative market rates decreased by 24 to 134 basis points (2-10Y).

Dollar money market rates increased during 2014 by as much as 0.05% (12M), and derivative market rates changed by -79 (10Y) to 40 basis points (2-3Y).

The following is an analysis of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2014 Fixed interest rate	31 Dec 2014 Floating interest rate	31 Dec 2014 No interest	31 Dec 2014 Total	31 Dec 2013 Fixed interest rate	31 Dec 2013 Floating interest rate	31 Dec 2013 No interest	31 Dec 2013 Total
Assets								
Cash and current balances with central banks	0	126,755	26,148	**152,903**	0	5,892	38,513	44,405
Financial assets at fair value through profit or loss	16,245	2,520	23,203	**41,968**	17,058	3,340	16,735	37,133
Positive fair values of hedging financial derivatives	0	0	29,216	**29,216**	0	0	18,249	18,249
Available-for-sale financial assets	55,021	22,417	2	**77,440**	118,595	22,603	2	141,200
Amounts due from banks	8,000	51,680	18	**59,698**	6,503	119,161	71	125,735
Loans and advances to customers	308,180	182,290	4,236	**494,706**	285,488	184,125	3,476	473,089
Revaluation differences on portfolios hedge items	0	0	29	**29**	0	0	7	7
Held-to-maturity investments	76,519	0	0	**76,519**	4,200	0	0	4,200
Liabilities								
Amounts due to central banks	2	0	0	**2**	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	23,470	**23,470**	0	0	17,530	17,530
Negative fair values of hedging financial derivatives	0	0	14,777	**14,777**	0	0	12,262	12,262
Amounts due to banks	12,692	48,480	188	**61,360**	15,883	33,596	201	49,680
Amounts due to customers	63,494	591,245*	47,128	**701,867**	64,409	539,692*	45,057	649,158
Revaluation differences on portfolios hedge items	0	0	761	**761**	0	0	(218)	(218)
Securities issued	12 081	10 503	0	**22 584**	12,202	10,215	0	22,417

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 standalone 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 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	25,327	0	0	0	0	127,576	**152,903**
Financial assets at fair value through profit or loss	277	1,950	7,161	6,693	2,683	23,204	**41,968**
Positive fair values of hedging financial derivatives	0	0	0	0	0	29,216	**29,216**
Available-for-sale financial assets	1,451	240	11,356	35,692	26,233	2,468	**77,440**
Assets held for sale	0	0	0	0	0	63	**63**
Amounts due from banks	5,953	33,911	5,217	4,559	3,055	7,003	**59,698**
Loans and advances to customers, net	6,264	58,845	58,006	139,004	215,039	17,548	**494,706**
Revaluation differences on portfolios hedge items	0	0	0	0	0	29	**29**
Held-to-maturity investments	73	376	5,057	26,820	44,193	0	**76,519**
Current tax assets	0	0	233	0	0	0	**233**
Deferred tax assets	0	0	0	5	0	88	**93**
Prepayments, accrued income and other assets	56	1	715	5	0	3,206	**3,983**
Investments in subsidiaries and associates	0	0	0	0	0	1,234	**1,234**
Intangible assets	0	0	0	0	0	3,758	**3,758**
Tangible assets	0	0	0	0	0	7,666	**7,666**
Goodwill	0	0	0	0	0	3,752	**3,752**
Total assets	**39,401**	**95,323**	**87,745**	**212,778**	**291,203**	**226,811**	**953,261**
Liabilities							
Amounts due to central banks	2	0	0	0	0	0	**2**
Financial liabilities at fair value through profit or loss	1,993	0	0	0	0	21,477	**23,470**
Negative fair values of hedging financial derivatives	0	0	0	0	0	14,777	**14,777**
Amounts due to banks	33,374	5,226	3,256	13,668	5,831	5	**61,360**
Amounts due to customers	546,834	54,720	28,477	29,646	2,011	40,179	**701,867**
Revaluation differences on portfolios hedge items	0	0	0	0	0	761	**761**
Securities issued	0	5	11,696	1,727	9,156	0	**22,584**
Current tax liabilities	0	65	44	0	0	0	**109**
Deferred tax liabilities	0	0	0	37	19	5,252	**5,308**
Accruals and other liabilities	10,075	557	10	0	0	1,539	**12,181**
Provisions	8	179	237	228	2	694	**1,348**
Equity	0	0	0	0	0	109,494	**109,494**
Total liabilities	**592,286**	**60,752**	**43,720**	**45,306**	**17,019**	**194,178**	**953,261**
Statement of Financial Position liquidity gap as of 31 Dec 2014	**(552,885)**	**34,571**	**44,025**	**167,472**	**274,184**	**32,633**	**0**
Off-balance sheet assets*	67,716	142,216	81,544	117,660	51,321	0	**460,457**
Off-balance sheet liabilities*	73,325	165,233	129,922	150,734	55,988	15,620	**590,822**
Net off-balance sheet liquidity gap as of 31 Dec 2014	**(5,609)**	**(23,017)**	**(48,378)**	**(33,074)**	**(4,667)**	**(15,620)**	**(130,365)**

* *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	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 at fair value 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
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 as of 31 Dec 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 as of 31 Dec 2013	(7,545)	(21,433)	(56,203)	(35,476)	(4,133)	(14,663)	(139,453)

* *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 of 31 December 2014.

(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	2	0	0	0	0	0	**2**
Financial liabilities at fair value through profit or loss (except derivatives)	1,992	0	0	0	0	0	**1,992**
Amounts due to banks	33,398	5,329	3,308	13,878	5,873	5	**61,791**
Amounts due to customers	546,930	55,139	28,748	31,378	2,225	40,179	**704,599**
Securities issued	33	94	12,475	3,466	10,035	0	**26,103**
Current tax liabilities	0	65	44	0	0	0	**109**
Deferred tax liabilities	0	0	0	37	19	5,252	**5,308**
Accruals and other liabilities	10,074	558	10	0	0	1,539	**12,181**
Provisions	7	179	237	229	2	694	**1,348**
Total non-derivative financial liabilities	**592,436**	**61,364**	**44,822**	**48,988**	**18,154**	**47,669**	**813,433**
Other loans commitment granted	3,939	14,933	29,872	13,247	1,409	15,524	**78,924**
Guarantee commitments granted	1,793	8,151	18,607	17,056	2,685	96	**48,388**
Total contingent liabilities	**5,732**	**23,084**	**48,479**	**30,303**	**4,094**	**15,620**	**127,312**

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 of 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 liabilities 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
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

(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	151,034	1,356	239	274	**152,903**
Financial assets at fair value through profit or loss	34,654	6,480	764	70	**41,968**
Positive fair values of hedging financial derivatives	26,419	2,472	325	0	**29,216**
Available-for-sale financial assets	58,371	15,990	3,079	0	**77,440**
Assets held for sale	63	0	0	0	**63**
Amounts due from banks	31,990	23,660	3,872	176	**59,698**
Loans and advances to customers, net	400,446	83,866	10,027	367	**494,706**
Revaluation differences on portfolios hedge items	29	0	0	0	**29**
Held-to-maturity investments	63,152	12,768	599	0	**76,519**
Current tax assets	220	13	0	0	**233**
Deferred tax assets	31	62	0	0	**93**
Prepayments, accrued income and other assets	3,444	464	73	2	**3,983**
Investments in subsidiaries and associates	1,234	0	0	0	**1,234**
Intangible assets	3,758	0	0	0	**3,758**
Tangible assets	7,661	5	0	0	**7,666**
Goodwill	3,752	0	0	0	**3,752**
Total assets	**786,258**	**147,136**	**18,978**	**889**	**953,261**
Liabilities					
Amounts due to central banks	2	0	0	0	**2**
Financial liabilities at fair value through profit or loss	19,552	3,147	734	37	**23,470**
Negative fair values of hedging financial derivatives	12,331	2,413	33	0	**14,777**
Amounts due to banks	23 668	34 154	3 493	45	**61 360**
Amounts due to customers	619 052	70 361	9 817	2 637	**701 867**
Revaluation differences on portfolios hedge items	761	0	0	0	**761**
Securities issued	22,584	0	0	0	**22,584**
Current tax liabilities	43	66	0	0	**109**
Deferred tax liabilities	5,303	5	0	0	**5,308**
Accruals and other liabilities	9,351	2,229	516	85	**12,181**
Provisions	965	312	53	18	**1,348**
Equity	108,629	845	20	0	**109,494**
Total liabilities	**822,241**	**113,532**	**14,666**	**2,822**	**953,261**
Net FX position as of 31 Dec 2014	**(35,983)**	**33,604**	**4,312**	**(1,933)**	**0**
Off-balance sheet assets*	1,201,600	410,911	134,554	14,091	**1,761,156**
Off-balance sheet liabilities*	1,170,826	442,444	138,993	12,161	**1,764,424**
Net off-balance sheet FX position as of 31 Dec 2014	**30,774**	**(31,533)**	**(4,439)**	**1,930**	**(3,268)**
Total net FX position as of 31 Dec 2014	**(5,209)**	**2,071**	**(127)**	**(3)**	**(3,268)**

* *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	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 at fair value 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
Equity	96,456	82	0	0	96,538
Total liabilities	747,121	101,627	12,445	2,787	863,980
Net FX position as of 31 Dec 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 as of 31 Dec 2013	37,068	(34,855)	(6,405)	974	(3,218)
Total net FX position as of 31 Dec 2013	(4,438)	1,340	(238)	118	(3,218)

* *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 used 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 a permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. Since 2013, the process of risk self-assessment has been performed in close co-operation with the mapping of risks for the purposes of internal audit. This has resulted in increased effectiveness of both procedures while simultaneously reducing time demands on the Group's management. The Group is continuously developing all the aforementioned operational risk instruments and supporting 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 Group's management. 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 for 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 four Group companies, of which two are banking entities (Komerční Banka, a.s., Modrá pyramida a.s.) and two non-banking entities (SGEF and ESSOX).

(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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). 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.

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 loan is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers

The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) *Held-to-maturity investments*

The fair value of held-to-maturity portfolio is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of 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 as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of 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 as of the financial statements date.

(f) *Securities issued*

The fair value of debt securities issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair value:

	31 Dec 2014		31 Dec 2013	
(CZKm)	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	152,903	152,903	44,405	44,405
Amounts due from banks	59,698	60,090	125,735	125,760
Loans and advances to customers	494,706	509,297	473,089	485,883
Held-to-maturity investments	76,519	80,873	4,200	4,523
Financial liabilities				
Amounts due to central banks	2	2	1	1
Amounts due to banks	61,360	61,380	49,680	49,671
Amounts due to customers	701,867	699,828	649,158	649,229
Securities issued	22,584	23,253	22,417	23,078

The hierarchy of fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair value:

	31 Dec 2014				31 Dec 2013			
(CZKm)	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	152,903	7,161	0	145,742	44,405	7,188	0	37,217
Amounts due from banks	60,090	0	0	60,090	125,760	0	0	125,760
Loans and advances to customers	509,297	0	0	509,297	485,883	0	0	485,883
Held-to-maturity investments	80,873	80,873	0	0	4,523	4,523	0	
Financial liabilities								
Amounts due to central banks	2	0	0	2	1	0	0	1
Amounts due to banks	61,380	0	0	61,380	49,671	0	0	49,671
Amounts due to customers	699,828	0	0	699,828	649,229	0	0	649,229
Securities issued	23,253	0	0	23,253	23,078	0	0	23,078

(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 2014	Level 1	Level 2	Level 3	31 Dec 2013	Level 1	Level 2	Level 3
Financial assets								
Financial assets at fair value through profit or loss								
emission allowances	1,443	1,443	0	0	381	381	0	0
debt securities	18,765	11,558	7,207	0	20,397	6,599	13,798	0
derivatives	21,760	15	21,745	0	16,355	222	16,133	0
Financial assets at fair value through profit or loss	**41,968**	**13,016**	**28,952**	**0**	37,133	7,202	29,931	0
Positive fair value of hedging financial derivatives	**29,216**	**0**	**29,216**	**0**	18,249	0	18,249	0
Available-for-sale financial assets								
shares and participation certificates	2	0	0	2	2	0	0	2
debt securities	77,438	55,601	21,837	0	141,198	115,169	26,029	0
Available-for-sale financial assets	**77,440**	**55,601**	**21,837**	**2**	141,200	115,169	26,029	2
Revaluation differences on portfolios hedge items	**29**	**0**	**29**	**0**	7	0	7	0
Financial assets at fair value	**148,653**	**68,617**	**80,034**	**2**	196,589	122,371	74,216	2
Financial liabilities								
Financial liabilities at fair value through profit or loss								
sold securities	1,992	1,992	0	0	1,196	1,196	0	0
derivatives	21,478	238	21,240	0	16,334	95	16,239	0
Financial liabilities at fair value through profit or loss	**23,470**	**2,230**	**21,240**	**0**	17,530	1,291	16,239	0
Negative fair value of hedging financial derivatives	**14,777**	**0**	**14,777**	**0**	12,262	0	12,262	0
Revaluation differences on portfolios hedge items	**761**	**0**	**761**	**0**	(218)	0	(218)	0
Financial liabilities at fair value	**39,008**	**2,231**	**36,777**	**0**	29,574	1,291	28,283	0

Financial assets at fair value – Level 3:

	2014		2013	
(CZKm)	**Available-for-sale financial assets**	**Total**	Available-for-sale financial assets	Total
Balance as of 1 January	2	2	2	2
Comprehensive income/(loss)				
in the Statement of Income	0	0	0	0
in Other Comprehensive Income	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Balance as of 31 December	2	2	2	2

Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows which was used for the original valuation.

43 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2014:

	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	50,976	0	50,976	29,478	11,323	10,175
Negative fair value of derivatives	36,254	0	36,254	29,478	5,327	1,449

* *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 of 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

* *This item includes also counterparties with only positive or negative fair value of derivatives.*

44 Assets under management

As of 31 December 2014, the Group held client assets on its balance sheet in the amount of CZK 1,789 million (2013: CZK 1,513 million) and also managed assets in the amount of CZK 349,756 million (2013: CZK 272,757 million).

45 *Post balance sheet events*

As of 1 January 2015, the Transformed Fund (TF) managed by KB Penzijní společnost, which gathers the funds of supplementary pension insurance with government contribution, was deconsolidated from the consolidating group of Komerční banka. The fund continues to be administrated by KB Penzijní společnost, a fully owned subsidiary of Komerční banka, whose own consolidation has not changed and continues to be carried out on a line-by-line basis according to IFRS 10.

The deconsolidation of TF follows approval of a pertinent change in the Statute of TF by CNB with effective date 1 January 2015. That change limits the discretion of KB Penzijní společnost for investments in variable income instruments (such as equity, real estate etc.) Therefore, the probability of triggering the generic legal guarantee of KB with regard to potential negative annual yield of TF has been reduced. The three elements of control, which must be met according to IFRS 10 in order to consolidate an entity in the parent's financial statements, were not proven from that date.

As a result of the deconsolidation, the pro forma consolidated balance sheet as of 31 December 2014 contracts by CZK 41.4 billion. Smaller in particular are the items 'Amounts due to customers' (by CZK 40.1 billion), 'Available-for-sale financial assets' (by CZK 35.4 billion) and 'Held-to-maturity investments' (by CZK 7.1 billion). Pro forma 2014 'Net profit for the period' is not changed, and only portions of the items 'Net interest income and similar income' (change of CZK 0.8 billion) and 'Net fees and commission income' (change of CZK 0.3 billion) are netted with the item 'Share of profit of pension scheme beneficiaries' (change of CZK 0.5 billion).