

**Komerční banka, a.s.**

**SEPARATE FINANCIAL STATEMENTS  
PREPARED IN ACCORDANCE  
WITH INTERNATIONAL FINANCIAL  
REPORTING STANDARDS AS ADOPTED  
BY THE EUROPEAN UNION  
AND INDEPENDENT AUDITOR'S REPORT**

**AS AT 31 DECEMBER 2013**

## **Table of Contents**

Independent Auditor's Report

Separate Financial Statements under IFRS

    Separate Income Statement

    Separate Statement of Comprehensive Income

    Separate Statement of Financial Position

    Separate Statement of Changes in Shareholders' Equity

    Separate Cash Flow Statement

    Notes to the Separate Financial Statements

## INDEPENDENT AUDITOR'S REPORT

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

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

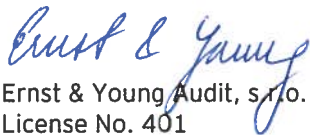
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require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

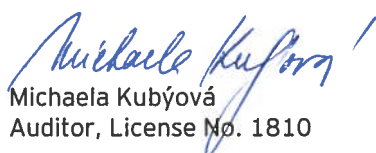
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

*Opinion*

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

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

  
Michaela Kubýová  
Auditor, License No. 1810

4 March 2014  
Prague, Czech Republic

# Separate Income Statement and Statement of Comprehensive Income

Year ended 31 December 2013

## Separate Income Statement for the year ended 31 December 2013

(CZKm)	Note	2013	Restated 2012
Interest income and similar income	5	26,799	30,284
Interest expense and similar expense	5	(9,761)	(12,747)
Dividend income	5	1,885	257
<b>Net interest income and similar income</b>		<b>18,923</b>	<b>17,794</b>
Net fee and commission income	6	6,672	6,990
Net profit/(loss) on financial operations	7	3,200	3,168
Other income	8	157	148
<b>Net operating income</b>		<b>28,952</b>	<b>28,100</b>
Personnel expenses	9	(6,018)	(6,061)
General administrative expenses	10	(4,185)	(4,386)
Depreciation, impairment and disposal of assets	11	(1,587)	(1,561)
<b>Total operating expenses</b>		<b>(11,790)</b>	<b>(12,008)</b>
<b>Profit before allowances/provisions for loan and investment losses, other risk and income taxes</b>		<b>17,162</b>	<b>16,092</b>
Allowances for loan losses	12	(1,546)	(1,379)
Allowances for impairment of securities	12	0	0
Provisions for other risk expenses	12	(7)	(28)
<b>Cost of risk</b>		<b>(1,553)</b>	<b>(1,407)</b>
Profit/(loss) on subsidiaries and associates	13	0	0
<b>Profit before income taxes</b>		<b>15,609</b>	<b>14,685</b>
Income taxes	14	(2,486)	(2,436)
<b>Net profit for the period</b>	15	<b>13,123</b>	<b>12,249</b>

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

# Separate Income Statement and Statement of Comprehensive Income

Year ended 31 December 2013

## Separate Statement of Comprehensive Income for the year ended 31 December 2013

(CZKm)	Note	2013	Restated 2012
<b>Net profit for the period</b>	15	<b>13,123</b>	<b>12,249</b>
<b>Items that will not be reclassified to Income Statement</b>			
Remeasurement of retirement benefits plan, net of tax		2	(11)
<b>Items that may be reclassified subsequently to Income Statement</b>			
Cash flow hedging			
- net fair value gain/(loss), net of tax		(3,425)	6,615
- transfer to net profit/(loss), net of tax		(2,989)	(2,016)
Foreign exchange gain/(loss) on translation of a foreign net investment		2	1
Net value gain/(loss) on available-for-sale financial assets, net of tax		(1,918)	4,264
<b>Other comprehensive income for the period, net of tax</b>	39, 40, 41	<b>(8,328)</b>	<b>8,853</b>
<b>Comprehensive income for the period, net of tax</b>		<b>4,795</b>	<b>21,102</b>

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

# Separate Statement of Financial Position

As at 31 December 2013

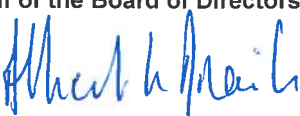
(CZKm)	Note	31 Dec 2013	Restated 31 Dec 2012
<b>ASSETS</b>			
Cash and current balances with central banks	16	43,831	27,659
Financial assets at fair value through profit or loss	17	38,118	51,907
Positive fair value of hedging financial derivatives	42	18,235	26,027
Available-for-sale financial assets	18	93,555	94,381
Assets held for sale	19	6	3
Amounts due from banks	20	119,661	55,863
Loans and advances to customers	21	423,295	396,189
Held-to-maturity investments	22	194	179
Current tax assets		0	4
Deferred tax assets	33	6	6
Prepayments, accrued income and other assets	23	2,173	2,234
Investments in subsidiaries and associates	24	26,220	24,928
Intangible assets	25	3,363	3,496
Tangible assets	26	5,235	6,581
<b>Total assets</b>		<b>773,892</b>	<b>689,457</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	27	18,543	19,904
Negative fair value of hedging financial derivatives	42	11,248	10,972
Amounts due to banks	28	45,946	31,845
Amounts due to customers	29	552,253	485,969
Securities issued	30	48,145	38,017
Current tax liabilities		708	568
Deferred tax liabilities	33	2,703	4,712
Accruals and other liabilities	31	9,513	8,921
Provisions	32	1,130	1,004
Subordinated debt	34	0	0
<b>Total liabilities</b>		<b>690,190</b>	<b>601,913</b>
Share capital	35	19,005	19,005
Share premium and reserves		64,697	68,539
<b>Total shareholders' equity</b>		<b>83,702</b>	<b>87,544</b>
<b>Total liabilities and shareholders' equity</b>		<b>773,892</b>	<b>689,457</b>

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

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

Signed on behalf of the Board of Directors:

Albert Le Dirac'h



Chairman of the Board of Directors and Chief Executive Officer

Pavel Čejka



Member of the Board of Directors and Senior Executive Director

# Separate Statement of Changes in Shareholders' Equity

Year ended 31 December 2013

(CZKm)	Share capital	Capital and reserve funds and retained earnings*	Remeasurement of retirement benefits plan	Cash flow hedging	Translation of a foreign net investment	Available-for-sale financial assets	Total
<b>Balance at 31 December 2011</b>	<b>19,005</b>	<b>41,716</b>	<b>0</b>	<b>10,110</b>	<b>3</b>	<b>1,634</b>	<b>72,468</b>
Changes in accounting policies	0	(29)	0	0	0	0	(29)
<b>Balance at 1 January 2012</b>	<b>19,005</b>	<b>41,687</b>	<b>0</b>	<b>10,110</b>	<b>3</b>	<b>1,634</b>	<b>72,439</b>
Treasury shares, other	0	85	0	0	0	0	85
Payment of dividends	0	(6,082)	0	0	0	0	(6,082)
<b>Transactions with owners</b>	<b>0</b>	<b>(5,997)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,997)</b>
Net profit for the period	0	12,249	0	0	0	0	12,249
Other comprehensive income for the period, net of tax	0	0	(11)	4,599	1	4,264	8,853
<b>Comprehensive income for the period</b>	<b>0</b>	<b>12,249</b>	<b>(11)</b>	<b>4,599</b>	<b>1</b>	<b>4,264</b>	<b>21,102</b>
<b>Balance at 31 December 2012</b>	<b>19,005</b>	<b>47,939</b>	<b>(11)</b>	<b>14,709</b>	<b>4</b>	<b>5,898</b>	<b>87,544</b>
Treasury shares, other	0	105	0	0	0	0	105
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)
<b>Transactions with owners</b>	<b>0</b>	<b>(8,637)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,637)</b>
Net profit for the period	0	13,123	0	0	0	0	13,123
Other comprehensive income for the period, net of tax	0	0	2	(6,414)	2	(1,918)	(8,328)
<b>Comprehensive income for the period</b>	<b>0</b>	<b>13,123</b>	<b>2</b>	<b>(6,414)</b>	<b>2</b>	<b>(1,918)</b>	<b>4,795</b>
<b>Balance at 31 December 2013</b>	<b>19,005</b>	<b>52,425</b>	<b>(9)</b>	<b>8,295</b>	<b>6</b>	<b>3,980</b>	<b>83,702</b>

Note: \* Capital and reserve funds and retained earnings consist of statutory reserve funds in the amount of CZK 3,801 million (2012: CZK 3,801 million), other funds created from profit in the amount of CZK 388 million (2012: CZK 388 million), share premium and purchased treasury shares in the amount of CZK -454 million (2012: CZK -500 million), net profit from the period in the amount of CZK 13,123 million (2012: CZK 12,249 million) and retained earnings in the amount of CZK 35,567 million (2012: CZK 32,001 million).

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



# Separate Cash Flow Statement

Year ended 31 December 2013

(CZKm)	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	23,558	26,611
Interest payments	(14,459)	(6,843)
Fee and commission receipts	7,956	8,169
Fee and commission payments	(1,270)	(1,186)
Net income from financial operations	7,483	(1,765)
Other income receipts	181	92
Cash payments to employees and suppliers, and other payments	(10,075)	(9,877)
<b>Operating cash flow before changes in operating assets and operating liabilities</b>	<b>13,374</b>	<b>15,201</b>
Amounts due from banks	(67,737)	43,632
Financial assets at fair value through profit or loss	14,044	(16,591)
Loans and advances to customers	(27,606)	(25,241)
Other assets	44	(480)
<b>(Increase)/decrease in operating assets</b>	<b>(81,255)</b>	<b>1,320</b>
Amounts due to banks	17,513	(2,665)
Financial liabilities at fair value through profit or loss	(1,366)	(4,522)
Amounts due to customers	67,326	16,189
Other liabilities	674	(2,238)
<b>Increase/(decrease) in operating liabilities</b>	<b>84,147</b>	<b>6,764</b>
Net cash flow from operating activities before taxes	16,266	23,285
Income taxes paid	(2,451)	(1,581)
<b>Net cash flows from operating activities</b>	<b>13,815</b>	<b>21,704</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Dividends received	1,885	257
Maturity of held-to-maturity investments*	0	0
Purchase of available-for-sale financial assets	(12,170)	(15,535)
Sale and maturity of available-for-sale financial assets*	14,238	17,156
Purchase of tangible and intangible assets	(1,410)	(1,676)
Sale of tangible and intangible assets	33	47
Purchase of investments in subsidiaries and associates	(100)	(410)
Sale/decrease of investments in subsidiaries and associates	77	68
<b>Net cash flow from investment activities</b>	<b>2,553</b>	<b>(93)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(8,657)	(6,026)
Purchase of treasury shares	0	0
Securities issued	11,158	3,891
Securities redeemed*	(2,526)	(1,688)
Repayment of subordinated debt*	0	(6,002)
<b>Net cash flow from financing activities</b>	<b>(25)</b>	<b>(9,825)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>16,343</b>	<b>11,786</b>
Cash and cash equivalents at the beginning of the year	25,535	13,790
FX differences on cash and cash equivalents at beginning of year	97	(41)
<b>Cash and cash equivalents at the end of the year (see Note 36)</b>	<b>41,975</b>	<b>25,535</b>

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

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

# Notes to the Separate Financial Statements

As at 31 December 2013

## TABLE OF CONTENTS

1	Principal activities.....	7
2	Events for the year ended 31 December 2013.....	7
3	Principal accounting policies.....	8
4	Segment reporting.....	37
5	Net interest income and similar income.....	37
6	Net fee and commission income.....	38
7	Net profit/(loss) on financial operations.....	39
8	Other income.....	39
9	Personnel expenses.....	39
10	General administrative expenses.....	41
11	Depreciation, impairment and disposal of assets.....	41
12	Cost of risk.....	41
13	Profit/(loss) on subsidiaries and associates.....	43
14	Income taxes.....	43
15	Distribution of net profit.....	44
16	Cash and current balances with central banks.....	45
17	Financial assets at fair value through profit or loss.....	45
18	Available-for-sale financial assets.....	47
19	Assets held for sale.....	49
20	Amounts due from banks.....	49
21	Loans and advances to customers.....	50
22	Held-to-maturity investments.....	54
23	Prepayments, accrued income and other assets.....	55
24	Investments in subsidiaries and associates.....	55
25	Intangible assets.....	58
26	Tangible assets.....	59
27	Financial liabilities at fair value through profit or loss.....	60
28	Amounts due to banks.....	60
29	Amounts due to customers.....	60
30	Securities issued.....	61
31	Accruals and other liabilities.....	63
32	Provisions.....	63
33	Deferred tax.....	64
34	Subordinated debt.....	65
35	Share capital.....	65
36	Composition of cash and cash equivalents as reported in the Cash Flow Statement.....	68
37	Commitments and contingent liabilities.....	68
38	Related parties.....	71
39	Movements in the remeasurement of retirement benefits plan in the Shareholders' Equity.....	76
40	Movements in the revaluation of hedging instruments in the Shareholders' Equity.....	76
41	Movements in the revaluation of available-for-sale financial assets in the Shareholders' Equity.....	77
42	Risk management and financial instruments.....	77
43	Offsetting financial assets and financial liabilities.....	104
44	Assets under management.....	104
45	Post balance sheet events.....	105

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## **1 Principal activities**

Komerční banka, a.s. (henceforth the "Bank") is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

- I. Providing loans, advances and guarantees in Czech crowns and foreign currencies;
- II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
- III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
- IV. Providing banking services through an extensive branch network in the Czech Republic;
- V. Treasury operations in the interbank market;
- VI. Servicing foreign trade transactions;
- VII. Investment banking.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its foreign branch, Komerční banka, a.s., pobočka zahraničnej banky.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2012: 60.35%) of the Bank's issued share capital.

## **2 Events for the year ended 31 December 2013**

### **Change in the Chief Executive Officer and Chairman of the Board of Directors of the Bank**

Henri Bonnet, the Chief Executive Officer and Chairman of the Board of Directors, retired from his position in the Bank as at 1 August 2013. The Supervisory Board of the Bank elected Albert Le Dirac'h a member of the Board of Directors with effect from 2 August 2013. The Board of Directors of the Bank subsequently elected Albert Le Dirac'h Chairman of the Board of Directors and appointed him Chief Executive Officer with effect from the same date.

### **Dividends declared in respect of the year ended 31 December 2012**

At the General Meeting, held on 24 April 2013, the shareholders approved a dividend for the year ended 31 December 2012 of CZK 230 per share before tax. The dividend was declared in the aggregate amount of CZK 8,742 million. An amount of CZK 3,507 million was allocated to retained earnings.

### **Changes in the Bank's Financial Group**

In January 2013, based on the new legislation issued on 28 December 2011, a revision of the pension system started to be processed in the Czech Republic. Under Act No. 427/2011 Coll. the Supplementary Pension Saving Act the Bank's fully owned subsidiary Penzijní fond Komerční banky, a.s., was transformed into KB Penzijní společnost, a.s., with its registered office at náměstí Junkových 2772/1, Stodůlky, 155 00, Praha 5 and registered capital of CZK 300 million as at 1 January 2013. In accordance with the requirements of the pension reform, the net assets of the Penzijní fond Komerční banky, a.s. were divided between pension scheme participants and pension fund shareholders. The net assets of pension scheme participants were allocated to a newly created Transformed fund, which is closed for new participants. However, similarly as before, KB Penzijní společnost will remain responsible for management of the Transformed fund, be entitled to up to 15% of the profit in addition to the regular asset under management fee and will need to guarantee the positive results for participants as well as positive equity of the Transformed fund. Transformed fund is fully consolidated in the Consolidated Financial Statements of Komerční banka, a.s.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

In May 2013, the shareholders' equity in Bastion European Investments S.A. was decreased by EUR 2.7 million (equivalent to CZK 77 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

In August 2013, the Bank established two new subsidiaries VN 42, s.r.o. with shareholders' equity of CZK 1 million and NP 33, s.r.o. with shareholders' equity of CZK 1 million. Both companies were established in connection with management of the Bank's own buildings. In November 2013, the share capital of VN 42, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 1,990 million and the share capital of NP 33, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 845 million. The difference between cost of investment booked in the Separate Financial Statements and amount of a non-monetary contribution into share capital represents positive revaluation to the fair value of buildings at the date of increase of share capital.

In September 2013, the shareholders' equity of KB Penzijní společnost, a.s. was increased by CZK 100 million in the form of increasing other capital funds.

## **3 Principal accounting policies**

These Financial Statements are separate. The Consolidated Financial Statements are issued as at the same date. The total consolidated equity is CZK 96,538 million and total consolidated profit is CZK 12,906 million.

The principal accounting policies adopted in the preparation of these Separate Financial Statements are set out below.

### **3.1 Statement of compliance with IFRS**

The Separate Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2013.

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

The presented Separate Financial Statements for the year ended 31 December 2013 are based on the current best estimates. The management of the Bank believes that they present a true and fair view of the Bank's financial results and financial position using all relevant and available information at the financial statements date.

### **3.2 Underlying assumptions of the Separate Financial Statements**

#### **3.2.1 Accrual basis**

The Separate Financial Statements are prepared on an accrual accounting basis, i.e. the effects of transactions and other events are recognised when they occur and are reported in the Separate Financial Statements for the period to which they relate.

The exception is the Cash Flow Statement, which is prepared on a cash basis, i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## 3.2.2 Going concern

The Separate Financial Statements are prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The Bank has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

## 3.2.3 Offsetting

Unless required or permitted under IFRS, assets and liabilities or income and expenses are not offset.

## 3.2.4 Reporting period

The Bank reports for a 12-month period which is identical to the calendar year.

## 3.3 Basis of preparation

### 3.3.1 Presentation currency

The Separate Financial Statements are presented in Czech crowns (hereafter only "CZK"), which represent the Bank's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

### 3.3.2 Historical cost

The Separate Financial Statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and hedging derivatives and hedge items in fair value hedge accounting, whose items are measured at fair value.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell; or (ii) carrying amount just before reclassification into '*Assets held for sale*'.

### 3.3.3 Use of estimates

The presentation of Separate Financial Statements in accordance with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the financial statements date and they specifically relate to the determination of:

- fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, hedging derivatives or available-for-sale financial assets (refer to Note 3.5.5);
- the value of intangible assets (refer to Note 3.5.9);
- the amount of impairment of assets (refer to Notes 3.5.5 and 3.5.9);
- provisions recognised under liabilities (refer to Note 3.5.10);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7).

Information about the key assumptions concerning the future and other key sources of estimation uncertainty at the financial statements date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## 3.3.4 Investments in subsidiaries and associates

A subsidiary is an entity in which the Bank has control, i.e. it directly or indirectly owns more than half the voting rights or it has the power to govern the entity by another way. An associate is an entity in which the Bank has significant influence, i.e. directly or indirectly owns 20% to 50% of the voting rights.

Investments in which the Bank directly or indirectly owns of the voting rights less than 20% are classified as '*Available-for-sale financial assets*'.

Investments in subsidiaries and associates are measured at historical cost (i.e. foreign currency investments are translated using the foreign exchange rate at the date of transaction) decreased by potential accumulated impairment losses. The Bank assesses regularly at the end of each reporting period whether there is any impairment loss by comparing the carrying values of each investment with its recoverable amount. If the recoverable amount is lower, the Bank recognises the impairment loss through the use of an allowances account. Investments in subsidiaries and associates are presented in the line '*Investments in subsidiaries and associates*'.

## 3.4 Adoption of new and revised IFRS

### 3.4.1 Standards and interpretations not yet adopted by the European Union

The European Commission decides on the applicability of IFRS issued by IASB within the European Union by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

As at the issuance date of these Separate Financial Statements, IFRS as adopted by the European Union does not differ from IFRS, except for provisions of IAS 39 prohibiting fair value hedge accounting applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the European Union (i.e. in the European Union this hedging is permitted).

In addition, the European Commission has not approved the following effective standards and interpretations, and/or their amendments:

- IFRS 9 Financial Instruments
- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – amendment: Mandatory Effective Date and Transition
- IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IAS 39 Financial Instruments: Recognition and Measurement – amendment: Hedge Accounting
- Annual Improvements to IFRS 2010-2012 Cycle
- Annual Improvements to IFRS 2011-2013 Cycle
- IAS 19 Employee Benefits – amendment: Defined Benefit Plans: Employee Contributions
- IFRIC 21 Levies

### 3.4.2 Standards and interpretations adopted in the current period

Discussed here are standards that were adopted with effect from 2 January 2012 to 1 January 2013 inclusive. They have no impact in the current period (and/or prior period) with the exception of IAS 19 Employee Benefits and IFRS 13 Fair Value Measurement.

# Notes to the Separate Financial Statements

As at 31 December 2013

The impact of the application of the revised standard IAS 19 related to elimination of the "corridor approach" on recognised provisions amounts to CZK 48 million (before deferred tax). This amount is recognised in accordance with the transition guidance of the revised standard and the treatment is described in paragraph 3.6 Changes in accounting policies and reclassifications.

The impact of the application of the new standard IFRS 13 related to adjustments to fair values of derivatives for counterparty credit risk is a loss of CZK 113 million. The amount is recognised in profit or loss for the period in accordance with the transition guidance of the standard. IFRS 13 also requires additional disclosures in the notes to the financial statements that are provided in the individual notes relating to the assets and liabilities whose fair values were determined. For the hierarchy of fair values refer to Note 42(J).

Standard	Impact/Comments
IAS 1 Presentation of Financial Statements – amendment "Presentation of Items of Other Comprehensive Income"	The amendment requires that items in other comprehensive income are grouped on the basis of whether they may be subsequently reclassified from other comprehensive income to profit or loss. Moreover, a new title of "Income Statement and Statement of Comprehensive Income" is used for the statement containing all items of income and expense.
IAS 19 Employee Benefits – revised Defined Benefit Plans	The revised standard requires immediate recognition of defined benefit cost and improves presentation and disclosure.
IFRS 1 First-time Adoption of IFRS – amendment: "Government Loans"	The amendments add an exception to the retrospective application of IFRS to require that first-time adopters apply the requirements in IFRS 9 and IAS 20 prospectively to government loans existing at the date of transition to IFRS.
IFRS 7 Financial Instruments: Disclosures – amendment: "Disclosures – Offsetting Financial Assets and Financial Liabilities"	The amendment requires disclosure of information that will enable users of entity Financial Statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.
IFRS 13 Fair Value Measurement – new standard	The new standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).
Annual Improvements to IFRS 2012 – new standard	Annual Improvements amend five standards in the total of six points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – new interpretation	The interpretation addresses recognition of production stripping costs as an asset ("stripping activity asset") and its initial and subsequent measurement.

### 3.4.3 Issued standards and interpretations not applied for the current period

The standards and interpretations or their amendments described below are in effect. However, they do not apply to reporting periods beginning on 1 January 2013 and the Bank has decided not to early adopt. The Bank has decided not to early adopt the standards and interpretations which were already adopted by the European Commission.

# Notes to the Separate Financial Statements

As at 31 December 2013

Concurrently, the Bank does not anticipate that their application will significantly impact the Bank's financial position and financial performance for the reporting period, with the exception of IFRS 9 Financial Instruments which supersedes a component of the existing standard IAS 39 relating to the classification and derecognition of financial assets and financial liabilities. And potentially with the exception of new standard IFRS 10 Consolidated Financial Statements which review is still running in relation to the consolidation of Transformovaný fond KB Penzijní společnosti, a.s.

The application of the requirements of IFRS 9 will primarily mean that non-equity instruments classified in the portfolio of available-for-sale financial assets will be remeasured to profit or loss rather than to other comprehensive income. With respect to equity instruments classified in this portfolio, the Bank will have to decide upon the first-time application of the standard whether it will remeasure these to profit or loss or whether it will use the possibility to recognise changes in their fair value in other comprehensive income.

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	<p>The standard initially covered only the classification and measurement of financial assets for which it has newly introduced two portfolios – financial assets subsequently measured at amortised cost and financial assets subsequently measured at fair value. Financial assets subsequently measured at fair value are remeasured to profit and loss except for equity instruments for which the entity irrevocably opts for the possibility to recognise changes in the fair value in other comprehensive income upon first-time recognition or first-time application.</p> <p>Derivatives embedded in financial assets are no longer separated according to the standard.</p> <p>In October 2010, the requirements in IAS 39 for the classification and measurement of financial liabilities and for the derecognition of financial assets/liabilities were carried forward unchanged to the standard. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk.</p> <p>In December 2011, the Board issued the amendment that postponed the mandatory effective date of IFRS 9 to 1 January 2015.</p> <p>In November 2013, the IASB added to IFRS 9 requirements related to hedge accounting. These requirements align hedge accounting more closely with risk management, resulting in more useful information to users of financial statements. They also establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.</p> <p>This amendment also removed mandatory the date of application of IFRS 9. However, the standard is available for application.</p>	To be determined when the outstanding phases are finalised



# Notes to the Separate Financial Statements

As at 31 December 2013

Standard	Summarised content	Effective for reporting period beginning on or after
IAS 27 Separate Financial Statements – revised standard	The revised standard does not change current requirements related to Separate Financial Statements.	1 January 2013*
IAS 28 Investments in Associates and Joint Ventures – revised standard	The revised standard results from the new standard on joint ventures and incorporates the accounting for them. In the Consolidated Financial Statements joint ventures will be newly consolidated using only the equity method.	1 January 2013*
IFRS 10 Consolidated Financial Statements – new standard	<p>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.</p> <p>The consolidation conclusion is not expected to change for most straightforward entities. Although the standard newly sets out a framework for asset manager entities to use when interpreting IFRS 10 to determine whether control exists, IFRS 10 does not provide “bright lines” and requires consideration of many factors and entities judgement.</p>	1 January 2013*
IFRS 11 Joint Arrangements – new standard	The new standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures and it improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement and by eliminating a choice of accounting treatment.	1 January 2013*
IFRS 12 Disclosure of Interests in Other Entities – new standard	The new standard enhances disclosures to be published about consolidated and unconsolidated entities.	1 January 2013*

# Notes to the Separate Financial Statements

As at 31 December 2013

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – amendment: “Transitional Guidance”	<p>The amendments explain that the “date of initial application” in IFRS 10 (resp. IFRS 11 and IFRS 12) means “the beginning of the annual reporting period in which the standard is applied for the first time”. It also requires the investor to adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different when applying IFRS 10 as compared with applying IAS 27/SIC-12.</p> <p>The relief from retrospective application of IFRS 10 apply to an investor’s interests in investees that were disposed of during a comparative period, such that consolidation would not occur in accordance with either IAS 27/SIC-12 or IFRS 10 at the date of initial application.</p>	1 January 2013*
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – amendment “Investment Entities”	The amendments define an investment entity, introduce an exception to consolidating particular subsidiaries for investment entities and require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities.	1 January 2014
IAS 32 Financial Instruments: Presentation – amendment “Offsetting Financial Assets and Financial Liabilities”	The amendment explains the criterion that an entity “currently has a legally enforceable right to set off the recognised amounts” newly added into application guidance.	1 January 2014
IAS 36 Impairment of Assets – amendment “Recoverable Amount Disclosures for Non-Financial Assets”	The amendment requires additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014
IAS 39 Financial Instruments: Recognition and Measurement – amendment “Novation of Derivatives and Continuation of Hedge Accounting”	The amendment specifies the novation of derivatives and provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument arises as a result of new laws or regulations.	1 January 2014
IFRIC 21 Levies	This Interpretation addresses the accounting for a liability to pay a levy.	1 January 2014
Annual Improvements to IFRS 2010-2012 Cycle – new standard	Annual Improvements amend seven standards in the total of eight points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014

# Notes to the Separate Financial Statements

As at 31 December 2013

Standard	Summarised content	Effective for reporting period beginning on or after
Annual Improvements to IFRS 2011-2013 Cycle – new standard	Annual Improvements amend four standards with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
IAS 19 Employee Benefits – amendment “Defined Benefit Plans: Employee Contributions”	The amendment defines principles for recognition of employee contributions within defined benefit plans distinguishing the procedure for contributions the amounts of which are not dependent upon the length of service and those the amounts of which are so dependent.	1 July 2014

Note: \* The European Commission has approved these standards for reporting periods beginning on or after 1 January 2014 and it permitted their early application.

### 3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2013

The Bank did not make use of the possibility for the voluntary earlier application of standards or interpretations in the reporting period beginning 1 January 2013.

## 3.5 Principal accounting policies

### 3.5.1 Transactions in foreign currencies

#### 3.5.1.1 Functional and presentation currency

The Bank's functional currency (i.e. the currency of the primary economic environment in which the Bank operates) is the Czech crown.

The Bank has a branch in the Slovak Republic and a subsidiary, Bastion European Investments S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

#### 3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency at the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only “BA”) for the respective foreign currency. Depending on the functional currency the BA means the Czech National Bank (hereafter only “CNB”) for the Czech crown and the European Central Bank (hereafter only “ECB”) for the euro.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

At the end of the reporting period all items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:

- I. foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
- II. non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction;
- III. non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses related to the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses of the period in which they occur and are presented in the line *'Net profit/(loss) on financial operations'*.

However, where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments. In Other Comprehensive Income, foreign exchange rate differences related to the fair value revaluation of debt instruments classified as available-for-sale (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation are also recognised.

## **3.5.2 Recognition of income and expenses**

### *3.5.2.1 Net interest income and similar income*

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Income Statement in the lines *'Interest income and similar income'* and *'Interest expense and similar expense'* using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late fee income is recognised at the date of its payment and presented in the line *'Interest income and similar income'*.

Dividend income is recognised when the Bank's right to receive a dividend payment is established and is presented in the line *'Dividend income'*.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## 3.5.2.2 *Net fee and commission income*

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Bank distinguishes the following three categories of fees:

- fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line '*Interest income and similar income*';
- fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line '*Net fee and commission income*';
- fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line '*Net fee and commission income*'.

## 3.5.2.3 *Net profit/(loss) on financial operations*

In the line '*Net profit/(loss) on financial operations*' is recognised interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

This line also includes realised and unrealised gains/losses on securities held for trading, security derivatives, currency, interest rate and trading commodity derivatives, foreign exchange transactions, foreign assets and liabilities retranslation to functional currency, and realised gains/losses on available-for-sale financial assets.

## 3.5.3 **Cash and cash equivalents**

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

In preparing its Cash Flow Statement for the period, the Bank includes into cash and cash equivalents the cash and current balances with central banks at the beginning and end of the period and current amounts due from and to banks.

## 3.5.4 **Fair value and hierarchy of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of asset or liability measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- *Level 3:* inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. The significant input information is that information which has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the statement of financial position at the end of each reporting period), the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

## **3.5.5 Financial instruments**

### *3.5.5.1 Dates of recognition and derecognition*

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, an acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date according to its categorisation into an individual portfolio, i.e. either in profit or loss or in other comprehensive income.

All purchases and sales of financial instruments that do not meet the "regular way" settlement criterion in the marketplace concerned are treated as financial derivatives. The Bank recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Bank recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished, i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## 3.5.5.2 *Initial measurement of financial assets and financial liabilities*

When a financial asset or financial liability is initially recognised, the Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line '*Accruals and other liabilities*'. The guarantees are subsequently measured as at the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss (in the Statement of Financial Position in the line '*Accruals and other liabilities*'), and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line '*Provisions*'). The premium received is recognised in the Income Statement in the line '*Net fee and commission income*' on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Income Statement in the line '*Allowances for loan losses*'.

## 3.5.5.3 *"Day 1" profit or loss*

When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

The Bank trades no financial instruments on an inactive market. On active markets, the Bank trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a "Day 1" profit or loss).

## 3.5.5.4 *Financial assets and liabilities classification and subsequent measurement*

Financial assets and liabilities held by the Bank are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Bank's intention as at the acquisition date, and pursuant to the Bank's financial instrument investment strategy as follows:

- I. Financial assets and liabilities at fair value through profit or loss;
- II. Held-to-maturity investments;
- III. Loans and receivables;
- IV. Available-for-sale financial assets;
- V. Financial liabilities at amortised cost.

The Bank does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the so-called "Fair Value Option").

# Notes to the Separate Financial Statements

As at 31 December 2013

---

(i) *Financial assets and liabilities at fair value through profit or loss*

The Bank designates as financial assets at fair value through profit or loss securities held for trading and derivatives that are assets, i.e. financial instruments acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices. These financial assets are recognised in the Statement of Financial Position in the line '*Financial assets at fair value through profit or loss*'.

Securities designated as held for trading include equity and debt securities, treasury bills, bills of exchange and participation certificates. The trading derivative financial instruments used by the Bank include currency and commodity forwards, currency and interest rate swaps, derivatives on securities and emission allowances and options.

Financial liabilities at fair value through profit or loss include liabilities from securities sold and trading derivatives that are liabilities and are recognised in the Statement of Financial Position in the line '*Financial liabilities at fair value through profit or loss*'.

Unrealised gains and losses, as well as realised gains and losses arising from the fair value measurement of financial assets and liabilities, interest and dividends are recognised as income in the Income Statement in the line '*Net profit/(loss) on financial operations*'. These financial assets are not tested for impairment because the change of fair value is recognised directly in profit or loss.

(ii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in '*Interest income and similar income*' in the Income Statement. When an impairment of assets is identified, the Bank recognises allowances in the Income Statement in the line '*Allowance for impairment of securities*'.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than due to a significant decrease of a client's creditworthiness, changes in tax laws, business combination or sale of a part of the business (segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for held-to-maturity investments to calculate the capital adequacy), the entire portfolio would have to be reclassified as '*Available-for-sale financial assets*'. Furthermore, the Bank would be prohibited from classifying any financial asset as '*Held-to-maturity investments*' for the following two years.



# Notes to the Separate Financial Statements

As at 31 December 2013

---

## (iii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- assets that the Bank intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Bank upon initial recognition designates as at fair value through profit or loss;
- assets that the Bank upon initial recognition designates as available-for-sale; or
- assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (e.g. asset-backed securities or a fixed rate, interest-only strip created in a securitisation and subject to prepayment risk), which are classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in the line *'Interest income and similar income'* in the Income Statement. When the impairment of assets is identified, the Bank recognises allowances in the Income Statement in the line *'Allowance for loan losses'*.

Financial assets designated as loans and receivables are reported in the Statement of Financial Position in the line *'Amounts due from banks'* or in the line *'Loans and advances to customers'*, as appropriate.

## (iv) *Available-for-sale financial assets*

Available-for-sale financial assets are those financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments. This portfolio comprises equity securities and debt securities, asset-backed securities and participation certificates.

Available-for-sale financial assets are subsequently measured at fair value and at the end of each reporting period tested to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. Unrealised gains or losses from the fair value measurement of these assets are recognised within Other Comprehensive Income in the line *'Net value gain on available-for-sale financial assets, net of tax'* until their sale, maturity or impairment as well as fair value changes arising from changes in foreign exchange rates. Gains or losses from changes in foreign exchange rates on debt instruments are recognised in the Income Statement in the line *'Net profit/(loss) on financial operations'* except for exchange gains or losses related to fair value revaluation that are recognised within Other Comprehensive Income. When the available-for-sale financial asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in the line *'Net profit/(loss) on financial operations'*.

Accrued interest income for debt securities is recognised in the Income Statement line *'Interest income and similar income'*. Dividend income arising from equity securities is recognised when the right for dividends is established and reported in the Income Statement in the line *'Dividend income'*.

## (v) *Financial liabilities at amortised cost*

Financial liabilities at amortised cost include non-derivative financial liabilities with fixed or determinable payments and are recognised according to the type of counterparty in the lines *'Amounts due to central banks'*, *'Amounts due to banks'*, *'Amounts due to customers'*, *'Subordinated debt'* and *'Securities issued'*.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Income Statement in the line *'Interest expense and similar expense'*.

In the event of the repurchase of its own debt securities, the Bank derecognises these securities, i.e. the item *'Securities issued'* is decreased. Gains and losses arising as a result of repurchasing the Bank's own debt securities are recognised as at the date of their repurchase in the Income Statement in the line *'Net interest income'* as an adjustment to the interest paid from own bonds.

### 3.5.5.5 *Reclassification of financial assets*

The Bank does not reclassify any financial assets into the *'Financial assets at fair value through profit or loss portfolio after initial recognition'*. In rare circumstances, if non-derivative financial asset at fair value through profit or loss are no longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and are classified into the *'Available-for-sale financial assets'*, or *'Held-to-maturity investments'* portfolio.

The Bank may also reclassify a non-derivative trading asset out of the *'Financial assets at fair value through profit or loss'* portfolio and into the *'Loans and receivables'* portfolio if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain circumstances, the Bank may also reclassify financial assets out of the *'Available-for-sale financial assets'* portfolio and into the *'Loans and receivables'* portfolio. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Bank may reclassify financial assets or a significant amount out of the *'Held-to-maturity investments'* portfolio into the *'Available-for-sale financial assets'* portfolio or *'Loans and receivables'* portfolio, without triggering the "tainting rules", in cases when the given assets are near to maturity, the Bank has received almost the whole original principal of the given financial asset or there has occurred a unique and exceptional event that is out of the Bank's control and the Bank could not have expected it. Such unique cases include a significant decrease of a client's credit worthiness, changes in tax laws or in legislative requirements, a business combination or the sale of a part of the business (segment), a significant increase in regulatory capital requirements or a significant increase in risk weights for held-to-maturity investments used in calculating the capital adequacy.

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

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

For determination and categorisation of a financial instrument's fair value, the Bank treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

If there is no active market for the financial asset, the Bank uses other values that are observable, directly or indirectly, from the markets for its measurement, e.g.

- I. quoted prices for similar assets or liabilities in active markets;
- II. quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
- III. inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.);
- IV. inputs derived principally from or corroborated by observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset/liability, the Bank uses for fair value measurement inputs that are available but not directly observable within a market and which in the Bank's view reflect presumptions about assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and they are adjusted for the credit risk of the counterparty or the Bank's own credit risk, as appropriate.

#### 3.5.5.7 *Effective interest rate method*

The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of a financial instrument.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

#### 3.5.5.8 *Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to realise the collateral. The renegotiation generally involves extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Bank to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows discounted by the loans' original effective interest rates.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## 3.5.5.9 Impairment of financial assets

At the end of each reporting period, the Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Bank and proving the deterioration of a debtor's (issuer's) financial health, breach of contract (default in interest or principal payment), high probability of bankruptcy or other financial reorganisation, or proving a measurable decrease in the estimated future cash flow due to adverse changes in industry conditions.

In addition to the aforementioned events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment in which the issuer operates and the significant or prolonged decline in the fair value of the instrument below its cost. The determination of what constitutes a significant or prolonged decline is a matter of circumstances that requires application of the Bank management's judgment. As indicators of possible significant or prolonged decline, the Bank regards unrealised loss in respect of instrument acquisition cost or the fact that the quoted price of the instrument has been below its carrying amount during every trading date for several months. Furthermore, the Bank considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

If there is objective evidence that an impairment loss on a financial instrument has been incurred, the Bank calculates an impairment loss and recognises it in the respective item in the Income Statement.

For a financial asset classified in portfolios carried at amortised cost (i.e. *'Held-to-maturity investments'* and *'Loans and receivables'* portfolios), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. Estimations of future cash flows for loans are based on expected cash flows from economic activities of the client and possible realisation of loan collateral.

The Bank assesses all significant impaired credit exposures on an individual basis. The remaining insignificant impaired exposures are assessed using statistical models based on a collective approach (refer to Note 42(A)). Assets that are not identified for impairment on an individual basis are included in the collective assessment of impairment.

For the purpose of assessing impairment, financial assets are grouped on the basis of the Bank's internal credit rating system, which considers credit risk characteristics such as client type, asset type, classification degree, obligor rating, collateral, past-due status and other relevant factors.

The future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group, i.e. by use of the Expected Loss (EL) or Expected Loss Best Estimate (ELBE) statistical models. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating the future cash flow are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

The carrying amount of the asset is reduced through the use of an allowance account, the creation of which is recognised in the Income Statement in the line '*Allowance for loan losses*' or '*Allowance for impairment of securities*'. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is correspondingly reversed.

When it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank in respect of such loans, loss loans are written off and recognised in the line '*Allowance for loan losses*'. Subsequent recoveries are credited to the Income Statement in '*Allowance for loan losses*' if previously written off. If the Bank collects a higher amount than that written off subsequent to the write-off of the loan, the difference is reported through '*Interest income and similar income*'.

For '*Available-for-sale financial assets*' and in the case of objective evidence of their impairment, a cumulative loss that had been recognised in Other Comprehensive Income is reclassified to the Income Statement and recognised in the line '*Allowance for impairment of securities*' for debt instruments and in the line '*Net profit/(loss) on financial operations*' for equity instruments. The amount of the loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed, with the amount of the reversal recognised in the Income Statement. The Bank cannot reverse any impairment loss recognised in the Income Statement for an equity instrument.

### 3.5.5.10 Repurchase agreements

The Bank accounts for contracts to sell and buy back financial instruments (so-called "repos" or "reverse repos") based on their substance as the receiving or granting of a loan with a corresponding transfer of financial instruments as collateral.

Under repurchase transactions ("repos"), the Bank only provides securities held in the portfolio of '*Financial assets or financial liabilities at fair value through profit or loss*' or in the '*Available-for-sale financial assets*' portfolio that are recorded in the Statement of Financial Position in the same lines. The corresponding liability arising from a loan received is recognised in the lines '*Amounts due to banks*' or '*Amounts due to customers*', as appropriate.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line '*Amounts due from banks*' or '*Loans and advances to customers*'.

The Bank is allowed to provide securities received in reverse repo transactions as collateral or sell them in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan received is included in '*Amounts due to banks*' or '*Amounts due to customers*', as appropriate. The Bank has the obligation to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Bank as interest which is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Bank derecognises from the off-balance sheet evidence the security acquired under the reverse repo transaction and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

### 3.5.5.11 Derivatives and hedge accounting

A derivative is a financial instrument or other contract having all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other market variable;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

At the inception of a financial derivative contract, the Bank designates the derivative instrument as either held for trading or hedging.

Derivatives designated as held for trading are classified into a portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* based on whether the fair value is positive or negative (refer to 3.5.5.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Bank uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- there is compliance with the Bank's risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective at inception and throughout the period;
- the effectiveness of the hedge can be reliably measured; and
- changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

- I. a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
- II. a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
- III. hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Income Statement line '*Net profit/(loss) on financial operations*'. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Income Statement line '*Net profit/(loss) on financial operations*'.

On this basis, the Bank hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rate and debt instruments classified as available-for-sale). The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

Changes in the fair value of a derivative that is designated and qualified as a cash flow hedge and that proves to be highly effective in relation to hedged risk are recognised in the line '*Cash flow hedging*' in Other Comprehensive Income and they are transferred to the Income Statement and classified as income or expense in the periods during which the hedged assets and liabilities affect the Income Statement. The ineffective portion of the hedge is charged directly to the Income Statement in the line '*Net profit/(loss) on financial operations*'.

On this basis, the Bank hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

The Bank additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investments S.A. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

Financial derivatives representing economic hedges under the Bank's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 42(C).

## 3.5.5.12 *Embedded derivatives*

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

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

## 3.5.6 **Assets held for sale**

The line '*Assets held for sale*' represents assets for which the Bank expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Bank expects that the sale of assets will be completed, the market situation permitting, within one year from the date of the asset's classification as '*Assets held for sale*'.

Assets held for sale are measured at the lower of:

- the carrying amount of a respective asset at the date of its classification as '*Assets held for sale*'; or
- fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, whose estimates are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as '*Assets held for sale*' are no longer depreciated.

The Bank recognises an impairment loss on assets held for sale in the line '*Depreciation, impairment and disposal of assets*' if their selling price less estimated costs to sell is lower than their carrying value. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the asset classification as held for sale or before the reclassification into the line '*Assets held for sale*' (i.e. during the period when the asset had been held for supplying the Bank's services or for administrative purposes).

## 3.5.7 **Income tax**

### 3.5.7.1 *Current income tax*

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the Statement of Financial Position date.



# Notes to the Separate Financial Statements

As at 31 December 2013

---

Current income tax is recognised in the Income Statement, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Bank does not offset current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts or intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

## 3.5.7.2 *Deferred income tax*

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values presented in the Statement of Financial Position. Deferred income tax is determined using tax rates enacted or substantially enacted for the periods in which the Bank expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Income Statement, or, as the case may be, in the Statement of Other Comprehensive Income, if it relates to an item directly taken into other comprehensive income (as deferred income tax related to changes in the fair value of available-for-sale financial assets or in relation to a cash flow hedge).

The Bank offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and receivables, hedging derivatives and available-for-sale financial assets.

## 3.5.8 **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Bank as lessor

#### *Operating leases*

The Bank presents assets that are the subject of an operating lease in the appropriate lines in the Statement of Financial Position in accordance with the nature of these assets and uses for them accounting policies applied to the relevant asset class.

Rental income from operating leases is recognised as the Bank's income on a straight-line basis over the term of the relevant lease and is presented in the line '*Other income*'.

#### *Finance leases*

When assets held are subject to a finance lease, the net investment in the lease is recognised as '*Loans and advances to customers*' while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the term of the lease, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and is presented in the line '*Interest income and similar income*'.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## The Bank as lessee

### *Operating lease*

Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line '*General administrative expenses*'. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

### *Finance leases*

At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line in the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Bank uses the same accounting policies for these assets as for its own property presented in the same line as the leased asset. If the legal ownership of the asset held under finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Bank divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Income Statement as '*Interest expense and similar expense*'. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

## **3.5.9 Tangible and intangible assets**

Intangible assets include principally software and internally generated intangible assets. Tangible assets include plant, property and equipment that are held by the Bank for supplying the Bank's services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets, less accumulated depreciation and increased by technical improvements. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Bank capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following expiration of the lease set out in the lease contract. The Bank estimates no residual value for other assets. Depreciation is reported in the Income Statement line '*Depreciation, impairment and disposal of assets*'.

The Bank does not depreciate land, works of art, or tangible and intangible assets in the course of construction and technical improvements unless these are brought into a condition fit for use.

# Notes to the Separate Financial Statements

As at 31 December 2013

During the reporting period, the Bank used the following useful lives in years:

	2013	2012
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
- Heating, air-conditioning, windows, doors	20	20
- Lifts, electrical installations	25	25
- Facade	30	30
- Roof	20	20
- Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 4
Licences – software	4	4
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Bank assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economical or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Bank estimates the recoverable amount of the asset concerned, i.e. the higher amount of its fair value less costs to sell in comparison with the asset's carrying value. If the asset's carrying amount is greater than its recoverable amount, the Bank reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line '*Depreciation, impairment and disposal of assets*'.

Repairs and maintenance are charged directly to the Income Statement when they occur.

### 3.5.10 Provisions

Provisions are recognised when and only when:

- the Bank has a present obligation (legal or constructive) as a result of a past event;
- it is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- a reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

Among others, the Bank recognises provisions for credit-related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit-related commitments into which the Bank enters in the normal course of its business and that are recorded off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit-related commitments are created on the same basis as are allowances for loan portfolios (refer to Note 32).

## 3.5.11 Employee benefits

### 3.5.11.1 General

The Bank provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension but only if they were employed within the Bank for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line '*Provisions*'. The changes in provisions are disaggregated into three components that are presented as follows:

- I. service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line '*Personnel expenses*';
- II. the interest expense on the net benefit liability is presented in the line '*Personnel expenses*';
- III. other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line '*Remeasurement of retirement benefits plan, net of tax*'.

The use of a provision is presented in the line '*Personnel expenses*'.

The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions as incurred in the line '*Personnel expenses*' (refer to Note 9).

# Notes to the Separate Financial Statements

As at 31 December 2013

---

The Bank has the following share plans and deferred compensation schemes:

### 3.5.11.2 *Deferred bonus payments*

In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU), the Bank implemented a new compensation scheme for employees whose professional activities have a material impact on the risk profile of the Bank. For employees identified as targeted by the CRD III regulation, the performance-linked remuneration is split into two components: (i) a non-deferred component which is paid in the following year; and (ii) a deferred component which is spread over three years. The amounts of both components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:

- in the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the condition is based on the profitability of the Société Générale Group;
- in the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the condition is based on the profitability of the Komerční banka Group. Moreover, for employees of investment banking there is a condition that the Bank's net investment banking operating income is higher than zero.

Indexed bonuses qualify for cash-settled, share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Société Générale S.A. or Komerční banka, a.s. multiplied by numbers of granted shares and it is spread over the vesting period.

The amount of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s. shares multiplied by their price fixed as the volume-weighted average of the last twenty closing trading prices prior to the first business day following the end of the applicable retention period.

Deferred cash bonuses (i.e. bonuses paid to employees more than twelve months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line '*Personnel expenses*'.

### 3.5.11.3 *Free share plan*

In November 2010, the Bank awarded all its employees rights to forty free shares of Société Générale S.A. upon the achievement of two performance conditions and completing a specific period of service that is recognised as equity-settled share-based payment. The rights are measured at their fair value calculated using the arbitrage model as at the grant day. Their fair value is spread over the vesting period and recognised in the lines '*Personnel expenses*' and '*Share premium and reserves*' under Shareholders' Equity. At the end of each accounting period, the number of these instruments is recalculated taking into account performance and service conditions and the overall cost of the plan as originally determined is adjusted. Social security, health insurance contributions and contributions to retirement pension insurance costs related to granted rights to free shares are recognised in the lines '*Personnel expenses*' and '*Provisions*'.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

The shares will be allotted in two tranches:

- the first tranche will account for 40% of the planned allocation (i.e. 16 shares) and it is contingent on Société Générale S.A. Group's achieving a positive net income in 2012 (the initial criterion of at least 10% return on equity, net of tax was changed by decision of the Société Générale Board of Directors based on agreement of the General Shareholders' Meeting held on 22 May 2012). The Bank's employees will receive those shares on 31 March 2015;
- the second tranche will account for 60% of the planned allocation (i.e. 24 shares) and it is contingent on customer satisfaction increasing between 2010 and 2013 in Société Générale S.A. Group's three core businesses (French Networks, International Retail Banking, Corporate and Investment Banking). The Bank's employees will receive those shares on 31 March 2016.

## 3.5.12 Share capital

### Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time in which they are approved by the Bank's shareholders.

### Treasury shares

When the Bank acquires its own equity instruments, the consideration paid, and including any attributable transaction costs, is recognised as a deduction from the line '*Share premium and reserves*' under Shareholders' Equity. Gains and losses on sales of treasury shares are recognised in equity and presented as well in the line '*Share premium and reserves*'.

## 3.5.13 Contingent assets, contingent liabilities and off-balance sheet items

In addition to transactions giving rise to the recognition of assets and liabilities in the Statement of Financial Position, the Bank enters into transactions under which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities as off-balance sheet items. The Bank monitors these transactions inasmuch as they represent a substantial proportion of its activities and materially impact the level of risks to which the Bank is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset/liability is defined as a possible asset/liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Bank's control.

A contingent liability is also a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody and fiduciary activities and related obligations to return these to customers (e.g. Assets under Management).

Off-balance sheet items include also notional values of interest and foreign currency instruments as forwards, swaps, options and futures. More information regarding derivative operations is presented in 3.5.5.11 Derivatives and hedge accounting.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## 3.5.14 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Bank).

The Bank has the following operating segments:

- *Retail Banking*: includes the provision of products and services to individuals, i.e. predominantly current and savings accounts, term deposits, overdrafts, credit card loans, personal loans and mortgages;
- *Corporate Banking*: includes the provision of products and services to corporate entities, i.e. current accounts, term deposits, revolving loans, business loans, mortgages, foreign currency and derivative products, syndicated and export financing, and guarantee transactions;
- *Investment Banking*: involves trading in financial instruments;
- *Other*: consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. However, the management of the Bank believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Bank is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are reported not separately but on a net basis.

In addition, the Bank monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Bank does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Bank's financial accounting records.

The Bank has no client or group of related parties for which the income from transactions would account for more than 10% of the Bank's total income.

## 3.5.15 Regulatory requirements

The Bank is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances to cover credit risk associated with the Bank's clients, as well as with its liquidity, interest rate and foreign currency positions.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 3.6 Changes in accounting policies and reclassifications

Since 1 January 2013, the Bank has changed the presentation of certain items in the Financial Statements arising from the revision of the standard IAS 19 Employee Benefits or to refinements in reporting of stated items. Comparative information has been restated to reflect the presentation of the current period. A reconciliation of the lines is shown in the tables below.

Reconciliation of lines in the Income Statement for the year ended 31 December:

(CZKm)	As reported 2012	After restatement 2012	Reference
Interest expense and similar expense	(12,749)	(12,747)	2
Net fee and commission income	7,017	6,990	2, 3
Personnel expenses	(6,062)	(6,061)	1
General administrative expenses	(4,411)	(4,386)	3

1. The impact of applying the revised standard IAS 19 Employee Benefits was a decrease in 'Personnel expenses' by CZK 1 million;
2. Income from penalties for early withdrawals of term deposits in the amount of CZK 2 million was reclassified from 'Net fee and commission income' to 'Interest expense and similar expense';
3. Fees related to provided banking services in the amount of CZK 25 million were reclassified from 'General administrative expenses' to 'Net fees and commissions income'.

Reconciliation of lines in the Statement of Financial Position as at 31 December:

(CZKm)	As reported 31 Dec 2012	After restatement 31 Dec 2012	As reported 31 Dec 2011	After restatement 31 Dec 2011	Reference
Deferred tax liabilities	4,721	4,712	2,441	2,434	1
Provisions	956	1,004	1,055	1,091	1
Share premium and reserves	68,578	68,539	53,463	53,434	1

1. The impact of applying the revised standard IAS 19 Employee Benefits was an increase of 'Provisions' by CZK 48 million (2011: CZK 36 million), a decrease of 'Deferred tax liabilities' by CZK 9 million (2011: CZK 7 million), and in 'Share premium and reserves' a decrease of 'Retained earnings' by CZK 29 million (2011: CZK 29 million), a decrease in Other Comprehensive Income of 'Remeasurement of retirement benefits plan, net of tax' by CZK 11 million (2011: CZK 0 million), and an increase of 'Net profit for the period' by CZK 1 million (2011: CZK 0 million).



# Notes to the Separate Financial Statements

As at 31 December 2013

## 4 Segment reporting

(CZKm)	Retail banking		Corporate banking		Investment banking		Other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net interest income and similar income	8,962	9,469	6,349	6,136	123	55	3,489	2,134	18,923	17,794
Net fee and commission income	4,395	4,893	2,098	2,269	(41)	(51)	220	(121)	6,672	6 990
Net profit/(loss) on financial operations	860	872	1,225	1,373	288	527	827	396	3,200	3,168
Other income	128	113	(11)	(26)	163	132	(123)	(71)	157	148
<b>Net banking income</b>	<b>14,345</b>	<b>15,347</b>	<b>9,661</b>	<b>9,752</b>	<b>533</b>	<b>663</b>	<b>4,413</b>	<b>2,338</b>	<b>28,952</b>	<b>28,100</b>

Since 1 January 2013, the Bank has changed the method of allocating revenues from products of Investment banking between individual segments. Comparative information has been restated to reflect the presentation of the current period.

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs and income tax only for selected segments rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest, and, in assessing the performance of segments and deciding on allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis, i.e. reduced by interest expense.

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rates conditions, including the liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Bank's income is primarily (more than 98%) generated on the territory of the Czech Republic.

## 5 Net interest income and similar income

Net interest income and similar income comprise the following:

(CZKm)	2013	2012
Interest income and similar income	26,799	30,284
Interest expense and similar expense	(9,761)	(12,747)
Dividend income	1,885	257
<b>Net interest income and similar income</b>	<b>18,923</b>	<b>17,794</b>
Of which net interest and similar income from		
- loans and advances	15,006	16,883
- available-for-sale financial assets	3,026	3,494
- held-to-maturity investments	6	6
- financial liabilities at amortised cost	(4,086)	(4,928)

# Notes to the Separate Financial Statements

As at 31 December 2013

'Interest income and similar income' includes interest on substandard, doubtful and loss loans due from customers of CZK 379 million (2012: CZK 372 million) and interest on securities of CZK 0 million (2012: CZK 70 million) that have suffered impairment. During the year ended 31 December 2012, the Bank derecognised these securities and the Bank does not register any receivables related to these securities.

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 8,761 million (2012: CZK 9,915 million) and 'Interest expense and similar expense' includes interest expense from hedging financial derivatives of CZK 5,675 million (2012: CZK 7,833 million). Net interest income from these derivatives amounts to CZK 3,086 million (2012: CZK 2,082 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

'Dividend income' includes dividends received from subsidiaries and associates of CZK 1,885 million (2012: CZK 257 million). Expenses from hedging financial derivatives used to hedge cash flows of a foreign exchange risk of dividends from subsidiaries and associates were CZK 3 million (2012: CZK 0 million).

## 6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2013	2012
Transactions	4,126	4,253
Loans and deposits	2,328	2,552
Others	1,486	1,396
<b>Total fee and commission income</b>	<b>7,940</b>	<b>8,201</b>
Transactions	(987)	(977)
Loans and deposits	(186)	(156)
Others	(95)	(78)
<b>Total fee and commission expenses</b>	<b>(1,268)</b>	<b>(1,211)</b>
<b>Total net fee and commission income</b>	<b>6,672</b>	<b>6,990</b>

The line 'Others' includes mainly fees and commissions from trade finance, investment banking, and distribution of the Group companies' products. The line comprises fee income arising from trust and other fiduciary activities in the amount of CZK 91 million (2012: CZK 73 million) and fee expense for these services in the amount of CZK 10 million (2012: CZK 8 million).

# Notes to the Separate Financial Statements

As at 31 December 2013

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

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

(CZKm)	2013	2012
Net realised gains/(losses) on securities held for trading	(206)	146
Net unrealised gains/(losses) on securities held for trading	68	238
Net realised gains/(losses) on securities available-for-sale	787	460
Net realised and unrealised gains/(losses) on security derivatives	293	123
Net realised and unrealised gains/(losses) on interest rate derivatives	63	(162)
Net realised and unrealised gains/(losses) on trading commodity derivatives	27	44
Net realised and unrealised gains/(losses) on foreign exchange from trading	893	1,005
Net realised gains/(losses) on foreign exchange from payments	1,275	1,314
<b>Total net profit/(loss) on financial operations</b>	<b>3,200</b>	<b>3,168</b>

In the year ended 31 December 2013, the line '*Net realised gains/(losses) on securities available-for-sale*' includes a net gain from the sale of Italian government bonds in the amount of CZK 787 million (refer to Note 18).

In the year ended 31 December 2012, the line '*Net realised gains/(losses) on securities available-for-sale*' includes a net gain from the sale of the equity investment in Českomoravská záruční a rozvojová banka, a.s. in the amount of CZK 830 million, a net loss from the sale of Greek and Portuguese government bonds in the amount of CZK 380 million, and a net gain from the sale of Italian government bonds in the amount of CZK 11 million (refer to Note 18).

A gain of CZK 1,431 million (2012: loss of CZK 1,442 million) on the fair value of interest rate swaps for interest rate risk hedging is included in '*Net realised and unrealised gains/(losses) on interest rate derivatives*'. This amount matches the loss arising from retranslation of hedged loan receivables and available-for-sale financial assets reported in the same line.

## 8 Other income

The Bank reports '*Other income*' in the amount of CZK 157 million (2012: CZK 148 million). In both years 2013 and 2012, '*Other income*' was predominantly composed of income from services provided to the financial group and property rental income.

## 9 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2013	2012
Wages, salaries and bonuses	4,282	4,347
Social costs	1,736	1,714
<b>Total personnel expenses</b>	<b>6,018</b>	<b>6,061</b>
Physical number of employees at the end of the period*	7,777	7,895
Average recalculated number of employees during the period*	7,706	7,845
<b>Average cost per employee (CZK)</b>	<b>781,017</b>	<b>772,495</b>

Note: \* Calculation according to the methodology of the Czech Statistical Office.

# Notes to the Separate Financial Statements

As at 31 December 2013

'*Social costs*' include costs of CZK 77 million (2012: CZK 78 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 44 million (2012: CZK 44 million) incurred in contributing to the employees' capital life insurance scheme.

'*Personnel expenses*' include a charge in the amount of CZK 0 million (2012: CZK 10 million) and the release and use of a provision for restructuring in the amount of CZK 10 million (2012: CZK 0 million) relating to a project to reorganise the distribution network (refer to Note 32).

## Indexed bonuses

In 2013, the total amount relating to bonuses indexed on the Société Générale share price and the Komerční banka share price recognised in '*Personnel expenses*' was CZK 36 million (2012: CZK 27 million) and the total amount of CZK 40 million (2012: CZK 27 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Bank. Net income from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 9 million (2012: CZK 1 million). The total number of Société Générale shares according to which bonuses indexed on the Société Générale share price are calculated is 12,461 shares (2012: 16,934 shares). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 15,137 shares (2012: 9,487 shares).

The changes in the numbers of shares were as follow:

(shares)	2013		2012	
	SG shares	KB shares	SG shares	KB shares
<b>Balance at 1 January</b>	<b>16,934</b>	<b>9,487</b>	24,852	0
Paid out during the period	(4,473)	(4,314)	(7,918)	0
New guaranteed number of shares	0	9,964	0	9,487
<b>Balance at 31 December</b>	<b>12,461</b>	<b>15,137</b>	16,934	9,487

## Free shares

The share price at the granting date was established to be EUR 34.55 for the first tranche and EUR 33.15 for the second tranche. The total number of free shares granted for the two tranches is 277,800 shares (2012: 284,840 shares). For 2013, the total amount relating to the free shares program recognised in '*Personnel expenses*' was CZK 46 million (2012: CZK 46 million) and from the granting date a cumulative amount of CZK 138 million (2012: CZK 92 million) is recognised as '*Share premium*' in equity.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 10 General administrative expenses

General administrative expenses comprise the following:

(CZKm)	2013	2012
Insurance	110	107
Marketing and representation	473	508
Sale and banking products expenses	299	315
Other employees expenses and travelling	121	119
Real estate expenses	1,161	1,203
IT support	888	790
Equipment and supplies	154	223
Telecommunications, postage and data transfer	279	343
External consultancy and other services	610	670
Other expenses	90	108
<b>Total general administrative expenses</b>	<b>4,185</b>	<b>4,386</b>

'General administrative expenses' include the release and use of a provision for restructuring in the amount of CZK 0 million (2012: CZK 9 million) relating to the change in the legal status of Komerční banka Bratislava, a.s. to that of a foreign branch of the Bank (refer to Note 32).

## 11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise the following:

(CZKm)	2013	2012
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,591	1,549
Impairment and disposal of fixed assets	(4)	12
<b>Total depreciation, impairment and disposal of assets</b>	<b>1,587</b>	<b>1,561</b>

## 12 Cost of risk

### Allowance for loan losses and provisions for other credit commitments

'Allowances for loan losses' in the total amount of CZK 1,546 million (2012: CZK 1,379 million) include a net loss from allowances and provisions for loan losses in the amount of CZK 1,820 million (2012: CZK 1,848 million), and a net gain from loans written off and transferred in the amount of CZK 274 million (2012: CZK 469 million).

# Notes to the Separate Financial Statements

As at 31 December 2013

The movements in allowances and provisions were as follow:

(CZKm)	2013	2012
<b>Balance at 1 January</b>	<b>(14,008)</b>	<b>(13,377)</b>
Charge of allowances and provisions for loan losses		
- individuals	(2,300)	(2,464)
- corporates*	(5,028)	(4,294)
Release and use of allowances and provisions for loan losses		
- individuals	1,701	1,529
- corporates*	3,807	3,381
Impact of loans written off and transferred	1,252	1,095
Foreign exchange rate differences attributable to provisions	(219)	122
<b>Balance at 31 December</b>	<b>(14,795)</b>	<b>(14,008)</b>

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

The balance of allowances and provisions as at 31 December 2013 and 2012 comprises:

(CZKm)	2013	2012
Allowances for loans to banks (refer to Note 20)	0	0
Allowances for loans to customers (refer to Note 21)	(14,223)	(13,525)
Allowances for other loans to customers (refer to Note 21)	(1)	(1)
Provisions for guarantees and other credit-related commitments (refer to Note 32)	(571)	(482)
<b>Total</b>	<b>(14,795)</b>	<b>(14,008)</b>

## Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 0 million as at 31 December 2013 (2012: CZK 0 million). During the year ended 31 December 2012, the Bank derecognised a provision of CZK 5,278 million due to the replacement of Greek government bonds held by the Bank and the related foreign exchange differences from provisions against securities denominated in foreign currencies of CZK 288 million (refer to Note 18).

## Provisions for other risk expenses

The net loss of 'Provisions for other risk expenses' of CZK 7 million (2012: CZK 28 million) mainly consists of the charge for provisions of CZK 11 million (2012: CZK 260 million) and the release and use of provisions of CZK 4 million (2012: CZK 256 million) for legal disputes, together with the net costs incurred by the Bank as a result of the outcome of legal disputes of CZK 0 million (2012: CZK 24 million).

Additional information on the provisions for other risk expenses is provided in Note 32.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 13 Profit/(loss) on subsidiaries and associates

The balance of allowances for subsidiaries and associates is as follows:

(CZKm)	2013	2012
<b>Balance at 1 January</b>	<b>(355)</b>	<b>(355)</b>
Charge for allowances	0	0
Release and use of allowances	0	0
<b>Balance at 31 December</b>	<b>(355)</b>	<b>(355)</b>

Allowances for investments in subsidiaries and associates principally comprise allowances charged in respect of Komerční pojišťovna, a.s. on the basis of losses incurred in prior periods (refer to Note 24).

## 14 Income taxes

The major components of corporate income tax expense are as follow:

(CZKm)	2013	2012
Tax payable – current year, reported in profit or loss	(2,606)	(2,406)
Tax paid – prior year	11	24
Deferred tax (refer to Note 33)	122	(68)
Hedge of a deferred tax asset against foreign currency risk	(13)	14
<b>Total income taxes</b>	<b>(2,486)</b>	<b>(2,436)</b>
Tax payable – current year, reported in equity	0	0
<b>Total tax expense</b>	<b>(2,486)</b>	<b>(2,436)</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

The items explaining the difference between the Bank's theoretical and effective tax rates are as follow:

(CZKm)	2013	2012
<b>Profit before tax</b>	<b>15,609</b>	<b>14,685</b>
Theoretical tax calculated at a tax rate of 19% (2012: 19%)	2,966	2,790
Tax on pre-tax profit adjustments	4	20
Non-taxable income	(1,297)	(1,088)
Expenses not deductible for tax purposes	936	763
Tax allowance	(3)	(2)
Tax credit	0	(77)
Hedge of a deferred tax asset against foreign currency risk	13	(14)
Movement in deferred tax	(122)	68
Other	0	0
<b>Income tax expense</b>	<b>2,497</b>	<b>2,460</b>
Prior period tax expense	(11)	(24)
<b>Total income taxes</b>	<b>2,486</b>	<b>2,436</b>
Tax payable on available-for-sale financial assets reported in equity*	0	0
<b>Total tax expense</b>	<b>2,486</b>	<b>2,436</b>
<b>Effective tax rate</b>	<b>15.93%</b>	<b>16.59%</b>

Note: \* This amount represents the tax payable on unrealised gains from revaluation of available-for-sale financial assets which are revalued through equity under IFRS.

Non-taxable income primarily includes dividends, tax-exempt interest income and the release of non-tax deductible allowances and provisions. Expenses not deductible for tax purposes primarily include the recognition of non-tax deductible allowances and provisions and non-tax deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to the Czech Accounting Standards (CAS). Tax credit arises from interest income on bonds issued by EU states.

The corporate tax rate for the year ended 31 December 2013 is 19% (2012: 19%). The Bank's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax-exempt income or income subject to a final withholding tax rate.

As at 31 December 2013, the Bank records unused tax losses in the amount of CZK 0 million (2012: CZK 77 million). These tax losses were Slovak tax losses from previous years, applicable only for Slovak corporate tax paid by the Slovak branch of the Bank.

Further information about deferred tax is presented in Note 33.

## 15 Distribution of net profit

For the year ended 31 December 2013, the Bank generated a net profit of CZK 13,123 million (2012: CZK 12,249 million). The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount CZK 230 per share (2012: CZK 230 per share), which represents a total amount of CZK 8,742 million. The proposal is subject to the Supervisory Board's review and subsequently to the approval of the General Shareholders' meeting.



# Notes to the Separate Financial Statements

As at 31 December 2013

In accordance with a resolution of the General Shareholders' meeting, held on 24 April 2013, the aggregate balance of the net profit of CZK 12,249 million for the year ended 31 December 2012 was allocated as follows: CZK 8,742 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. Since 2008, the reserve fund has corresponded to the level required by the Commercial Code and the Articles of Association of the Bank, i.e. 20% of the Bank's share capital.

## 16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Cash and cash equivalents	7,188	6,452
Current balances with central banks	36,643	21,207
<b>Total cash and current balances with central banks</b>	<b>43,831</b>	<b>27,659</b>

Obligatory minimum reserves in the amount of CZK 5,318 million (2012: CZK 736 million) are included in 'Current balances with central banks' and they bear interest. As at 31 December 2013, the interest rate was 0.05% (2012: 0.05%) in the Czech Republic and 0.25% (2012: 0.75%) in the Slovak Republic.

## 17 Financial assets at fair value through profit or loss

As at 31 December 2013 and 2012, the 'Financial assets at fair value through profit or loss' portfolio includes only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any other financial assets as 'Financial assets at fair value through profit or loss'.

(CZKm)	31 Dec 2013	31 Dec 2012
Securities	20,778	33,962
Derivative financial instruments	17,340	17,945
<b>Total financial assets at fair value through profit or loss</b>	<b>38,118</b>	<b>51,907</b>

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

Trading securities comprise the following:

(CZKm)	31 Dec 2013		31 Dec 2012	
	Fair value	Cost*	Fair value	Cost*
<b>Emission allowances</b>	<b>381</b>	<b>407</b>	<b>813</b>	<b>855</b>
Fixed income debt securities	6,278	6,241	8,505	8,309
Variable yield debt securities	3,340	3,337	1,939	1,927
Bills of exchange	373	372	1,852	1,839
Treasury bills	10,406	10,410	20,853	20,836
<b>Total debt securities</b>	<b>20,397</b>	<b>20,360</b>	<b>33,149</b>	<b>32,911</b>
<b>Total trading securities</b>	<b>20,778</b>	<b>20,767</b>	<b>33,962</b>	<b>33,766</b>

Note: \* Acquisition cost for shares, participation certificates and emission allowances; amortised acquisition cost for debt securities.

# Notes to the Separate Financial Statements

As at 31 December 2013

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Ministry of Finance at fair value of CZK 10,406 million (2012: CZK 20,853 million).

As at 31 December 2013, the portfolio of trading securities includes securities at fair value of CZK 9,504 million (2012: CZK 11,013 million) that are publicly traded on stock exchanges and securities at fair value of CZK 11,274 million (2012: CZK 22,949 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Emission allowances at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Emission allowances</b>		
- Other currencies	381	813
<b>Total emission allowances</b>	<b>381</b>	<b>813</b>

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

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Emission allowances issued by:</b>		
- Foreign financial institutions	381	813
<b>Total emission allowances</b>	<b>381</b>	<b>813</b>

Debt trading securities at fair value comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Variable yield debt securities</b>		
- Czech crowns	1,984	1,837
- Other currencies	1,356	102
<b>Total variable yield debt securities</b>	<b>3,340</b>	<b>1,939</b>
<b>Fixed income debt securities (including bills of exchange and treasury bills)</b>		
- Czech crowns	16,522	27,798
- Other currencies	535	3,412
<b>Total fixed income debt securities</b>	<b>17,057</b>	<b>31,210</b>
<b>Total trading debt securities</b>	<b>20,397</b>	<b>33,149</b>

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

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Debt trading securities issued by:</b>		
- State institutions in the Czech Republic	16,876	28,575
- Foreign state institutions	1,334	2,503
- Financial institutions in the Czech Republic	1,952	114
- Foreign financial institutions	182	93
- Other entities in the Czech Republic	49	1,864
- Other foreign entities	4	0
<b>Total trading debt securities</b>	<b>20,397</b>	<b>33,149</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

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

(CZKm)	31 Dec 2013	31 Dec 2012
Country of Issuer	Fair value	Fair value
Italy	0	13
Poland	66	129
Slovakia	1,268	2,361
<b>Total</b>	<b>1,334</b>	<b>2,503</b>

Of the debt securities issued by state institutions in the Czech Republic, CZK 6,063 million (2012: CZK 7,651 million) consist of securities eligible for refinancing with the CNB.

## 18 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

(CZKm)	31 Dec 2013		31 Dec 2012	
	Fair value	Cost*	Fair value	Cost*
<b>Shares and participation certificates</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Fixed income debt securities	78,939	71,622	83,318	72,571
Variable yield debt securities	14,614	14,306	11,061	10,553
<b>Total debt securities</b>	<b>93,553</b>	<b>85,928</b>	<b>94,379</b>	<b>83,124</b>
<b>Total available-for-sale financial assets</b>	<b>93,555</b>	<b>85,930</b>	<b>94,381</b>	<b>83,126</b>

Note: \* Acquisition cost for shares and participation certificates; amortised acquisition cost for debt securities.

As at 31 December 2013, the 'Available-for-sale financial assets' portfolio includes securities at fair value of CZK 93,553 million (2012: CZK 94,379 million) that are publicly traded on stock exchanges and securities at fair value of CZK 2 million (2012: CZK 2 million) that are not publicly traded.

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

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Shares and participation certificates</b>		
- Other currencies	2	2
<b>Total shares and participation certificates available-for-sale</b>	<b>2</b>	<b>2</b>

Shares and participation certificates available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Shares and participation certificates available-for-sale issued by:</b>		
- Non-banking foreign entities	2	2
<b>Total shares and participation certificates available-for-sale</b>	<b>2</b>	<b>2</b>

In 2012, the Bank sold its equity investment in Českomoravská záruční a rozvojová banka, a.s. The net gain from the sale for the Bank was CZK 830 million (refer to Note 7). The acquisition cost had been CZK 60 million.

# Notes to the Separate Financial Statements

As at 31 December 2013

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

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Fixed income debt securities</b>		
- Czech crowns	58,195	65,350
- Other currencies	20,744	17,968
<b>Total fixed income debt securities</b>	<b>78,939</b>	<b>83,318</b>
<b>Variable yield debt securities</b>		
- Czech crowns	11,027	9,398
- Other currencies	3,587	1,663
<b>Total variable yield debt securities</b>	<b>14,614</b>	<b>11,061</b>
<b>Total debt securities available-for-sale</b>	<b>93,553</b>	<b>94,379</b>

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

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Debt securities available-for-sale issued by:</b>		
- State institutions in the Czech Republic	61,948	58,454
- Foreign state institutions	13,325	19,737
- Financial institutions in the Czech Republic	17,450	15,326
- Foreign financial institutions	830	862
<b>Total debt securities available-for-sale</b>	<b>93,553</b>	<b>94,379</b>

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

(CZKm)	31 Dec 2013		31 Dec 2012	
	Fair value	Cost*	Fair value	Cost*
EFSF	567	561	1,040	1,029
Italy	0	0	7,907	6,717
Poland	5,383	4,924	5,664	5,051
Portugal	0	0	0	0
Greece	0	0	0	0
Slovakia	7,375	6,874	5,126	4,603
<b>Total</b>	<b>13,325</b>	<b>12,359</b>	<b>19,737</b>	<b>17,400</b>

Note: \* Acquisition cost for shares and participation certificates; amortised acquisition cost for debt securities.

Of the debt securities issued by state institutions in the Czech Republic, CZK 53,690 million (2012: CZK 50,669 million) consist of securities eligible for refinancing with the CNB.

During the year ended 31 December 2013, the Bank acquired bonds with a nominal value of CZK 11,340 million, of which CZK 6,225 million comprised bonds issued by State institutions in the Czech Republic, EUR 97 million (equivalent to CZK 2,520 million) by Foreign state institutions and EUR 100 million (equivalent to CZK 2,595 million) by Financial institutions in the Czech Republic. During 2013, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 1,900 million and EUR 75 million (a total CZK equivalent of CZK 3,822 million), of which CZK 1,900 million were issued by State institutions in the Czech Republic and CZK 1,922 million by Foreign state institutions.

# Notes to the Separate Financial Statements

As at 31 December 2013

During the year ended 31 December 2012, the Bank acquired bonds with a nominal value of CZK 12,350 million. The whole amount comprised bonds issued by State institutions in the Czech Republic. During 2012, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 7,400 million, EUR 35 million and USD 76 million (a total CZK equivalent of CZK 9,810 million), of which CZK 6,250 million were issued by State institutions in the Czech Republic, CZK 2,410 million by Foreign state institutions and CZK 1,150 million by Other entities in the Czech Republic.

During the year ended 31 December 2013, the Bank sold Italian government bonds in the nominal value of CZK 7,470 million. The net gain from the sale was CZK 787 million (refer to Note 7).

During the year ended 31 December 2012, the Bank sold Portuguese government bonds in the nominal value of EUR 10 million, i.e. in CZK equivalent of CZK 253 million. The net loss from the sale was CZK 23 million. The Bank also sold Italian government bonds in the nominal value of EUR 10 million and USD 10 million, i.e. in a total in CZK equivalent of CZK 450 million. The net gain from the sale was CZK 11 million (refer to Note 7).

## Greece

During the first quarter of 2012, the Bank decided to participate in the exchange of Greek government bonds. Subsequently, the Bank has decided to realise the divestment of all new Greek government bonds and GDP warrants with a negative impact of CZK 357 million, which was booked as *'Net profit/(loss) on financial operations'* (refer to Note 7).

## 19 Assets held for sale

As at 31 December 2013, the Bank reported assets held for sale at a carrying amount of CZK 6 million (2012: CZK 3 million) comprising buildings and land owned by the Bank which the management of the Bank decided to sell as a component of a plan to optimise the distribution network. These buildings are not depreciated.

## 20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Current accounts with other banks	893	5,455
Debt securities	6,710	4,786
Loans and advances to banks	11,671	7,484
Advances due from the Czech National Bank (reverse repo transactions)	87,001	21,000
Term placements with other banks	13,386	17,138
<b>Total amounts due from banks, gross</b>	<b>119,661</b>	<b>55,863</b>
Allowances for amounts due from banks (refer to Note 12)	0	0
<b>Total amounts due from banks, net</b>	<b>119,661</b>	<b>55,863</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

Advances due from the Czech National Bank and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair value of which are as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Treasury bills	85,325	20,614
Debt securities issued by state institutions	2,517	2,683
Shares	0	278
Investment certificates	82	77
<b>Total</b>	<b>87,924</b>	<b>23,652</b>

## Securities acquired as loans and receivables

As at 31 December 2013, the Bank maintains in its portfolio bonds at an amortised cost of CZK 6,710 million (2012: CZK 4,786 million) and a nominal value of CZK 6,625 million (2012: CZK 4,705 million), of which CZK 2,590 million (2012: CZK 2,590 million) is comprised of a bond issued by the parent company, Société Générale S.A., and acquired by the Bank under an initial offering and normal market conditions in 2010. During the year ended 31 December 2012, there was a repayment of other bond issued by the parent company, Société Générale S.A., in a nominal value of CZK 2,000 million. Additionally, the Bank holds in this portfolio three issues of securities placed by financial institutions with an aggregate nominal value of CZK 2,115 million (2012: CZK 2,115 million). During the year ended 31 December 2013, the Bank acquired bonds with a nominal value of EUR 70 million (equivalent to CZK 1,811 million) issued by Financial institutions in the Czech Republic.

## 21 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Loans to customers	435,287	406,934
Bills of exchange	302	421
Forfaits	1,458	1,776
<b>Total loans and advances to customers excluding debt securities and other amounts due to customers, gross</b>	<b>437,047</b>	<b>409,131</b>
Debt securities	461	461
Other amounts due from customers	11	123
<b>Total loans and advances to customers, gross</b>	<b>437,519</b>	<b>409,715</b>
Allowances for loans to customers		
- individuals	(3,956)	(3,816)
- corporates*	(10,267)	(9,709)
<b>Total allowances for loans to customers (refer to Note 12)</b>	<b>(14,223)</b>	<b>(13,525)</b>
Allowances for other amounts due from customers (refer to Note 12)	(1)	(1)
<b>Total allowances for loans and other amounts due from customers</b>	<b>(14,224)</b>	<b>(13,526)</b>
<b>Total loans and advances to customers, net</b>	<b>423,295</b>	<b>396,189</b>

Note: \* This item includes loans granted to individual entrepreneurs.

As at 31 December 2013, loans and advances to customers include interest due of CZK 1,025 million (2012: CZK 1,141 million), of which CZK 420 million (2012: CZK 505 million) relates to overdue interest.

## Notes to the Separate Financial Statements

As at 31 December 2013

As at 31 December 2013, loans provided to customers under reverse repurchase transactions in the amount of CZK 124 million (2012: CZK 218 million) are collateralised by securities with a fair value of CZK 66 million (2012: CZK 120 million).

As at 31 December 2013, the loan portfolio of the Bank (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	408,122	181,305	226,817	0	408,122	0%
Watch	7,346	3,143	4,203	(670)	6,676	16%
Substandard	5,737	2,941	2,796	(1,232)	4,505	44%
Doubtful	1,650	646	1,004	(727)	923	72%
Loss	14,192	778	13,414	(11 594)	2,598	86%
<b>Total</b>	<b>437,047</b>	<b>188,813</b>	<b>248,233</b>	<b>(14 223)</b>	<b>422,824</b>	

As at 31 December 2012, the loan portfolio of the Bank (excluding Debt securities and Other amounts due from customers) was comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	379,151	167,971	211,180	0	379,151	0%
Watch	8,622	3,909	4,713	(645)	7,977	14%
Substandard	5,112	2,866	2,246	(1,010)	4,102	45%
Doubtful	2,130	686	1,444	(845)	1,285	59%
Loss	14,116	857	13,259	(11,025)	3,091	83%
<b>Total</b>	<b>409,131</b>	<b>176,289</b>	<b>232,842</b>	<b>(13,525)</b>	<b>395,606</b>	

# Notes to the Separate Financial Statements

As at 31 December 2013

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

(CZKm)	31 Dec 2013	31 Dec 2012
Food industry and agriculture	14,428	15,902
Mining and extraction	4,480	1,279
Chemical and pharmaceutical industry	6,012	5,378
Metallurgy	7,478	8,183
Automotive industry	4,443	2,472
Manufacturing of other machinery	8,802	7,633
Manufacturing of electrical and electronic equipment	2,812	3,134
Other processing industry	7,563	8,034
Power plants, gas plants and waterworks	26,153	21,783
Construction industry	8,682	9,685
Retail	10,050	11,872
Wholesale	27,143	27,120
Accommodation and catering	983	1,019
Transportation, telecommunication and warehouses	11,554	10,158
Banking and insurance industry	47,045	46,500
Real estate	32,712	27,854
Public administration	32,146	30,758
Other industries	17,669	17,524
Individuals	166,892	152,843
<b>Total loans to customers</b>	<b>437,047</b>	<b>409,131</b>

The majority of loans (more than 87%) were provided to entities on the territory of the Czech Republic.



# Notes to the Separate Financial Statements

As at 31 December 2013

Set out below is an analysis of the types of collateral held in support of loans and advances to customers as stated in the Statement of Financial Position:

(CZKm)	31 Dec 2013			31 Dec 2012		
	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***
Guarantees of state and governmental institutions	4,899	2,964	2,947	4,492	2,713	2,696
Bank guarantee	16,198	13,561	13,451	17,501	14,953	14,857
Guaranteed deposits	1,916	1,874	1,481	1,673	1,106	928
Pledge of real estate	291,914	194,039	140,237	269,817	178,739	128,553
Pledge of movable assets	14,552	1,363	1,317	19,034	1,707	1,641
Guarantee by legal entity	18,438	11,381	10,868	21,839	13,425	12,908
Guarantee by individual (natural person)	1,243	189	168	1,159	182	156
Pledge of receivables	32,812	3,886	3,426	31,177	3,592	3,239
Insurance of credit risk	15,351	14,571	14,571	11,804	11,213	11,213
Other	1,202	617	349	841	414	98
<b>Nominal value of collateral</b>	<b>398,525</b>	<b>244,445</b>	<b>188,813</b>	<b>379,337</b>	<b>228,044</b>	<b>176,289</b>

Note: \* The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).

\*\* The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling the collateral, the risk of declining market prices, the risk of insolvency, etc.

\*\*\* The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 13% of total pledges on real estate (2012: 13%).

## Debt securities designated as loans and receivables

As at 31 December 2013, the Bank holds in its portfolio debt securities at an amortised cost of CZK 461 million (2012: CZK 461 million) and in the nominal value of CZK 450 million (2012: CZK 450 million). During 2013 and 2012, there were no purchases, sales or redemptions.

## Loans and advances to customers – restructured

(CZKm)	31 Dec 2013	31 Dec 2012
Individuals	956	754
Corporates*	4,051	4,519
<b>Total</b>	<b>5,007</b>	<b>5,273</b>

Note: \* This item includes loans granted to individual entrepreneurs.

## Trade finance losses

During 1999, the Bank incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Bank. As at 31 December 2013, the Statement of Financial Position included loans to this client in the amount of CZK 1,390 million (2012: CZK 1,331 million) which were fully provided for. The increase in the balance between 2013 and 2012 arises from a foreign exchange rate difference. The Bank did not report any off-balance sheet receivables from this client in 2013 and 2012. The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 22 Held-to-maturity investments

Held-to-maturity investments comprise the following:

(CZKm)	31 Dec 2013		31 Dec 2012	
	Carrying value	Cost*	Carrying value	Cost*
Fixed income debt securities	194	193	179	177
<b>Total held-to-maturity investments</b>	<b>194</b>	<b>193</b>	<b>179</b>	<b>177</b>

Note: \* Amortised acquisition cost.

As at 31 December 2013, the 'Held-to-maturity investments' portfolio includes bonds of CZK 194 million (2012: CZK 179 million) that are publicly traded on stock exchanges.

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

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Fixed income debt securities</b>		
- Foreign currencies	194	179
<b>Total fixed income debt securities</b>	<b>194</b>	<b>179</b>

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

(CZKm)	31 Dec 2013	31 Dec 2012
<b>Fixed income debt securities issued by:</b>		
- Foreign state institutions	194	179
<b>Total fixed income debt securities</b>	<b>194</b>	<b>179</b>

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

(CZKm)	31 Dec 2013		31 Dec 2012	
	Fair value	Cost*	Fair value	Cost*
<b>Country of Issuer</b>				
France	198	193	189	177
<b>Total</b>	<b>198</b>	<b>193</b>	<b>189</b>	<b>177</b>

Note: \* Amortised acquisition cost.

No purchases or sales within this portfolio took place during the years ended 31 December 2013 and 2012. During 2013 and 2012, there were no redemptions at maturity.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Prepayments and accrued income	286	201
Settlement balances	405	597
Receivables from securities trading	22	19
Other assets	1,460	1,417
<b>Total prepayments, accrued income and other assets</b>	<b>2,173</b>	<b>2,234</b>

'Other assets' include provisions for operating receivables for other debtors in the amount of CZK 232 million (2012: CZK 239 million) and in particular also advances provided and receivables for other debtors.

## 24 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Investments in subsidiary undertakings	25,738	24,446
Investments in associated undertakings	482	482
<b>Total investments in subsidiaries and associates</b>	<b>26,220</b>	<b>24,928</b>

### Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as at 31 December 2013:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels	3,396	0	3,396
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Factoring KB, a.s.	100	100	Factoring	Prague	1,190	0	1,190
KB Penzijní společnost, a.s.*	100	100	Additional pension insurance	Prague	330	0	330
KB Real Estate, s.r.o.	100	100	Support services	Prague	511	0	511
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,873	0	4,873
NP 33, s.r.o.	100	100	Support services	Prague	405	0	405
Protos, uzavřený investiční fond, a.s.	89.64	100	Financial services	Prague	11,705	0	11,705
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague	1,299	0	1,299
VN 42, s.r.o.	100	100	Support services	Prague	864	0	864
<b>Total</b>					<b>25,738</b>	<b>0</b>	<b>25,738</b>

Note: \* KB Penzijní společnost, a.s. was established through the transformation of Penzijní fond Komerční banky, a.s. as at 1 January 2013.

# Notes to the Separate Financial Statements

As at 31 December 2013

## Associated undertakings

The following companies are associated undertakings of the Bank as at 31 December 2013:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allow-ances (CZKm)	Carrying value (CZKm)
CBCB – Czech Banking Credit Bureau, a.s.	20	20	Collection of data for the evaluation of credit risk	Prague	0*	0	0
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	(355)	482
<b>Total</b>					<b>837</b>	<b>(355)</b>	<b>482</b>

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

Set out below is an overview of year-on-year movements in investments, by issuer:

(CZKm)	Investment at cost			Investment at cost
	at 1 Jan 2013	Additions	Decreases	at 31 Dec 2013
Bastion European Investments S.A. <sup>1)</sup>	3,473	0	(77)	3,396
ESSOX s.r.o.	1,165	0	0	1,165
Factoring KB, a.s.	1,190	0	0	1,190
KB Penzijní společnost, a.s. <sup>2)</sup>	230	100	0	330
KB Real Estate, s.r.o.	511	0	0	511
Modrá pyramida stavební spořitelna, a.s.	4,873	0	0	4,873
NP 33, s.r.o. <sup>3)</sup>	0	405	0	405
Protos, uzavřený investiční fond, a.s.	11,705	0	0	11,705
SG Equipment Finance Czech Republic s.r.o.	1,299	0	0	1,299
VN 42, s.r.o. <sup>3)</sup>	0	864	0	864
<b>Total subsidiaries</b>	<b>24,446</b>	<b>1,369</b>	<b>(77)</b>	<b>25,738</b>
CBCB – Czech Banking Credit Bureau, a.s.	0*	0	0	0*
Komerční pojišťovna, a.s.	837	0	0	837
<b>Total associates</b>	<b>837</b>	<b>0</b>	<b>0</b>	<b>837</b>

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

## Changes in equity investments in subsidiaries and associates in 2013

- 1) In May 2013, the shareholders' equity in Bastion European Investments S.A. was decreased by EUR 2.7 million (equivalent to CZK 77 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

## Notes to the Separate Financial Statements

As at 31 December 2013

---

- 2) In January 2013, based on the new legislation issued on 28 December 2011, a revision of the pension system started to be processed in the Czech Republic. Under Act No. 427/2011 Coll. the Supplementary Pension Saving Act the Bank's fully owned subsidiary Penzijní fond Komerční banky, a.s., was transformed into KB Penzijní společnost, a.s., with its registered office at náměstí Junkových 2772/1, Stodůlky, 155 00, Praha 5 and registered capital of CZK 300 million as at 1 January 2013. In accordance with the requirements of the pension reform, the net assets of the Penzijní fond Komerční banky, a.s. were divided between pension scheme participants and pension fund shareholders. The net assets of pension scheme participants were allocated to a newly created Transformed fund, which is closed for new participants. However, similarly as before, KB Penzijní společnost will remain responsible for management of the Transformed fund, be entitled to up to 15% of the profit in addition to the regular asset under management fee and will need to guarantee the positive results for participants as well as positive equity of the Transformed fund. Transformed fund is fully consolidated in the Consolidated Financial Statements of Komerční banka, a.s.

In September 2013, the shareholders' equity of KB Penzijní společnost, a.s. was increased by CZK 100 million in the form of increasing other capital funds.

- 3) In August 2013, the Bank established two new subsidiaries VN 42, s.r.o. with shareholders' equity of CZK 1 million and NP 33, s.r.o. with shareholders' equity of CZK 1 million. Both companies were established in connection with management of the Bank's own buildings. In November 2013, the share capital of VN 42, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 1,990 million and the share capital of NP 33, s.r.o. was increased by a non-monetary contribution in the form of a building of CZK 845 million. The difference between cost of investment booked in the Separate Financial Statements and amount of a non-monetary contribution into share capital represents positive revaluation to the fair value of buildings at the date of increase of share capital.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 25 Intangible assets

The movements in intangible assets were as follow:

(CZKm)	Internally generated assets	Software	Other intangible assets	Acquisition of assets	Total
<b>Cost</b>					
At 1 January 2012	8,117	1,381	98	660	10,256
Additions	943	119	(36)	976	2,002
Disposals/transfers	(144)	(17)	0	(1,026)	(1,187)
Foreign exchange rate difference	0	(1)	0	0	(1)
<b>At 31 December 2012</b>	<b>8,916</b>	<b>1,482</b>	<b>62</b>	<b>610</b>	<b>11,070</b>
Additions	842	74	0	879	1,795
Disposals/transfers	(287)	(32)	(8)	(916)	(1,243)
Foreign exchange rate difference	0	2	0	0	2
<b>At 31 December 2013</b>	<b>9,471</b>	<b>1,526</b>	<b>54</b>	<b>573</b>	<b>11,624</b>
<b>Accumulated amortisation and allowances</b>					
At 1 January 2012	(5,696)	(1,047)	(64)	0	(6,807)
Additions	(813)	(120)	22	0	(911)
Disposals	128	15	0	0	143
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	1	0	0	1
<b>At 31 December 2012</b>	<b>(6,381)</b>	<b>(1,151)</b>	<b>(42)</b>	<b>0</b>	<b>(7,574)</b>
Additions	(793)	(203)	(17)	0	(1,013)
Disposals	288	32	8	0	328
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(2)	0	0	(2)
<b>At 31 December 2013</b>	<b>(6,886)</b>	<b>(1,324)</b>	<b>(51)</b>	<b>0</b>	<b>(8,261)</b>
<b>Net book value</b>					
At 31 December 2012	2,535	331	20	610	3,496
<b>At 31 December 2013</b>	<b>2,585</b>	<b>202</b>	<b>3</b>	<b>573</b>	<b>3,363</b>

During the year ended 31 December 2013, the Bank reflected CZK 199 million (2012: CZK 143 million) invested into research and development through a charge to 'Operating expenses'.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 26 Tangible assets

The movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
<b>Cost</b>					
At 1 January 2012	149	10,599	4,889	325	15,962
Reallocation from/to assets held for sale	0	20	0	0	20
Additions	11	328	386	702	1,427
Disposals/transfers	(3)	(175)	(329)	(726)	(1,233)
Foreign exchange rate difference	0	0	(1)	0	(1)
<b>At 31 December 2012</b>	<b>157</b>	<b>10,772</b>	<b>4,945</b>	<b>301</b>	<b>16,175</b>
Reallocation from/to assets held for sale	0	23	0	0	23
Additions	0	286	237	531	1,054
Disposals/transfers	(16)	(2,763)	(406)	(570)	(3,755)
Foreign exchange rate difference	0	1	2	0	3
<b>At 31 December 2013</b>	<b>141</b>	<b>8,319</b>	<b>4,778</b>	<b>262</b>	<b>13,500</b>
<b>Accumulated depreciation and allowances</b>					
At 1 January 2012	0	(5,351)	(4,075)	0	(9,426)
Reallocation of accumulated depreciation of assets held for sale	0	(6)	0	0	(6)
Additions	0	(339)	(299)	0	(638)
Disposals	0	144	316	0	460
Impairment charge	0	12	3	0	15
Foreign exchange rate difference	0	0	1	0	1
<b>At 31 December 2012</b>	<b>0</b>	<b>(5,540)</b>	<b>(4,054)</b>	<b>0</b>	<b>(9,594)</b>
Reallocation of accumulated depreciation of assets held for sale	0	14	0	0	14
Additions	0	(318)	(260)	0	(578)
Disposals	0	1,548	349	0	1,897
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(1)	(3)	0	(4)
<b>At 31 December 2013</b>	<b>0</b>	<b>(4,297)</b>	<b>(3,968)</b>	<b>0</b>	<b>(8,265)</b>
<b>Net book value</b>					
At 31 December 2012	157	5,232	891	301	6,581
<b>At 31 December 2013</b>	<b>141</b>	<b>4,022</b>	<b>810</b>	<b>262</b>	<b>5,235</b>

As at 31 December 2013, the Bank recognised allowances against tangible assets of CZK 1 million (2012: CZK 1 million). These allowances primarily included allowances charged in respect of buildings and improvements of leased assets.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 27 *Financial liabilities at fair value through profit or loss*

As at 31 December 2013 and 2012, the 'Financial liabilities at fair value through profit or loss' portfolio includes only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Bank has not designated any other financial liabilities as 'Financial liabilities at fair value through profit or loss'.

(CZKm)	31 Dec 2013	31 Dec 2012
Sold securities	1,195	2,481
Derivative financial instruments	17,348	17,423
<b>Total financial liabilities at fair value through profit or loss</b>	<b>18,543</b>	<b>19,904</b>

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

## 28 *Amounts due to banks*

Amounts due to banks comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Current accounts	2,748	7,578
Amounts due to banks	43,198	24,267
<b>Total amounts due to banks</b>	<b>45,946</b>	<b>31,845</b>

The fair value of securities and treasury bills used as collateral for repurchase loans received from banks was CZK 6,978 million (2012: CZK 395 million), of which CZK 558 million (2012: CZK 175 million) were securities and treasury bills from the portfolio of 'Financial assets at fair value through profit or loss' and CZK 6,420 million (2012: CZK 0 million) from the portfolio of 'Available-for-sale financial assets'. The carrying amount of associated liabilities was CZK 6,760 million (2012: CZK 175 million).

The carrying amount of securities and loans to banks used as a pledge for loans received was CZK 0 million (2012: CZK 5,468 million).

## 29 *Amounts due to customers*

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

(CZKm)	31 Dec 2013	31 Dec 2012
Current accounts	365,842	330,152
Savings accounts	95,283	84,090
Term deposits	53,656	55,058
Depository bills of exchange	7,593	6,287
Amounts received from customers	24,547	6,498
Other payables to customers	5,332	3,884
<b>Total amounts due to customers</b>	<b>552,253</b>	<b>485,969</b>

The fair value of securities and treasury bills used as collateral for repurchase loans received from customers was CZK 24,461 million (2012: CZK 6,497 million), of which CZK 2,515 million (2012: CZK 0 million) were securities and treasury bills from the portfolio of 'Financial assets at fair value through profit or loss'. The carrying amount of associated liabilities was CZK 2,571 million (2012: CZK 0 million).



# Notes to the Separate Financial Statements

As at 31 December 2013

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

(CZKm)	31 Dec 2013	31 Dec 2012
Private companies	210,659	186,451
Other financial institutions, non-banking entities	42,413	20,692
Insurance companies	3,688	15,407
Public administration	1,325	1,272
Individuals	157,419	152,583
Individuals – entrepreneurs	24,263	23,027
Government agencies	83,980	64,676
Other	11,673	11,222
Non-residents	16,833	10,639
<b>Total amounts due to customers</b>	<b>552,253</b>	<b>485,969</b>

## 30 Securities issued

Securities issued comprise mortgage bonds of CZK 48,145 million (2012: CZK 38,017 million). The Bank issues mortgage bonds to fund its mortgage activities.

Debt securities according to their remaining time to maturity break out as follows:

(CZKm)	31 Dec 2013	31 Dec 2012
In less than one year	0	0
In one to five years	15,644	14,286
In five to ten years	6,161	3,547
In ten to twenty years	0	0
More than twenty years	26,340	20,184
<b>Total debt securities</b>	<b>48,145</b>	<b>38,017</b>

During the year ended 31 December 2013, the Bank repurchased mortgage bonds with aggregate nominal volume of CZK 641 million and increased the nominal volume in issue by CZK 11,447 million.

During the year ended 31 December 2012, the Bank repurchased mortgage bonds with aggregate nominal volume of CZK 1,344 million and increased the nominal volume in issue by CZK 5,140 million.

# Notes to the Separate Financial Statements

As at 31 December 2013

The debt securities detailed above include the following bonds and notes issued by the Bank:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec	31 Dec
					2013	2012
					CZK	CZK
HZL Komerční banky, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% of the value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	1,910	2,200
HZL Komerční banky, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	11,453	11,434
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	3,132	3,147
HZL Komerční banky, a.s., CZ0002001324, CZ0002001332	5.06% for the first twelve annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	2,461	2,468
HZL Komerční banky, a.s., CZ0002001340, CZ0002001357	5.02% for the first eleven annual yield periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,822	1,842
HZL Komerční banky, a.s., CZ0002001365, CZ0002001373	4.23% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,825	0
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,281	2,079
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	4,966	2,465
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	5,107	5,133
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest rate swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	6,878	6,197
HZL Komerční banky, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	520	652
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,029	400
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,761	0
<b>Total debt securities</b>					<b>48,145</b>	<b>38,017</b>

Note: Six-month PRIBOR was 48 bps as at 31 December 2013 (2012: 67 bps).

Three-month PRIBID was 5 bps as at 31 December 2013 (2012: 18 bps).

The value of the interest rate swap CZK sale average for five years as at 31 December 2013 was 128 bps (2012: 82 bps).

The value of the interest rate swap CZK sale average for ten years as at 31 December 2013 was 207 bps (2012: 137 bps).

\* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for two to thirty years.

# Notes to the Separate Financial Statements

As at 31 December 2013

## 31 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Accruals and deferred income	162	187
Settlement balances and outstanding items	6	0
Payables from securities trading and issues of securities	1,548	1,407
Payables from payment transactions	4,569	4,523
Other liabilities	3,228	2,804
<b>Total accruals and other liabilities</b>	<b>9,513</b>	<b>8,921</b>

Deferred fees from banking guarantees are reported in 'Accruals and deferred income' in the amount of CZK 21 million (2012: CZK 20 million).

'Other liabilities' mainly include liabilities arising from the supplies of goods and services and employee arrangements (including estimated balances).

## 32 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Provisions for contracted commitments (refer to Note 9 and 12)	559	512
Provisions for other credit commitments (refer to Note 12)	571	482
Provision for restructuring (refer to Note 9 and 10)	0	10
<b>Total provisions</b>	<b>1,130</b>	<b>1,004</b>

In 2013, the Bank adjusted a provision for restructuring in respect of the project for reorganisation of the distribution network. The change in the provisioning amount includes the full release and use of the provision reflecting the expenses incurred in 2013. The release and use of the provision is reported in the Income Statement line 'Personnel expenses' (refer to Note 9).

In 2012, the Bank created a provision for restructuring in respect of the project for reorganisation of the distribution network. The Bank also adjusted the amount of the provision for restructuring in respect of the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Bank. The change in the provisioning amount includes the full release and use of the provision reflecting the expenses incurred in 2012. The charge, release and use of provisions are reported in the Income Statement lines 'Personnel expenses' (refer to Note 9) and 'General administrative expenses' (refer to Note 10).

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements and the retirement benefits plan.

# Notes to the Separate Financial Statements

As at 31 December 2013

Set out below is an analysis of the provisions for other credit commitments:

(CZKm)	31 Dec 2013	31 Dec 2012
Provision for off-balance sheet commitments	385	409
Provision for undrawn loan facilities	186	73
<b>Total (refer to Note 12)</b>	<b>571</b>	<b>482</b>

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

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance at 1 January 2012	97	332	9	438
Changes in accounting policies	36	0	0	36
Additions	19	290	10	319
Disposals	(12)	(266)	(9)	(287)
Accrual	6	0	0	6
Remeasurement	13	0	0	13
Foreign exchange difference	0	(3)	0	(3)
<b>Balance at 31 December 2012</b>	<b>159</b>	<b>353</b>	<b>10</b>	<b>522</b>
Additions	9	66	0	75
Disposals	(12)	(22)	(10)	(44)
Accrual	4	0	0	4
Remeasurement	(2)	0	0	(2)
Foreign exchange difference	0	4	0	4
<b>Balance at 31 December 2013</b>	<b>158</b>	<b>401</b>	<b>0</b>	<b>559</b>

### 33 *Deferred tax*

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax difference is expected to be realised.

Deferred tax assets are as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	2	1
Difference between accounting and tax net book value of assets	1	1
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 40)	3	4
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	0	0
Other temporary differences	0	0
<b>Net deferred tax assets</b>	<b>6</b>	<b>6</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

Deferred tax liabilities are as follow:

(CZKm)	31 Dec 2013	31 Dec 2012
Banking provisions and allowances	267	254
Allowances for assets	1	1
Non-banking provisions	31	46
Difference between accounting and tax net book value of assets	(309)	(389)
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	2	2
Revaluation of hedging derivatives – equity impact (refer to Note 40)	(1,917)	(3,356)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	(926)	(1,375)
Other temporary differences	148	105
<b>Net deferred tax liabilities</b>	<b>(2,703)</b>	<b>(4,712)</b>

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign net investment.

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

(CZKm)	2013	2012
<b>Balance at the beginning of the period</b>	<b>(4,706)</b>	<b>(2,435)</b>
Changes in accounting policies	0	7
Movement in the net deferred tax – profit and loss impact (refer to Note 14)	122	(68)
Movement in the net deferred tax – equity impact (refer to Note 39, 40 and 41)	1,887	(2,210)
<b>Balance at the end of the period</b>	<b>(2,697)</b>	<b>(4,706)</b>

## 34 Subordinated debt

In 2012, the Bank repaid its subordinated debt. The nominal value of the subordinated debt received by the Bank at the end of 2006 was CZK 6,000 million, and it had been issued by the Bank's parent company, Société Générale S.A. The subordinated debt bore a floating rate linked to one-month PRIBOR and had a 10-year maturity with the Bank's option for early repayment after five years and thereafter as at any interest payment date. In December 2011, the Bank announced its intention to repay the subordinated debt which had been subject to negotiation and approval by, among others, the Czech National Bank as the regulator. Due to the positive result of these negotiations and the Bank's capital position, the subordinated debt was repaid on 27 January 2012. Since repayment of the subordinated debt, the Bank has all its regulatory capital in the form of Tier 1 capital, i.e. the highest quality capital from the point of view of capital regulation.

## 35 Share capital

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

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

# Notes to the Separate Financial Statements

As at 31 December 2013

Rights are attached to the ordinary shares in accordance with Act No. 513/1991 Coll., the Commercial Code, as amended. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The exclusion of voting rights can occur only on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from four years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Global depository receipts ("GDRs") were issued for shares of the Bank administered by The Bank of New York Mellon and which are held on its asset account at the Central Securities Depository. In principle, GDRs bear the same rights as do shares of the Bank and they may be reconverted into shares. One GDR represents one third of one share of the Bank. The GDRs program was launched at the end of June 1995. In issuing the first tranche, the Bank marked its entry into the international capital markets; a second tranche followed in 1996. From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as at 31 December 2013 was 183,765 pieces (2012: 236,361 pieces).

Set out below is a summary of the entities that hold more than 3% of the Bank's issued share capital as at 31 December 2013:

<b>Name of the entity</b>	<b>Registered office</b>	<b>Ownership percentage</b>
SOCIETE GENERALE S.A.	29 Bld Haussmann, Paris	60.35
CHASE NOMINEES LIMITED	25 Bank Street, Canary Wharf, London	5.26
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	4.47

Société Générale S.A., being the only entity with a qualified holding in the Bank as well as the ultimate parent company, is a French joint-stock company incorporated by a Deed approved through the issuance of a Decree on 4 May 1864, and is licensed as a bank. Under the legislative and regulatory provisions relating to credit institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 and following the French Commercial Code, as well as its Articles of Association.

As at 31 December 2013, the Bank held 238,672 treasury shares at a cost of CZK 726 million (2012: 238,672 treasury shares at a cost of CZK 726 million).

# Notes to the Separate Financial Statements

As at 31 December 2013

## Capital management

The Bank manages its capital adequacy to ensure its sufficient level while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel II capital adequacy regulation as at 31 December 2013 currently in force, and in addition to the usual reporting of the capital adequacy ratio (Pillar 1), the Bank has to meet the requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Bank has selected methods close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

Since the introduction of Basel II regulation, the Bank has regularly simulated future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications resulting in deterioration in the Bank's risk profile.

The Bank compiles hypothetical macroeconomic scenarios on the basis of which are estimated medium-term impacts on earnings and on transactions' risk profiles. On this basis, the Bank acquires views as to the changing volume of the risk-weighted assets, financial results, and, while also taking into account the outlook for dividend payments, the level of the Bank's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining Bank's dividend policy, which is the primary tool for capital adequacy management in such situation that the Bank's capital is entirely classified as core Tier 1 capital.

The Bank's capital principally consists of the following balances: share capital, reserve funds and undistributed profit (as at 31 December 2013, the Bank had no subordinated debt as it had been repaid as at 27 January 2012).

The Bank did not purchase its own shares into treasury during 2013, and as at 31 December 2013 the Bank holds a total amount of 238,672 treasury shares at a total cost of CZK 726 million which were bought in previous years (as at 31 December 2012: 238,672 treasury shares at a total cost of CZK 726 million). The purchase of treasury shares was approved by the Bank's General Meeting to manage the capital adequacy of the Bank.

The Bank continuously monitors and evaluates the forthcoming changes in regulatory requirements affecting the capital and capital adequacy (together known as Basel III and on the European level as CRR/CRD IV, and effective from the year 2014), and it analyses their potential impact within the capital planning process.

The Czech National Bank, as the local regulatory authority, oversees the Bank's compliance with the capital adequacy ratio both on separate and consolidated bases. During the past year, the Bank complied with all regulatory requirements. Moreover, the Bank regularly prepares the regulatory report on Pillar 2 and submits it to the CNB.

(CZKm)	31 Dec 2013	31 Dec 2012
Tier 1 capital	54,944	51,228
Tier 2 capital	0	0
Items deductible from Tier 1 and Tier 2	(2,042)	(2,126)
<b>Total regulatory capital</b>	<b>52,902</b>	<b>49,102</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

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

(CZKm)	31 Dec 2013	31 Dec 2012	Change in the year
Cash and current balances with central banks (refer to Note 16)	43,831	27,659	16,172
Amounts due from banks – current accounts with other banks (refer to Note 20)	893	5,455	(4,562)
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts (refer to Note 28)	(2,748)	(7,578)	4,830
Cash and cash equivalents at the end of the year	<b>41,975</b>	<b>25,535</b>	<b>16,440</b>

## 37 *Commitments and contingent liabilities*

### Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2013. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 281 million (2012: CZK 272 million) for these legal disputes (refer to Note 32). The Bank has also recorded a provision of CZK 49 million (2012: CZK 44 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2013, the Bank conducted a review of legal proceedings filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

### Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Bank makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

### Capital commitments

As at 31 December 2013, the Bank had capital commitments of CZK 266 million (2012: CZK 199 million) in respect of current capital investment projects.

### Commitments arising from the issuance of letters of credit

Documentary letters of credit are written, irrevocable commitments by the Bank on behalf of a customer (mandatory) authorising a third party (beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The Bank records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.



# Notes to the Separate Financial Statements

As at 31 December 2013

## Commitments to extend credit, undrawn loan commitments and overdrafts and approved overdraft loans

Principal off-balance sheet exposures include undrawn overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditioned commitment the Bank distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. Irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts and approved overdraft loans results from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon the customers' maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts and approved overdraft loans, the Bank recognises a provision when required (according to a customer's creditworthiness) in accordance with the same algorithm as for loans.

From 2013, the Bank does not report revocable unutilised overdrafts. Comparative amounts for 2012 are restated.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2013	31 Dec 2012
Non-payment guarantees including commitments to issued non-payment guarantees	40,593	35,235
Payment guarantees including commitments to issued payment guarantees	13,992	11,148
Committed facilities and unutilised overdrafts	8,985	11,186
Undrawn credit commitments	44,094	39,945
Unutilised overdrafts and approved overdraft loans	14,077	20,052
Unutilised limits under framework agreements to provide financial services	8,741	9,517
Open customer/import letters of credit uncovered	719	518
Stand-by letters of credit uncovered	1,982	551
Confirmed supplier/export letters of credit	169	131
<b>Total commitments and contingencies</b>	<b>133,352</b>	<b>128,283</b>

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As at 31 December 2013, the Bank recorded provisions for these risks in the amount of CZK 571 million (2012: CZK 482 million). Refer to Note 32.

# Notes to the Separate Financial Statements

As at 31 December 2013

Set out below is a breakdown of financial commitments and contingencies by sector:

(CZKm)	31 Dec 2013	31 Dec 2012
Food industry and agriculture	8,990	4,580
Mining and extraction	2,315	1,401
Chemical and pharmaceutical industry	2,730	1,426
Metallurgy	4,071	4,161
Automotive industry	2,091	718
Manufacturing of other machinery	6,986	7,503
Manufacturing of electrical and electronic equipment	2,269	1,904
Other processing industry	2,235	2,462
Power plants, gas plants and waterworks	7,497	10,921
Construction industry	32,065	30,042
Retail	3,922	3,710
Wholesale	7,865	8,532
Accommodation and catering	323	303
Transportation, telecommunication and warehouses	5,442	6,241
Banking and insurance industry	3,375	6,315
Real estate	2,510	1,771
Public administration	5,547	9,404
Other industries	19,586	15,089
Individuals	13,533	11,800
<b>Total commitments and contingencies</b>	<b>133,352</b>	<b>128,283</b>

The majority of commitments and contingencies originate on the territory of the Czech Republic.

# Notes to the Separate Financial Statements

As at 31 December 2013

Set out below is an analysis of the types of collateral held in support of financial commitments and contingencies:

	31 Dec 2013			31 Dec 2012		
	Total commit- ments and contingencies collateral*	Discounted commit- ments and contingen- cies collateral value**	Applied commit- ments and contingencies collateral value***	Total commit- ments and contingencies collateral*	Discounted commit- ments and contingen- cies collateral value**	Applied commit- ments and contingen- cies collateral value***
(CZKm)						
Guarantees of state and governmental institutions	214	197	197	359	333	333
Bank guarantee	891	840	747	1,269	1,215	1,123
Guaranteed deposits	2,295	2,280	2,145	1,886	1,855	1,752
Pledge of real estate	7,618	4,473	3,586	6,509	3,771	3,055
Pledge of movable assets	221	20	11	84	8	8
Guarantee by legal entity	6,650	4,495	4,424	5,526	2,786	2,655
Guarantee by individual (natural person)	21	2	2	29	1	1
Pledge of receivables	1,909	0	0	1,764	0	0
Insurance of credit risk	2,216	2,102	2,102	4,306	4,087	4,087
Other	233	163	118	5	4	4
<b>Total nominal value of collateral</b>	<b>22,268</b>	<b>14,572</b>	<b>13,332</b>	<b>21,737</b>	<b>14,060</b>	<b>13,018</b>

Note: \* The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).

\*\* The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling the collateral, the risk of declining market prices, the risk of insolvency, etc.

\*\*\* The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

## 38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As at 31 December 2013, the Bank was controlled by Société Générale S.A. which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions were carried out on an arm's length basis.

# Notes to the Separate Financial Statements

As at 31 December 2013

## Amounts due to and from the Group companies

The following table summarises loans issued to the Group companies and their deposits with the Bank:

(CZKm)	31 Dec 2013	31 Dec 2012
Bastion European Investments S.A.	3,379	3,167
ESSOX, s.r.o.	6,004	6,108
Factoring KB, a.s.	3,634	2,421
KB Real Estate, s.r.o.	573	611
SG Equipment Finance Czech Republic s.r.o.	15,248	13,278
<b>Total loans</b>	<b>28,838</b>	<b>25,585</b>
ESSOX, s.r.o.	299	274
Factoring KB, a.s.	0	3
KB Penzijní společnost, a.s.*	600	0
Transformovaný fond KB Penzijní společnosti, a.s.*	803	0
KB Real Estate, s.r.o.	42	42
Modrá pyramida stavební spořitelna, a.s.	3,812	1,001
NP 33, s.r.o.	9	0
Penzijní fond Komerční banky, a.s.*	0	1,003
Protos, uzavřený investiční fond, a.s.	6,639	6,740
SG Equipment Finance Czech Republic s.r.o.	3,760	3,397
VN 42, s.r.o.	21	0
<b>Total deposits</b>	<b>15,985</b>	<b>12,460</b>

Note: \* KB Penzijní společnost, a.s. and Transformovaný fond KB Penzijní společnosti, a.s. were established as at 1 January 2013 through the transformation of Penzijní fond Komerční banky, a.s.

As at 31 December 2013, the positive fair value of financial derivatives in relation to the Group companies amounted to 1,001 million (2012: CZK 273 million) and the negative fair value to CZK 14 million (2012: CZK 42 million).

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 24,650 million (2012: CZK 16,650 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 1,014 million (2012: CZK 1,143 million).

As at 31 December 2013 and 2012, other amounts due to and from the Group companies were not significant.

Interest income from loans granted to the Group companies:

(CZKm)	2013	2012
Bastion European Investments S.A.	125	124
ESSOX, s.r.o.	126	162
Factoring KB, a.s.	21	21
KB Real Estate, s.r.o.	19	12
Modrá pyramida stavební spořitelna, a.s.	0	32
SG Equipment Finance Czech Republic s.r.o.	259	265
<b>Total interest from loans granted by the Bank</b>	<b>550</b>	<b>616</b>

## Notes to the Separate Financial Statements

As at 31 December 2013

In addition to interest on loans to the Bank's Group companies, other income in the year ended 31 December 2013 amounted to CZK 918 million (2012: CZK 337 million) and total expenses amounted to CZK 1,017 million (2012: CZK 1,084 million).

As at 31 December 2013, the Bank reported guarantees granted to the Group companies totalling CZK 1,126 million (2012: CZK 863 million).

### Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

(CZKm)	31 Dec 2013	31 Dec 2012
ALD Automotive s.r.o. (Czech Republic)	3,182	2,848
Belrosbank	0	11
BRD Romania	116	3
Komerční pojišťovna, a.s.	1,698	519
Rosbank	1	87
SG Express bank	1	3
SG London	238	262
SG New York	3	0
SG Private Banking (Suisse)	0	2
Société Générale Paris	10,623	15,877
Société Générale Warsaw	68	499
Succursale Newedge UK	7	5
<b>Total</b>	<b>15,937</b>	<b>20,116</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

Principal balances owed to the Société Générale Group entities include:

(CZKm)	31 Dec 2013	31 Dec 2012
BRD Romania	5	1
Crédit du Nord	4	6
ESSOX SK s.r.o.	13	25
Inter Europe Conseil	2	2
Investiční kapitálová společnost KB, a.s.	55	76
Komerční pojišťovna, a.s.	1,285	1,468
PEMA Praha spol. s r.o.	11	19
Rosbank	6	0
SG Amsterdam	32	42
SG Cyprus	127	0
SG Frankfurt	178	1
SG Istanbul	10	0
SG Lebanon	0	90
SG London	2	0
SG New York	1	2
SG Private Banking (Suisse)	276	100
SG Zürich	0	1
SGBT Luxemburg	5	285
Société Générale Paris	30,305	15,592
Société Générale Warsaw	34	26
Splitska Banka	27	2
<b>Total</b>	<b>32,378</b>	<b>17,738</b>

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, debt securities acquired under initial offerings not designated for trading (refer to Note 20) and issued bonds.

As at 31 December 2013, the Bank also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet notional assets and liabilities amounted to CZK 229,256 million (2012: CZK 196,099 million) and CZK 222,688 million (2012: CZK 186,585 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As at 31 December 2013 and 2012, the Bank also carried other amounts due to and from the Société Générale Group entities which are not significant.

During the year ended 31 December 2013, the Bank had total income of CZK 21,470 million (2012: CZK 27,917 million) and total expenses of CZK 23,525 million (2012: CZK 28,004 million) in relation to Société Générale Group entities. That income includes interest income from debt securities issued by Société Générale Group, income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise those of interbank deposits, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

# Notes to the Separate Financial Statements

As at 31 December 2013

## Remuneration and amounts due from the members of the Board of Directors, Supervisory Board and Directors' Committee

Remuneration paid to the members of the Board of Directors, Supervisory Board and Directors' committee during the years was as follows:

(CZKm)	2013	2012
Remuneration to the Board of Directors members*	52	52
Remuneration to the Supervisory Board members**	5	5
Remuneration to the Directors' Committee members***	66	61
<b>Total</b>	<b>123</b>	<b>118</b>

Note:

\* **Remuneration to the Board of Directors members** includes amounts paid during the year ended 31 December 2013 to the current and former directors under mandate and management contracts, exclusive of bonuses for 2013 but including bonuses for 2012. Amounts for expatriate members of the Board of Directors include remuneration exclusive of bonuses for 2013 and other compensations and benefits arising from expatriate relocation contracts. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. The remuneration of expatriate members of the Board of Directors does not include accommodation-related services.

\*\* **Remuneration to the Supervisory Board members** includes amounts paid during the year ended 31 December 2013 to the current and former members of the Supervisory Board. Amounts for the Supervisory Board members elected by employees additionally include income paid to them under their employment arrangement with the Bank. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement.

\*\*\* **Remuneration to the Directors' committee members** comprise the sum of compensation and benefits paid in 2013 under management contracts or under expatriate relocation contracts in respect of expatriates. This item does not reflect any compensation provided to the Board of Directors members (as that is reflected in the remuneration to the Board of Directors members). All the Board of Directors members are members of the Directors' Committee. The remuneration also includes benefits arising to the Bank's employees under a collective bargaining agreement. In the event that an employee became a member of the Directors' Committee during 2013, the total balance reflects his/her aggregate annual remuneration.

	31 Dec 2013	31 Dec 2012
Number of the Board of Directors members	6	6
Number of the Supervisory Board members	9	9
Number of the Directors' Committee members*	17	17

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

As at 31 December 2013, the Bank recorded an estimated payable (including indexed bonuses) of CZK 28 million (2012: CZK 21 million) for Board of Directors bonuses.

In respect of loans and guarantees as at 31 December 2013, the Bank recorded receivables from loans granted to members of the Board of Directors, Supervisory Board and Directors' Committee totalling CZK 11 million (2012: CZK 5 million). During 2013, draw-downs of CZK 12 million (2012: CZK 0 million) were made under the loans granted. Loan repayments during 2013 amounted to CZK 9 million (2012: CZK 2 million). The increase of loans in 2013 is affected by new members of the Supervisory Board and the Directors' Committee already having loans in the amount of CZK 3 million (2012: CZK 0 million).

# Notes to the Separate Financial Statements

As at 31 December 2013

## 39 *Movements in the remeasurement of retirement benefits plan in the Shareholders' Equity*

(CZKm)	2013	2012
Remeasurement of retirement benefits plan at 1 January	(13)	0
Deferred tax asset/(liability) at 1 January	2	0
<b>Balance at 1 January</b>	<b>(11)</b>	<b>0</b>
<b>Movements during the year</b>		
Gains/(losses) from remeasurement of retirement benefits plan	2	(13)
Deferred tax	0	2
	<b>2</b>	<b>(11)</b>
Remeasurement of retirement benefits plan at 31 December	(11)	(13)
Deferred tax asset/(liability) at 31 December (refer to Note 33)	2	2
<b>Balance at 31 December</b>	<b>(9)</b>	<b>(11)</b>

## 40 *Movements in the revaluation of hedging instruments in the Shareholders' Equity*

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate line of equity in the hedging reserve.

(CZKm)	2013	2012
Cash flow hedge fair value at 1 January	18,061	12,401
Deferred tax asset/(liability) at 1 January	(3,352)	(2,291)
<b>Balance at 1 January</b>	<b>14,709</b>	<b>10,110</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value	(3,880)	8,072
Deferred tax	737	(1,533)
	<b>(3,143)</b>	<b>6,539</b>
Transferred to interest income/expense	(3,684)	(2,487)
Deferred tax	700	472
	<b>(2,984)</b>	<b>(2,015)</b>
Transferred to personnel expenses	(6)	(1)
Deferred tax	1	0
	<b>(5)</b>	<b>(1)</b>
Change in the hedge of foreign currency risk of foreign net investment	(282)	76
	<b>(282)</b>	<b>76</b>
Cash flow hedge fair value at 31 December	10,209	18,061
Deferred tax asset/(liability) at 31 December (refer to Note 33)	(1,914)	(3,352)
<b>Balance at 31 December</b>	<b>8,295</b>	<b>14,709</b>



# Notes to the Separate Financial Statements

As at 31 December 2013

## 41 *Movements in the revaluation of available-for-sale financial assets in the Shareholders' Equity*

(CZKm)	2013	2012
Reserve from fair value revaluation at 1 January	7,281	1,867
Deferred tax/income tax asset/(liability) at 1 January	(1,383)	(233)
<b>Balance at 1 January</b>	<b>5,898</b>	<b>1,634</b>
<b>Movements during the year</b>		
Gains/(losses) from changes in fair value	(1,580)	5,874
Deferred tax/income tax	300	(1,080)
	<b>(1,280)</b>	<b>4,794</b>
(Gains)/losses from sales	(787)	(460)
Deferred tax/income tax	149	(70)
	<b>(638)</b>	<b>(530)</b>
Reserve from fair value revaluation at 31 December	4,914	7,281
Deferred tax/income tax asset/(liability) at 31 December	(934)	(1,383)
<b>Balance at 31 December</b>	<b>3,980</b>	<b>5,898</b>

## 42 *Risk management and financial instruments*

### (A) *Credit risk*

#### Assessment of borrower's credit rating

The assessment of credit risk is based on quantitative and qualitative criteria, which leads to a rating assignment. The Bank uses several types of ratings, depending on the type and profile of the counterparty and the types of transactions. As a result, specific ratings are assigned to both the Bank's clients and to specific client transactions. The same rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

In 2013, the Bank focused especially on three core areas: (1) updating selected credit risk models in order to optimally reflect the current macroeconomic situation and to set the goals of the Bank; (2) increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management; and (3) continually increasing the knowledge of credit risk in business departments via special training.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the ensuing periods and thus optimisation of the Bank's credit risk management tools and more accurate estimation of expected future losses.

#### (a) *Business clients and municipalities*

For entrepreneurs, corporate clients and municipalities, the Bank uses the obligor rating (expressed on the 22-grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating to assess the quality of available guarantees and collaterals and to evaluate the potential loss from counterparty transactions. These models are also used for regular updates of Expected Loss (EL) and Unexpected Loss (UL) for all client exposures reported in accordance with the Basel II requirements.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

For large and medium-sized clients, the obligor rating is the combination of the financial rating based primarily on the data in the financial statements and an economic rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the obligor rating is the combination of financial, non-financial, personal data and data on client behaviour in the Bank. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour in the Bank (behavioural rating).

In the municipalities segment, the obligor rating is the combination of the financial rating based on the data in the financial statements and an economic rating acquired through the assessment of non-financial information relating to the specific municipality.

During 2013, the Bank increased the predictive power of its rating models for business clients (extension of the scope of the economic rating model to the client segment with annual turnover above CZK 40-100 million) and updated the behavioural rating model for small business clients and for municipalities.

## **(b) Ratings for banks and sovereign**

For banks, other financial institutions (namely insurance companies, brokers and funds) and for sovereigns (central banks and central governments), the Bank uses the economic rating models developed by Société Générale.

## **(c) Ratings for individual clients**

The Bank uses two types of ratings with the aim to evaluate the default risk for individuals: (1) the application rating, which results from an evaluation of clients' personal data, data on the behaviour in the Bank, and data available from external registers; and (2) a behavioural rating which is based on the evaluation of the information on the clients' behaviour in the Bank. The application rating is primarily used for active applications of clients for funding, while the behavioural rating (which includes the calculation of pre-approved limits for simple products with low exposure) is used for active offers of funding by the Bank. The behavioural rating of clients is concurrently used for regular updates of the probability of default of all client exposures reported in accordance with the Basel II requirements.

Pursuant to the back-testing of the rating and LGD models and the results of stress testing, in 2013, the Bank updated its LGD model for mortgages, implemented a new statistical model for loan loss provisioning according to the new Société Générale standardised methodology, and pursued a review of the pricing process for all loan products provided to individuals with the aim to optimise criteria for their approval and to update the setting of standard risk costs representing the valuation of the anticipated cost of risk.

## **(d) Internal register of negative information**

The Bank maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and thus contributes substantially to protecting the Bank from risky entities.

# Notes to the Separate Financial Statements

As at 31 December 2013

## (e) Credit bureaus

The evaluation of data from credit bureaus was one of the principal factors impacting the assessment of applications for client funding, and especially so in the retail client segments. Among other things, the Bank focused during the year on optimising the rules for reflecting information from credit bureaus in the approval process, and particularly with respect to the behavioural rating and individual assessment of applications for funding.

## (f) Credit fraud prevention

The Bank uses an automated system for the detection of individual credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Bank's main applications and it will be fully applied at the Group level.

## Credit concentration risk

Credit concentration risk is the risk of such excess losses related to credit transactions as could in particularly difficult circumstances jeopardise the financial stability of the Bank. The Bank's credit concentration risk is actively managed as a part of overall credit risk management using standard tools (valuation, setting internal limits, reporting, use of risk mitigation techniques, and simulation). The Bank maintains its objective not to take any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. A system of internal limits is established so that the Bank complies with regulatory limits set in respect of concentration risk. Refer to Notes 21 and 37 for quantitative information about credit concentration risk.

The Bank's maximum credit exposure as at 31 December 2013:

(CZKm)	Total exposure			Applied collateral		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
<b>Current balances with central banks</b>	<b>36,643</b>	<b>x</b>	<b>36,643</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Financial assets at fair value through profit or loss</b>	<b>38,118</b>	<b>x</b>	<b>38,118</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>18,235</b>	<b>x</b>	<b>18,235</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Available-for-sale financial assets</b>	<b>93,555</b>	<b>x</b>	<b>93,555</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Amounts due from banks</b>	<b>119,661</b>	<b>1,771</b>	<b>121,432</b>	<b>87,898</b>	<b>298</b>	<b>88,196</b>
<b>Loans and advances to customers</b>	<b>437,519</b>	<b>131,581</b>	<b>569,100</b>	<b>188,813</b>	<b>13,034</b>	<b>201,847</b>
- individuals	166,892	13,530	180,422	123,576	1,455	125,031
of which: mortgage loans	148,563	6,626	155,189	120,991	1,441	122,432
consumer loans	13,798	39	13,837	1,909	6	1,915
- corporates**	270,155	118,051	388,206	65,237	11,579	76,816
of which: top corporate clients	136,978	72,035	209,013	32,405	6,338	38,743
- debt securities	461	x	461	0	x	0
- other amounts due from customers	11	x	11	0	x	0
<b>Held-to-maturity investments</b>	<b>194</b>	<b>x</b>	<b>194</b>	<b>0</b>	<b>x</b>	<b>0</b>
<b>Total</b>	<b>743,925</b>	<b>133,352</b>	<b>877,277</b>	<b>276,711</b>	<b>13,332</b>	<b>290,043</b>

Note: \* Undrawn amounts, commitments, guarantees, etc.

\*\* This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis, i.e. without the impact of allowances.

# Notes to the Separate Financial Statements

As at 31 December 2013

The Bank's maximum credit exposure as at 31 December 2012:

(CZKm)	Total exposure			Applied collateral		
	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	21,207	x	21,207	0	x	0
Financial assets at fair value through profit or loss	51,907	x	51,907	0	x	0
Positive fair value of hedging financial derivatives	26,027	x	26,027	0	x	0
Available-for-sale financial assets	94,381	x	94,381	0	x	0
Amounts due from banks	55,863	2,671	58,534	21,459	157	21,616
Loans and advances to customers	409,715	125,612	535,327	176,289	12,861	189,150
- individuals	152,843	11,800	164,643	112,097	1,092	113,189
of which: mortgage loans	134,812	4,566	139,378	110,525	1,059	111,584
consumer loans	13,777	80	13,857	1,479	28	1,507
- corporates**	256,288	113,812	370,100	64,192	11,769	75,961
of which: top corporate clients	122,507	65,992	188,499	35,235	5,257	40,492
- debt securities	461	x	461	0	x	0
- other amounts due from customers	123	x	123	0	x	0
Held-to-maturity investments	179	x	179	0	x	0
<b>Total</b>	<b>659,279</b>	<b>128,283</b>	<b>787,562</b>	<b>197,748</b>	<b>13,018</b>	<b>210,766</b>

Note: \* Undrawn amounts, commitments, guarantees, etc.

\*\* This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis, i.e. without the impact of allowances.

## Classification of receivables

The Bank classifies its receivables arising from financial activities into five categories in accordance with CNB regulation No. 123/2007. The Standard and Watch categories represent non-default while Substandard, Doubtful and Loss represent default. The classification reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge, behavioural scoring). The classification of individuals reflects also the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel II principles.

The structure of the credit portfolio according to the classification is regularly reported to the CNB and to investors.

## Characteristics of receivables that are not classified

Pursuant to the regulation issued by the CNB, the Bank does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

# Notes to the Separate Financial Statements

As at 31 December 2013

## Allowances for receivables

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

All significant, individually material impaired credit exposures (i.e. classified as Watch, Substandard, Doubtful or Loss according to the CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committee or, whenever required, by recovery specialists.

In November 2013, models used for the calculation of allowances were harmonised with Société Générale standards and updated in order to reflect changes in internal risk processes, results of back-tests and the macroeconomic situation. The Bank also performs regular back-testing of provisioning models to carefully monitor their quality and to identify their potential deterioration in a timely manner.

The following table shows the split of classified customer loans based on the type of assessment:

(CZKm)	31 Dec 2013		31 Dec 2012	
	Individually	Statistical model	Individually	Statistical model
Individuals	768	8,715	639	8,807
Corporates*	17,025	2,417	17,882	2,652
<b>Total</b>	<b>17,793</b>	<b>11,132</b>	<b>18,521</b>	<b>11,459</b>

Note: \* This item includes loans granted to individual entrepreneurs.

As at 31 December 2013, the Bank reported the following loans not past due and past due loans not impaired:

(CZKm)	Loans		Past due loans, not impaired					Total	Total
	not past due	1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year			
<b>Banks</b>									
- standard	118,645	0	0	0	0	0	0	118,645	
- watch	1,016	0	0	0	0	0	0	1,016	
<b>Total</b>	<b>119,661</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>119,661</b>	
<b>Customers</b>									
- standard	403,589	4,499	32	2	0	0	4,533	408,122	
- watch	7	0	0	0	0	0	0	7	
<b>Total</b>	<b>403,596</b>	<b>4,499</b>	<b>32</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>4,533</b>	<b>408,129</b>	

# Notes to the Separate Financial Statements

As at 31 December 2013

As at 31 December 2012, the Bank reported the following loans not past due and past due loans not impaired:

(CZKm)	Loans		Past due loans, not impaired				Total	Total
	not past due	1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year		
<b>Banks</b>								
- standard	55,270	0	0	0	0	0	0	55,270
- watch	592	0	0	0	0	0	0	592
<b>Total</b>	<b>55,862</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>55,862</b>
<b>Customers</b>								
- standard	373,894	5,240	14	1	2	0	5,257	379,151
- watch	641	0	0	0	0	0	0	641
<b>Total</b>	<b>374,535</b>	<b>5,240</b>	<b>14</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>5,257</b>	<b>379,792</b>

The amount of the collateral applied in respect of past due loans not impaired was CZK 2,565 million (2012: CZK 3,107 million).

## Loan collateral

The Bank uses collateral as one of its techniques for mitigating credit risk. The Bank defines general risk management principles connected with collateralisation of the exposure to clients. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Bank's business lines.

The Bank has fully implemented in its internal system the rules for assessing collateral's eligibility according to CNB regulation No. 123/2007. In compliance with the CNB validation, the Bank uses the Advanced Internal Ratings-Based (AIRB) approach. For clients of the Slovak branch, the Bank uses the Standardised (STD) approach for assessing of collateral eligibility.

The recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Bank uses independent valuations performed or supervised by a dedicated specialised department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB regulation No. 123/2007.

The Bank (except for the Slovak branch) uses the on-line connection to the Real Estate Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and regular monitoring of selected events that may put the Bank's pledge right to real estate at risk.

## Real estate collateral valuation

Activities related to the valuation of real estates obtained as collaterals for commercial and retail loans are independent from the Bank's business processes. The valuation process is managed and controlled by a specialised internal department which co-operates with various external valuation experts.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

In 2013, together with the principal activity involving real estate valuation, the Bank focused especially upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Bank monitors both the residential real estate market and the commercial real estate market. An integral component of that monitoring is the revaluation of selected real estate depending on the Basel II requirements. As a result of the statistical monitoring of market prices for residential real estates, revaluation occurs regularly.

## **Recovery of receivables from borrowers**

As a result of the negative economic development and thus the worsened financial situation of corporate and retail clients, the Bank continuously responded to changing market conditions that primarily resulted in extended periods of recovery, increased judicial enforcement, and an increase in the complexity of the recovery process (especially in relation to real estate collateral).

Given the size of the portfolio in recovery, the Bank is continuously improving the efficiency and process of recovery. These efforts also involve intensified and enhanced use of external recovery capacities, which take in approximately 16% of the total portfolio of exposures in recovery and 80% of the total number of clients in recovery. During 2013, the Bank continued in regular sales of packaged uncollateralised retail receivables to selected investors so that the maximum achievable recovery rate is obtained. The main emphasis is on further automation of the recovery process.

The Bank paid increased attention to the application of the new Insolvency Act and its impact on the process of collecting receivables from retail and corporate clients. The Bank plays an active role in the insolvency process, from the position of secured creditor, creditors' committee member or representative of creditors, whether in bankruptcy proceedings or in reorganisations, which are used by the Bank depending on the debtor's circumstances and the attitudes of other creditors.

## **Credit risk hedging instruments**

The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

## **Credit risk of financial derivatives**

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Bank may incur if the counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of the derivative product, the remaining time until the maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As at 31 December 2013, the Bank posted a credit exposure of CZK 19,798 million (2012: CZK 18,286 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement cost at market rates as at 31 December 2013 of all outstanding agreements. The netting agreement and margin call agreement (ISDA/CSA, CMA) are taken into account where applicable.

The Bank puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures for individual clients which could arise due to movements in market prices. On a daily basis, the Bank monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that the limit breach is triggered by the deliberate action of a dealer ("active limit breach") such behaviour is penalised. The Board of Directors is informed about any breaches on a regular basis.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## **(B) Market risk**

### **Segmentation of the Bank's financial operations**

For risk management purposes, the Bank's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions concluded by the Bank's dealers for position-taking purposes or for accommodating customers' needs. The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions within the Structural Book, and other transactions not included in the Market Book.

### **Products generating market risk**

Products that are traded by the Bank and generate market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, forward rate agreements, interest rate futures), government and corporate bonds, emission allowances as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients, etc.).

Derivatives traded on the Market Book are used either for proprietary position-taking or for clients' purposes. The derivatives concluded on the Structural Book are used for structural risk hedging purposes.

With some clients, the Bank is also trading more complex optional products to serve clients hedging needs. An example of such more complex products are e.g. structured products enabling clients to utilise these products' more sophisticated properties which cannot be substituted by simple ("plain-vanilla") derivatives. The Bank is not exposed to market risks (e.g. volatility risk, among others) associated with these derivatives, as these risks are immediately eliminated by concluding mirror deals having the opposite risk profile from those of the clients' deals ("back-to-back deals").

### **Market risk in the Market Book**

The Bank has established a complex system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the open positions. The Bank monitors compliance with all limits on a daily basis and if these are exceeded the Bank takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure market risks inherent in the activities of the Market Book, the Bank uses the Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using historical scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1% most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses out of the 250 considered scenarios.

The VaR for a one-day holding period with a confidence level of 99% was CZK -19 million as at 31 December 2013 (2012: CZK -14 million). The average Global VaR was CZK -17 million as at 31 December 2013 (2012: CZK -12 million).



# Notes to the Separate Financial Statements

As at 31 December 2013

---

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Exceedances should not occur more frequently than on 1% of the days within a given period. In 2013, 0.8% (2012: 1.6%) of the daily losses (actual or hypothetical) exceeded the 99% VaR. Post-crisis development in market conditions has resulted in the emergence of some new market factors that currently are not fully covered by the existing VaR model. Work on a project for improving the VaR calculation by implementing a more sophisticated VaR model is presently underway in co-operation with Société Générale, and its implementation by the Bank is planned for 2014.

In addition, the Bank performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to all open positions in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Greek crisis in 2010) or from a hypothetical crisis that could negatively influence the positions.

Additional specific metrics such as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

## **Market risk in the Structural Book**

The Bank manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk (hereafter only "EaR") for net interest income. The EaR indicator shows the maximum departure of the planned net interest income level from the initial value that is attributable to the movements in interest rates over a one-year time horizon and at the 99% confidence level.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Bank's sensitivity to a change in market interest rates is measured upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 1% p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates occurred. As at 31 December 2013, the CZK interest rate risk sensitivity was CZK -348 million (2012: CZK -66 million), the EUR sensitivity was CZK -51 million (2012: CZK -37 million), the USD sensitivity was CZK -9 million (2012: CZK -23 million), and for other currencies it was CZK -45 million (2012: CZK -30 million) for the hypothetical assumption of 1% change in market interest rates. The Bank is limited by this indicator, and the level of the limit is determined to be approximately 2% of capital.

In order to hedge against interest rate risk within the Structural Book, the Bank uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

# Notes to the Separate Financial Statements

As at 31 December 2013

## (C) Financial derivatives

The Bank operates a system of market risk and counterparty limits which are designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out notional and fair values of financial derivative instruments categorised as held for trading and hedging.

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

(CZKm)	31 Dec 2013		31 Dec 2012		31 Dec 2013		31 Dec 2012	
	Notional value		Notional value		Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
<b>Interest rate instruments</b>								
Interest rate swaps	578,804	578,804	454,040	454,040	9,376	9,703	13,393	13,628
Interest rate forwards and futures*	48,414	48,414	31,011	31,011	9	4	7	8
Interest rate options	6,873	6,873	4,519	4,519	21	21	3	3
<b>Total interest rate instruments</b>	<b>634,091</b>	<b>634,091</b>	<b>489,570</b>	<b>489,570</b>	<b>9,406</b>	<b>9,728</b>	<b>13,403</b>	<b>13,639</b>
<b>Foreign currency instruments</b>								
Currency swaps	135,547	136,171	126,518	126,586	723	1,358	854	925
Cross currency swaps	102,872	102,822	74,561	74,036	4,859	4,643	2,329	1,650
Currency forwards	31,486	30,857	25,791	26,009	980	383	175	399
Purchased options	48,525	49,581	33,555	33,274	868	0	460	0
Sold options	49,581	48,525	33,274	33,555	0	868	0	460
<b>Total currency instruments</b>	<b>368,011</b>	<b>367,956</b>	<b>293,699</b>	<b>293,460</b>	<b>7,430</b>	<b>7,252</b>	<b>3,818</b>	<b>3,434</b>
<b>Other instruments</b>								
Forwards on emission allowances	847	720	1,763	1,399	222	95	426	56
Commodity forwards	1,296	1,296	1,302	1,302	19	18	16	15
Commodity swaps	11,674	11,674	2,243	2,243	105	97	60	57
Commodity cross currency swaps	3,903	3,903	8,798	8,798	137	137	222	222
Purchased commodity options	475	475	0	0	21	0	0	0
Sold commodity options	475	475	0	0	0	21	0	0
<b>Total other instruments</b>	<b>18,670</b>	<b>18,543</b>	<b>14,106</b>	<b>13,742</b>	<b>504</b>	<b>368</b>	<b>724</b>	<b>350</b>
<b>Total</b>	<b>1,020,772</b>	<b>1,020,590</b>	<b>797,375</b>	<b>796,772</b>	<b>17,340</b>	<b>17,348</b>	<b>17,945</b>	<b>17,423</b>

Note.: \* Fair values include only forwards. Regarding futures, the Bank places funds on a margin account which is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

# Notes to the Separate Financial Statements

As at 31 December 2013

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as at 31 December 2013:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	96,490	317,917	164,397	578,804
Interest rate forwards and futures*	46,893	1,521	0	48,414
Interest rate options	270	5,854	749	6,873
<b>Total interest rate instruments</b>	<b>143,653</b>	<b>325,292</b>	<b>165,146</b>	<b>634,091</b>
<b>Foreign currency instruments</b>				
Currency swaps	134,039	1,450	58	135,547
Cross currency swaps	15,576	43,858	43,438	102,872
Currency forwards	27,240	4,198	48	31,486
Purchased options	32,709	15,816	0	48,525
Sold options	33,459	16,122	0	49,581
<b>Total currency instruments</b>	<b>243,023</b>	<b>81,444</b>	<b>43,544</b>	<b>368,011</b>
<b>Other instruments</b>				
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
<b>Total other instruments</b>	<b>16,290</b>	<b>2,380</b>	<b>0</b>	<b>18,670</b>
<b>Total</b>	<b>402,966</b>	<b>409,116</b>	<b>208,690</b>	<b>1,020,772</b>

Note: \* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

# Notes to the Separate Financial Statements

As at 31 December 2013

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as at 31 December 2012:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>Interest rate instruments</b>				
Interest rate swaps	128,640	202,953	122,447	454,040
Interest rate forwards and futures*	29,011	2,000	0	31,011
Interest rate options	0	3,377	1,142	4,519
<b>Total interest rate instruments</b>	<b>157,651</b>	<b>208,330</b>	<b>123,589</b>	<b>489,570</b>
<b>Foreign currency instruments</b>				
Currency swaps	124,898	1,484	136	126,518
Cross currency swaps	5,465	35,551	33,545	74,561
Currency forwards	22,340	3,309	142	25,791
Purchased options	24,369	9,186	0	33,555
Sold options	24,190	9,084	0	33,274
<b>Total currency instruments</b>	<b>201,262</b>	<b>58,614</b>	<b>33,823</b>	<b>293,699</b>
<b>Other instruments</b>				
Forwards on emission allowances	1,659	104	0	1,763
Commodity forwards	1,302	0	0	1,302
Commodity swaps	1,179	1,064	0	2,243
Commodity cross currency swaps	1,846	6,952	0	8,798
Purchased commodity options	0	0	0	0
Sold commodity options	0	0	0	0
<b>Total other instruments</b>	<b>5,986</b>	<b>8,120</b>	<b>0</b>	<b>14,106</b>
<b>Total</b>	<b>364,899</b>	<b>275,064</b>	<b>157,412</b>	<b>797,375</b>

Note: \* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

(CZKm)	31 Dec 2013		31 Dec 2012		31 Dec 2013		31 Dec 2012	
	Notional value		Notional value		Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for cash flow hedging	469,592	469,592	412,767	412,766	17,831	6,252	25,782	7,223
Interest rate swaps for fair value hedging	26,821	26,821	19,710	19,710	217	2,237	0	3,350
Cross currency swaps for cash flows hedging	42,629	42,361	33,150	30,490	176	2,609	215	399
Cross currency swaps for fair value hedging	0	2,880	0	2,640	0	150	29	0
Forwards on stocks for cash flow hedging	32	32	7	7	11	0	1	0
<b>Total</b>	<b>539,074</b>	<b>541,686</b>	<b>465,634</b>	<b>465,613</b>	<b>18,235</b>	<b>11,248</b>	<b>26,027</b>	<b>10,972</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

Remaining contractual maturities of derivatives designated as hedging are shown below as at 31 December 2013:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	91,792	214,756	163,044	469,592
Interest rate swaps for fair value hedging	0	1,318	25,503	26,821
Cross currency swaps for cash flow hedging	8,595	30,064	3,970	42,629
Forwards on stocks for cash flow hedging	4	28	0	32
<b>Total</b>	<b>100,391</b>	<b>246,166</b>	<b>192,517</b>	<b>539,074</b>

Remaining contractual maturities of derivatives designated as hedging are shown below as at 31 December 2012:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	82,082	193,482	137,203	412,767
Interest rate swaps for fair value hedging	141	156	19,413	19,710
Cross currency swaps for cash flow hedging	1,734	26,857	4,559	33,150
Forwards on stocks for cash flow hedging	0	7	0	7
<b>Total</b>	<b>83,957</b>	<b>220,502</b>	<b>161,175</b>	<b>465,634</b>

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:

(CZKm)	31 Dec 2013			31 Dec 2012		
	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows hedged	(467)	(2,235)	(2,072)	(132)	(3,061)	(2,634)

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

During 2013, the Bank recorded the following hedges:

1. Interest rate risk hedging:

- a. The fair values of long-term loans provided and of investments into long-term government securities classified into the 'Available-for-sale financial assets' portfolio are hedged by an interest rate swap and a cross currency swap, respectively;
- b. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients with variable interest rates are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Income Statement on an ongoing basis);
- c. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term liabilities to clients are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Income Statement on an ongoing basis).

# Notes to the Separate Financial Statements

As at 31 December 2013

---

2. Foreign exchange risk hedging:
  - a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Bank. The hedging instrument consists of foreign currency assets (e.g. securities) or foreign currency liabilities (client deposits), respectively;
  - b. The Bank hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent on the foreign exchange rate developments and selected foreign currency liabilities (e.g. short-term client liabilities).
  
3. Share price risk hedging:
  - a. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Société Générale S.A. share price. The risk of change in the Société Générale S.A. share price is hedged at the Société Générale level. Hedging instruments are forwards on stocks.
  - b. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Bank hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.
  
4. Hedging of an investment in a foreign subsidiary:
  - a. The foreign exchange risk associated with investments in subsidiaries including foreign exchange risk arising from prospective cash flows (received dividends) is hedged by selected foreign currency liabilities (e.g. short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these Financial Statements.

## **(D) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped in the 'Undefined' category.

# Notes to the Separate Financial Statements

As at 31 December 2013

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	5,318	0	0	0	38,513	43,831
Financial assets at fair value through profit or loss	5,529	10,412	3,374	1,463	17,340	38,118
Positive fair values of hedging financial derivatives	0	0	0	0	18,235	18,235
Available-for-sale financial assets	3,007	5,517	28,794	56,237	0	93,555
Assets held for sale	0	0	0	0	6	6
Amounts due from banks	113,410	962	4,516	773	0	119,661
Loans and advances to customers, net	203,618	68,594	138,963	12,120	0	423,295
Held-to-maturity investments	0	194	0	0	0	194
Current tax assets	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	6	6
Prepayments, accrued income and other assets	0	0	0	0	2,173	2,173
Investments in subsidiaries and associates	0	0	0	0	26,220	26,220
Intangible assets	0	0	0	0	3,363	3,363
Tangible assets	0	0	0	0	5,235	5,235
<b>Total assets</b>	<b>330,882</b>	<b>85,679</b>	<b>175,647</b>	<b>70,593</b>	<b>111,091</b>	<b>773,892</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	1,195	0	0	0	17,348	18,543
Negative fair values of hedging financial derivatives	0	0	0	0	11,248	11,248
Amounts due to banks	39,792	3,411	2,743	0	0	45,946
Amounts due to customers	65,139	19,279	1,300	0	466,535	552,253
Securities issued	1,910	0	22,442	23,793	0	48,145
Current tax liabilities	0	0	0	0	708	708
Deferred tax liabilities	0	0	0	0	2,703	2,703
Accruals and other liabilities	0	0	0	0	9,513	9,513
Provisions	0	0	0	0	1,130	1,130
Subordinated debt	0	0	0	0	0	0
<b>Total liabilities</b>	<b>108,037</b>	<b>22,690</b>	<b>26,485</b>	<b>23,793</b>	<b>509,185</b>	<b>690,190</b>
<b>Statement of Financial Position interest rate sensitivity gap at 31 December 2013</b>						
	<b>222,845</b>	<b>62,989</b>	<b>149,162</b>	<b>46,800</b>	<b>(398,094)</b>	<b>83,702</b>
Derivatives*	450,084	289,287	282,269	254,364	0	1,276,004
<b>Total off-balance sheet assets</b>	<b>450,084</b>	<b>289,287</b>	<b>282,269</b>	<b>254,364</b>	<b>0</b>	<b>1,276,004</b>
Derivatives*	551,670	275,484	303,467	147,946	0	1,278,567
Undrawn portion of loans**	(4,596)	(1,820)	6,003	413	0	0
Undrawn portion of revolving loans**	(336)	(8)	195	149	0	0
<b>Total off-balance sheet liabilities</b>	<b>546,738</b>	<b>273,656</b>	<b>309,665</b>	<b>148,508</b>	<b>0</b>	<b>1,278,567</b>
<b>Net off-balance sheet interest rate sensitivity gap at 31 December 2013</b>						
	<b>(96,654)</b>	<b>15,631</b>	<b>(27,396)</b>	<b>105,856</b>	<b>0</b>	<b>(2,563)</b>
<b>Cumulative interest rate sensitivity gap at 31 December 2013</b>						
	<b>126,191</b>	<b>204,811</b>	<b>326,577</b>	<b>479,233</b>	<b>81,139</b>	<b>x</b>

Note: \* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

\*\* Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.

# Notes to the Separate Financial Statements

As at 31 December 2013

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
<b>Assets</b>						
Cash and current balances with central banks	736	0	0	0	26,923	27,659
Financial assets at fair value through profit or loss	15,738	14,916	2,418	891	17,944	51,907
Positive fair values of hedging financial derivatives	0	0	0	0	26,027	26,027
Available-for-sale financial assets	774	2,838	37,935	52,834	0	94,381
Assets held for sale	0	0	0	0	3	3
Amounts due from banks	49,817	716	4,473	857	0	55,863
Loans and advances to customers, net	189,977	67,688	125,617	12,907	0	396,189
Held-to-maturity investments	0	1	178	0	0	179
Current tax assets	0	0	0	0	4	4
Deferred tax assets	0	0	0	0	6	6
Prepayments, accrued income and other assets	0	0	0	0	2,234	2,234
Investments in subsidiaries and associates	0	0	0	0	24,928	24,928
Intangible assets	0	0	0	0	3,496	3,496
Tangible assets	0	0	0	0	6,581	6,581
<b>Total assets</b>	<b>257,042</b>	<b>86,159</b>	<b>170,621</b>	<b>67,489</b>	<b>108,146</b>	<b>689,457</b>
<b>Liabilities</b>						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	2,481	0	0	0	17,423	19,904
Negative fair values of hedging financial derivatives	0	0	0	0	10,972	10,972
Amounts due to banks	30,306	1,539	0	0	0	31,845
Amounts due to customers	43,088	20,940	3,654	0	418,287	485,969
Securities issued	2,195	0	19,323	16,499	0	38,017
Current tax liabilities	0	0	0	0	568	568
Deferred tax liabilities	0	0	0	0	4,712	4,712
Accruals and other liabilities	0	0	0	0	8,921	8,921
Provisions	0	0	0	0	1,004	1,004
Subordinated debt	0	0	0	0	0	0
<b>Total liabilities</b>	<b>78,071</b>	<b>22,479</b>	<b>22,977</b>	<b>16,499</b>	<b>461,887</b>	<b>601,913</b>
<b>Statement of Financial Position interest rate sensitivity gap at 31 December 2012</b>						
	178,971	63,680	147,644	50,990	(353,741)	87,544
<b>Derivatives*</b>	<b>372,319</b>	<b>250,112</b>	<b>207,768</b>	<b>199,559</b>	<b>0</b>	<b>1,029,758</b>
<b>Total off-balance sheet assets</b>	<b>372,319</b>	<b>250,112</b>	<b>207,768</b>	<b>199,559</b>	<b>0</b>	<b>1,029,758</b>
<b>Derivatives*</b>	<b>437,927</b>	<b>247,961</b>	<b>230,390</b>	<b>112,932</b>	<b>0</b>	<b>1,029,210</b>
Undrawn portion of loans**	(5,386)	1,004	4,147	235	0	0
Undrawn portion of revolving loans**	(331)	331	(149)	149	0	0
<b>Total off-balance sheet liabilities</b>	<b>432,210</b>	<b>249,296</b>	<b>234,388</b>	<b>113,316</b>	<b>0</b>	<b>1,029,210</b>
<b>Net off-balance sheet interest rate sensitivity gap at 31 December 2012</b>						
	(59,891)	816	(26,620)	86,243	0	548
<b>Cumulative interest rate sensitivity gap at 31 December 2012</b>						
	119,080	183,576	304,600	441,833	88,092	x

Note: \* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

\*\* Undrawn loans and revolving loans are reported on a net basis, that is, the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan since the interest rate has not been determined for such commitments.



# Notes to the Separate Financial Statements

As at 31 December 2013

Average interest rates as at 31 December 2013 and 2012 were as follow:

	31 Dec 2013			31 Dec 2012		
	CZK	USD	EUR	CZK	USD	EUR
<b>Assets</b>						
Cash and current balances with central banks	0.02%	x	x	0.00%	x	x
Treasury bills	0.15%	x	x	0.52%	x	x
Amounts due from banks	0.15%	0.19%	0.65%	0.35%	0.46%	0.54%
Loans and advances to customers	3.25%	1.99%	2.24%	3.66%	2.06%	2.38%
Interest earning securities	2.19%	3.69%	3.06%	2.84%	3.61%	3.01%
<b>Total assets</b>	<b>2.00%</b>	<b>1.29%</b>	<b>1.65%</b>	<b>2.59%</b>	<b>1.55%</b>	<b>1.81%</b>
<b>Total interest earning assets</b>	<b>2.33%</b>	<b>1.35%</b>	<b>1.98%</b>	<b>3.13%</b>	<b>1.65%</b>	<b>1.97%</b>
<b>Liabilities</b>						
Amounts due to central banks and banks	0.08%	0.23%	0.96%	0.09%	0.56%	1.03%
Amounts due to customers	0.21%	0.09%	0.08%	0.35%	0.08%	0.11%
Debt securities	3.23%	x	0.00%	3.52%	x	0.00%
Subordinated debt	0.00%	x	x	0.00%	x	x
<b>Total liabilities</b>	<b>0.28%</b>	<b>0.11%</b>	<b>0.39%</b>	<b>0.19%</b>	<b>0.19%</b>	<b>0.38%</b>
<b>Total interest bearing liabilities</b>	<b>0.36%</b>	<b>0.11%</b>	<b>0.41%</b>	<b>0.29%</b>	<b>0.20%</b>	<b>0.41%</b>
<b>Off-balance sheet assets</b>						
Derivatives (interest rate swaps, options, etc.)	1.51%	2.26%	1.21%	1.89%	2.68%	1.77%
Undrawn portion of loans	2.98%	2.30%	2.42%	3.12%	2.18%	3.70%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.67%	x	0.88%
<b>Total off-balance sheet assets</b>	<b>1.74%</b>	<b>2.25%</b>	<b>1.22%</b>	<b>2.13%</b>	<b>2.61%</b>	<b>1.77%</b>
<b>Off-balance sheet liabilities</b>						
Derivatives (interest rate swaps, options, etc.)	1.17%	2.01%	1.25%	1.57%	2.38%	1.94%
Undrawn portion of loans	2.98%	2.30%	2.42%	3.12%	2.18%	3.70%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.67%	x	0.88%
<b>Total off-balance sheet liabilities</b>	<b>1.42%</b>	<b>2.01%</b>	<b>1.26%</b>	<b>1.84%</b>	<b>2.35%</b>	<b>1.93%</b>

Note: The above table sets out the average interest rates for December 2013 and 2012 calculated as a weighted average for each asset and liability category.

The 2W REPO rate announced by the CNB remained at the level of 0.05% throughout 2013. Czech crown money market rates (PRIBOR) declined by 0.05% (O/N) to 0.27% (12M). The market spreads showed almost no change during 2013 and stagnated on the level of 14-38 basis points (1D-1Y). Interest rates in the derivatives market increased by 5-70 basis points (2-10Y).

Euro money market rates increased during 2013 by 0.01% (12M) to 0.14% (O/N), and derivative market rates increased by about 15-60 basis points (2-10Y).

Dollar money market rates decreased during 2013 by 0.10% (O/N) to 0.25% (12M), and derivative market rates increased by about 10-130 basis points (2-10Y).

# Notes to the Separate Financial Statements

As at 31 December 2013

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2013				31 Dec 2012			
	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
<b>Assets</b>								
Cash and current balances with central banks	0	5,318	38,513	43,831	0	736	26,923	27,659
Financial assets at fair value through profit or loss	17,058	3,340	17,720	38,118	31,210	1,939	18,758	51,907
Positive fair values of hedging financial derivatives	0	0	18,235	18,235	0	0	26,027	26,027
Available-for-sale financial assets	78,939	14,614	2	93,555	83,318	11,061	2	94,381
Amounts due from banks	4,588	115,060	13	119,661	4,169	51,517	177	55,863
Loans and advances to customers	240,639	178,946	3,710	423,295	228,455	163,372	4,362	396,189
Held-to-maturity investments	194	0	0	194	179	0	0	179
<b>Liabilities</b>								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	18,543	18,543	0	0	19,904	19,904
Negative fair values of hedging financial derivatives	0	0	11,248	11,248	0	0	10,972	10,972
Amounts due to banks	12,774	33,019	153	45,946	5,978	25,379	488	31,845
Amounts due to customers	1,599	541,642*	9,012	552,253	2,849	479,020*	4,100	485,969
Securities issued	18,134	30,011	0	48,145	15,633	22,384	0	38,017
Subordinated debt	0	0	0	0	0	0	0	0

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

\* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

## (E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a stand-alone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

# Notes to the Separate Financial Statements

As at 31 December 2013

The liquidity risk of the Bank is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The table below provides a breakdown of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Cash and current balances with central banks	36,706	0	0	0	0	7,125	43,831
Financial assets at fair value through profit or loss	0	2,270	9,649	4,998	3,480	17,721	38,118
Positive fair values of hedging financial derivatives	0	0	0	0	0	18,235	18,235
Available-for-sale financial assets	0	3,300	6,538	26,817	50,819	6,081	93,555
Assets held for sale	0	0	6	0	0	0	6
Amounts due from banks	32,452	71,475	232	5,518	2,238	7,746	119,661
Loans and advances to customers	4,682	56,837	49,117	120,154	177,173	15,332	423,295
Held-to-maturity investments	0	0	194	0	0	0	194
Current tax assets	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	6	6
Prepayments, accrued income and other assets	64	1	0	0	0	2,108	2,173
Investments in subsidiaries and associates	0	0	0	0	0	26,220	26,220
Intangible assets	0	0	0	0	0	3,363	3,363
Tangible assets	0	0	0	0	0	5,235	5,235
<b>Total assets</b>	<b>73,904</b>	<b>133,883</b>	<b>65,736</b>	<b>157,487</b>	<b>233,710</b>	<b>109,172</b>	<b>773,892</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,195	0	0	0	0	17,348	18,543
Negative fair values of hedging financial derivatives	0	0	0	0	0	11,248	11,248
Amounts due to banks	23,319	8,587	966	7,544	5,530	0	45,946
Amounts due to customers	499,464	28,321	22,382	2,019	67	0	552,253
Securities issued	0	119	279	15,542	32,205	0	48,145
Current tax liabilities	0	8	700	0	0	0	708
Deferred tax liabilities	0	0	0	0	0	2,703	2,703
Accruals and other liabilities	8,950	198	0	0	0	365	9,513
Provisions	111	123	181	128	4	583	1,130
Subordinated debt	0	0	0	0	0	0	0
Equity	0	0	0	0	0	83,702	83,702
<b>Total liabilities</b>	<b>533,040</b>	<b>37,356</b>	<b>24,508</b>	<b>25,233</b>	<b>37,806</b>	<b>115,949</b>	<b>773,892</b>
<b>Statement of Financial Position</b>							
<b>liquidity gap at 31 December 2013</b>	<b>(459,136)</b>	<b>96,527</b>	<b>41,228</b>	<b>132,254</b>	<b>195,904</b>	<b>(6,777)</b>	<b>0</b>
Off-balance sheet assets*	27,294	127,241	97,686	111,507	47,514	0	411,242
Off-balance sheet liabilities*	32,585	148,313	153,384	147,150	51,592	14,131	547,155
<b>Net off-balance sheet liquidity gap at 31 December 2013</b>	<b>(5,291)</b>	<b>(21,072)</b>	<b>(55,698)</b>	<b>(35,643)</b>	<b>(4,078)</b>	<b>(14,131)</b>	<b>(135,913)</b>

Note: \* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

# Notes to the Separate Financial Statements

As at 31 December 2013

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Assets</b>							
Cash and current balances with central banks	25,495	0	0	0	0	2,164	27,659
Financial assets at fair value through profit or loss	980	12,518	13,386	4,930	1,322	18,771	51,907
Positive fair values of hedging financial derivatives	0	0	0	0	0	26,027	26,027
Available-for-sale financial assets	0	1,269	4,007	29,376	49,697	10,032	94,381
Assets held for sale	0	0	3	0	0	0	3
Amounts due from banks	24,823	21,018	1,099	4,703	1,128	3,092	55,863
Loans and advances to customers	3,850	38,537	65,995	109,067	161,758	16,982	396,189
Held-to-maturity investments	0	0	1	178	0	0	179
Current tax assets	0	0	0	0	0	4	4
Deferred tax assets	0	0	0	0	0	6	6
Prepayments, accrued income and other assets	126	2	0	0	0	2,106	2,234
Investments in subsidiaries and associates	0	0	0	0	0	24,928	24,928
Intangible assets	0	0	0	0	0	3,496	3,496
Tangible assets	0	0	0	0	0	6,581	6,581
<b>Total assets</b>	<b>55,274</b>	<b>73,344</b>	<b>84,491</b>	<b>148,254</b>	<b>213,905</b>	<b>114,189</b>	<b>689,457</b>
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss	2,481	0	0	0	0	17,423	19,904
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,972	10,972
Amounts due to banks	20,563	1,379	1,438	4,385	4,080	0	31,845
Amounts due to customers	429,805	30,032	21,053	4,988	91	0	485,969
Securities issued	0	89	252	15,220	22,456	0	38,017
Current tax liabilities	0	0	568	0	0	0	568
Deferred tax liabilities	0	0	0	0	0	4,712	4,712
Accruals and other liabilities	8,401	181	0	0	0	339	8,921
Provisions	51	46	243	109	5	550	1,004
Subordinated debt	0	0	0	0	0	0	0
Equity	0	0	0	0	0	87,544	87,544
<b>Total liabilities</b>	<b>461,302</b>	<b>31,727</b>	<b>23,554</b>	<b>24,702</b>	<b>26,632</b>	<b>121,540</b>	<b>689,457</b>
<b>Statement of Financial Position</b>							
liquidity gap at 31 December 2012	(406,028)	41,617	60,937	123,552	187,273	(7,351)	0
Off-balance sheet assets*	21,944	116,077	65,598	85,472	38,383	0	327,474
Off-balance sheet liabilities*	25,508	134,255	124,018	115,933	40,585	15,197	455,496
<b>Net off-balance sheet</b>							
liquidity gap at 31 December 2012	(3,564)	(18,178)	(58,420)	(30,461)	(2,202)	(15,197)	(128,022)

Note: \* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts and payables under guarantees, letters of credit and committed facilities.

# Notes to the Separate Financial Statements

As at 31 December 2013

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as at 31 December 2013.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss (except derivatives)	1,195	0	0	0	0	0	1,195
Amounts due to banks	23,333	8,595	986	7,629	5,553	0	46,096
Amounts due to customers	499,566	28,589	22,516	2,685	67	0	553,423
Securities issued	224	290	1,729	20,085	34,321	0	56,649
Current tax liabilities	0	8	700	0	0	0	708
Deferred tax liabilities	0	0	0	0	0	2,703	2,703
Accruals and other liabilities	8,950	198	0	0	0	365	9,513
Provisions	111	123	181	128	4	583	1,130
Subordinated debt	0	0	0	0	0	0	0
<b>Total non-derivative financial liabilities</b>	<b>533,380</b>	<b>37,803</b>	<b>26,112</b>	<b>30,527</b>	<b>39,945</b>	<b>3,651</b>	<b>671,418</b>
Other loans commitment granted	3,337	8,994	37,224	13,889	1,278	13,876	78,598
Guarantee commitments granted	1,866	11,799	18,033	19,992	2,809	255	54,754
<b>Total contingent liabilities</b>	<b>5,203</b>	<b>20,793</b>	<b>55,257</b>	<b>33,881</b>	<b>4,087</b>	<b>14,131</b>	<b>133,352</b>

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as at 31 December 2012.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
<b>Liabilities</b>							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss (except derivatives)	2,481	0	0	0	0	0	2,481
Amounts due to banks	20,606	1,391	1,446	4,453	4,100	0	31,996
Amounts due to customers	429,908	30,362	21,275	6,322	91	0	487,958
Securities issued	2	189	1,506	19,445	23,985	0	45,127
Current tax liabilities	0	0	568	0	0	0	568
Deferred tax liabilities	0	0	0	0	0	4,712	4,712
Accruals and other liabilities	8,401	182	0	0	0	339	8,922
Provisions	51	46	243	109	5	550	1,004
Subordinated debt	0	0	0	0	0	0	0
<b>Total non-derivative financial liabilities</b>	<b>461,450</b>	<b>32,170</b>	<b>25,038</b>	<b>30,329</b>	<b>28,181</b>	<b>5,601</b>	<b>582,769</b>
Other loans commitment granted	1,644	10,431	42,288	12,059	192	15,154	81,768
Guarantee commitments granted	1,989	7,762	16,058	18,613	2,050	43	46,515
<b>Total contingent liabilities</b>	<b>3,633</b>	<b>18,193</b>	<b>58,346</b>	<b>30,672</b>	<b>2,242</b>	<b>15,197</b>	<b>128,283</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

## (F) Foreign exchange position

The table below provides an analysis of the Bank's main currency exposures. The remaining currencies are shown within 'Other currencies'. The Bank manages its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
<b>Assets</b>					
Cash and current balances with central banks	42,086	1,280	220	245	43,831
Financial assets at fair value through profit or loss	34,522	3,359	162	75	38,118
Positive fair values of hedging financial derivatives	16,848	1,172	215	0	18,235
Available-for-sale financial assets	69,222	23,319	1,014	0	93,555
Assets held for sale	6	0	0	0	6
Amounts due from banks	94,570	17,737	6,093	1,261	119,661
Loans and advances to customers	338,430	77,228	7,298	339	423,295
Held-to-maturity investments	0	194	0	0	194
Current tax assets	0	0	0	0	0
Deferred tax assets	0	6	0	0	6
Prepayments, accrued income and other assets	2,021	120	21	11	2,173
Investments in subsidiaries and associates	22,824	3,396	0	0	26,220
Intangible assets	3,363	0	0	0	3,363
Tangible assets	5,228	7	0	0	5,235
<b>Total assets</b>	<b>629,120</b>	<b>127,818</b>	<b>15,023</b>	<b>1,931</b>	<b>773,892</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	16,946	1,397	147	53	18,543
Negative fair values of hedging financial derivatives	9,692	1,439	117	0	11,248
Amounts due to banks	14,308	30,028	1,581	29	45,946
Amounts due to customers	477,249	63,867	8,554	2,583	552,253
Securities issued	48,145	0	0	0	48,145
Current tax liabilities	700	8	0	0	708
Deferred tax liabilities	2,703	0	0	0	2,703
Accruals and other liabilities	8,022	1,149	237	105	9,513
Provisions	852	215	46	17	1,130
Subordinated debt	0	0	0	0	0
Equity	83,712	(10)	0	0	83,702
<b>Total liabilities</b>	<b>662,330</b>	<b>98,093</b>	<b>10,682</b>	<b>2,787</b>	<b>773,892</b>
<b>Net FX position at 31 December 2013</b>	<b>(33,210)</b>	<b>29,725</b>	<b>4,341</b>	<b>(856)</b>	<b>0</b>
Off-balance sheet assets*	1,099,580	366,628	81,636	13,172	1,561,016
Off-balance sheet liabilities*	1,070,250	394,846	86,154	12,198	1,563,448
<b>Net off-balance sheet FX position at 31 December 2013</b>	<b>29,330</b>	<b>(28,218)</b>	<b>(4,518)</b>	<b>974</b>	<b>(2,432)</b>
<b>Total net FX position at 31 December 2013</b>	<b>(3,880)</b>	<b>1,507</b>	<b>(177)</b>	<b>118</b>	<b>(2,432)</b>

Note: \* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.

# Notes to the Separate Financial Statements

As at 31 December 2013

(CZKm)	CZK	EUR	USD	Other currencies	Total
<b>Assets</b>					
Cash and current balances with central banks	26,177	983	235	264	27,659
Financial assets at fair value through profit or loss	45,755	5,877	147	128	51,907
Positive fair values of hedging financial derivatives	24,163	1,506	358	0	26,027
Available-for-sale financial assets	74,750	18,609	1,022	0	94,381
Assets held for sale	3	0	0	0	3
Amounts due from banks	35,501	15,470	3,761	1,131	55,863
Loans and advances to customers	334,848	54,871	6,068	402	396,189
Held-to-maturity investments	0	179	0	0	179
Current tax assets	4	0	0	0	4
Deferred tax assets	0	6	0	0	6
Prepayments, accrued income and other assets	2,085	138	10	1	2,234
Investments in subsidiaries and associates	21,455	3,473	0	0	24,928
Intangible assets	3,496	0	0	0	3,496
Tangible assets	6,575	6	0	0	6,581
<b>Total assets</b>	<b>574,812</b>	<b>101,118</b>	<b>11,601</b>	<b>1,926</b>	<b>689,457</b>
<b>Liabilities</b>					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	17,655	2,059	153	37	19,904
Negative fair values of hedging financial derivatives	8,840	2,038	94	0	10,972
Amounts due to banks	11,266	18,131	2,401	47	31,845
Amounts due to customers	430,721	45,006	7,876	2,366	485,969
Securities issued	38,017	0	0	0	38,017
Current tax liabilities	568	0	0	0	568
Deferred tax liabilities	4,712	0	0	0	4,712
Accruals and other liabilities	7,625	1,064	156	76	8,921
Provisions	829	125	44	6	1,004
Subordinated debt	0	0	0	0	0
Equity	87,432	112	0	0	87,544
<b>Total liabilities</b>	<b>607,666</b>	<b>68,535</b>	<b>10,724</b>	<b>2,532</b>	<b>689,457</b>
<b>Net FX position at 31 December 2012</b>	<b>(32,854)</b>	<b>32,583</b>	<b>877</b>	<b>(606)</b>	<b>0</b>
Off-balance sheet assets*	959,470	231,308	67,709	5,147	1,263,634
Off-balance sheet liabilities*	928,108	261,750	68,624	4,494	1,262,976
<b>Net off-balance sheet FX position at 31 December 2012</b>	<b>31,362</b>	<b>(30,442)</b>	<b>(915)</b>	<b>653</b>	<b>658</b>
<b>Total net FX position at 31 December 2012</b>	<b>(1,492)</b>	<b>2,141</b>	<b>(38)</b>	<b>47</b>	<b>658</b>

Note: \* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.

## (G) Operational risk

Since 2008, the Bank has adopted the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) or Scenario Analysis (SA), the Bank developed and deployed also the permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. In 2013, the process of risk self-assessment was performed in close co-operation with the mapping of risks for the purposes of internal audit. This resulted in increased effectiveness of both procedures and simultaneously in decreased time consumption from the management of the Bank. The Bank continuously develops all the aforementioned operational risk instruments and supports the continuous development of an operational risk culture throughout all organisational units.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

The information collected by the Operational Risks Department is regularly analysed and provided to the management of the Bank. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process of new product development and validation.

## **(H) Legal risk**

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

## **(I) Estimated fair value of assets and liabilities of the Bank**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates. Therefore, the calculated fair market estimates cannot be realised in a current sale of the financial instrument.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

### **(a) Cash and current balances with central banks**

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

### **(b) Amounts due from banks**

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis, the fair value of a loss loans is equal to the appraised value of the underlying collateral.

### **(c) Loans and advances to customers**

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

### **(d) Held-to-maturity investments**

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



# Notes to the Separate Financial Statements

As at 31 December 2013

## (e) Amounts due to central banks, banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand at the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values at the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values at the financial statements date.

## (f) Securities issued

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

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

(CZKm)	31 Dec 2013		31 Dec 2012	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and current balances with central banks	43,831	43,831	27,659	27,659
Amounts due from banks	119,661	119,893	55,863	56,132
Loans and advances to customers	423,295	436,088	396,189	408,577
Held-to-maturity investments	194	198	179	189
<b>Financial liabilities</b>				
Amounts due to central banks	1	1	1	1
Amounts due to banks	45,946	45,938	31,845	31,858
Amounts due to customers	552,253	552,324	485,969	486,081
Securities issued	48,145	48,806	38,017	39,753
Subordinated debt	0	0	0	0

# Notes to the Separate Financial Statements

As at 31 December 2013

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

(CZKm)	31 Dec 2013				31 Dec 2012			
	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Cash and current balances with central banks	43,831	0	0	43,831	27,659	0	0	27,659
Amounts due from banks	119,893	0	0	119,893	56,132	0	0	56,132
Loans and advances to customers	436,088	0	0	436,088	408,577	0	0	408,577
Held-to-maturity investments	198	198	0	0	189	189	0	0
<b>Financial liabilities</b>								
Amounts due to central banks	1	0	0	1	1	0	0	1
Amounts due to banks	45,938	0	0	45,938	31,858	0	0	31,858
Amounts due to customers	552,324	0	0	552,324	486,081	0	0	486,081
Securities issued	48,806	0	0	48,806	39,753	0	0	39,753
Subordinated debt	0	0	0	0	0	0	0	0

# Notes to the Separate Financial Statements

As at 31 December 2013

## (J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2013	Level 1	Level 2	Level 3	31 Dec 2012	Level 1	Level 2	Level 3
<b>Financial assets</b>								
Financial assets at fair value through profit or loss								
- emission allowances	381	381	0	0	813	813	0	0
- debt securities	20,397	6,599	13,798	0	33,149	7,577	25,572	0
- derivatives	17,340	222	17,118	0	17,945	426	17,519	0
<b>Financial assets at fair value through profit or loss</b>	<b>38,118</b>	<b>7,202</b>	<b>30,916</b>	<b>0</b>	<b>51,907</b>	<b>8,816</b>	<b>43,091</b>	<b>0</b>
<b>Positive fair value of hedging financial derivatives</b>	<b>18,235</b>	<b>0</b>	<b>18,235</b>	<b>0</b>	<b>26,027</b>	<b>0</b>	<b>26,027</b>	<b>0</b>
Available-for-sale financial assets								
- shares and participation certificates	2	0	0	2	2	0	0	2
- debt securities	93,553	74,202	19,351	0	94,379	65,600	28,779	0
<b>Available-for-sale financial assets</b>	<b>93,555</b>	<b>74,202</b>	<b>19,351</b>	<b>2</b>	<b>94,381</b>	<b>65,600</b>	<b>28,779</b>	<b>2</b>
<b>Financial assets at fair value</b>	<b>149,908</b>	<b>81,404</b>	<b>68,502</b>	<b>2</b>	<b>172,315</b>	<b>74,416</b>	<b>97,897</b>	<b>2</b>
<b>Financial liabilities</b>								
Financial liabilities at fair value through profit or loss								
- sold securities	1,195	1,195	0	0	2,481	2,481	0	0
- derivatives	17,348	95	17,253		17,423	56	17,367	0
<b>Financial liabilities at fair value through profit or loss</b>	<b>18,543</b>	<b>1,290</b>	<b>17,253</b>	<b>0</b>	<b>19,904</b>	<b>2,537</b>	<b>17,367</b>	<b>0</b>
<b>Negative fair value of hedging financial derivatives</b>	<b>11,248</b>	<b>0</b>	<b>11,248</b>	<b>0</b>	<b>10,972</b>	<b>0</b>	<b>10,972</b>	<b>0</b>
<b>Financial liabilities at fair value</b>	<b>29,791</b>	<b>1,290</b>	<b>28,501</b>	<b>0</b>	<b>30,876</b>	<b>2,537</b>	<b>28,339</b>	<b>0</b>

Financial assets at fair value – Level 3:

(CZKm)	2013		2012	
	Available-for-sale financial assets	Total	Available-for-sale financial assets	Total
Balance at 1 January	2	2	2,773	2,773
Comprehensive income/(loss)				
- in the Income Statement	0	0	(107)	(107)
- in Other Comprehensive Income	0	0	190	190
Purchases	0	0	0	0
Sales	0	0	(890)	(890)
Settlement	0	0	(1,964)	(1,964)
Transfer from Level 1	0	0	0	0
<b>Balance at 31 December</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

# Notes to the Separate Financial Statements

As at 31 December 2013

## Shares and participation certificates

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

## 43 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as at 31 December 2013:

(CZKm)	Assets/liabilities set off according to IAS 32		Amounts which have not been set off			Net amount
	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities 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	
Positive fair value of derivatives	35,575	0	35,575	21,613	5,897	8,065
Negative fair value of derivatives	28,596	0	28,596	21,613	6,763	220

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

The table below provides information about rights of offset and related arrangements for financial instruments as at 31 December 2012:

(CZKm)	Assets/liabilities set off according to IAS 32		Amounts which have not been set off			Net amount
	Gross amount of financial assets/liabilities*	Gross amount of financial assets/liabilities 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	
Positive fair value of derivatives	43,972	0	43,972	25,151	10,686	8,135
Negative fair value of derivatives	28,395	0	28,395	25,151	2,514	730

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

## 44 Assets under management

As at 31 December 2013, the Bank held client assets on its balance sheet in the amount of CZK 1,513 million (2012: CZK 1,028 million) and also managed assets in the amount of CZK 313,845 million (2012: CZK 287,932 million). No held or managed assets were from the Bank's subsidiaries.

# Notes to the Separate Financial Statements

As at 31 December 2013

---

## **45 Post balance sheet events**

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

Since January 2014, the Bank has started to review the accounting recognition of certain debt securities held in the portfolio of 'Available-for-sale financial assets' (hereafter only "AFS") which the Bank intends to hold until their maturity. Till the issuance of these Separate Financial Statements, the Bank concluded that all regulatory and accounting requirements, as well as internal limits, are satisfied for recognition of the debt securities in the nominal value of CZK 50,260 million in the portfolio of 'Held-to-maturity investments' (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains or losses in the Shareholders' Equity of CZK 4,474 million are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security.

