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 2012

Table of Contents

ERNST & YOUNG

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 2012, 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.

ERNST & YOUNG

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 2012, 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

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Michaela Kubýová
Auditor, License No. 1810

28 February 2013
Prague, Czech Republic

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Karlovo náměstí 10, 120 00 Prague 2, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

Separate Income Statement and Statement of Comprehensive Income

Year ended 31 December 2012

Separate Income Statement for the year ended 31 December 2012

(CZKm)	Note	**2012**	2011
Interest income and similar income	5	30,284	29,799
Interest expenses and similar expenses	5	(12,749)	(12,585)
Dividend income	5	257	762
Net interest income and similar income		**17,792**	17,976
Net fee and commission income	6	7,017	7,104
Net profit/(loss) on financial operations	7	3,168	2,913
Other income	8	148	120
Net operating income		**28,125**	28,113
Personnel expenses	9	(6,062)	(5,853)
General administrative expenses	10	(4,411)	(4,527)
Depreciation, impairment and disposal of assets	11	(1,561)	(1,631)
Total operating expenses		**(12,034)**	(12,011)
Profit before allowances/provision for loan and investment losses, other risk and income taxes		**16,091**	16,102
Allowances for loan losses	12	(1,379)	(1,377)
Allowances for impairment of securities	12	0	(5,355)
Provisions for other risk expenses	12	(28)	10
Cost of risk		**(1,407)**	(6,722)
Profit/(loss) on subsidiaries and associates	13	0	0
Profit before income taxes		**14,684**	9,380
Income taxes	14	(2,436)	(1,429)
Net profit for the period	15	**12,248**	7,951

Separate Statement of Comprehensive Income for the year ended 31 December 2012

(CZKm)	Note	**2012**	2011
Net profit for the period	15	**12,248**	7,951
Cash flow hedging			
- net fair value gain/(loss), net of tax		6,615	7,345
- transfer to net profit, net of tax		(2,016)	(1,598)
Foreign exchange gain/(loss) on translation of a foreign net investment		1	1
Net value gain on financial assets available for sale, net of tax		4,264	535
Other comprehensive income for the period, net of tax	39, 40	**8,864**	6,283
Separate comprehensive income for the period, net of tax		**21,112**	14,234

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 2012

(CZKm)	Note	**31 Dec 2012**	31 Dec 2011
ASSETS			
Cash and current balances with central banks	16	27,659	16,248
Financial assets at fair value through profit or loss	17	51,907	35,287
Positive fair value of hedging financial derivatives	41	26,027	18,801
Financial assets available for sale	18	94,381	86,456
Assets held for sale	19	3	13
Amounts due from banks	20	55,863	94,127
Loans and advances to customers	21	396,189	372,688
Financial assets held to maturity	22	179	184
Current tax assets		4	236
Deferred tax assets	33	6	6
Prepayments, accrued income and other assets	23	2,234	1,662
Investments in subsidiaries and associates	24	24,928	24,586
Intangible assets	25	3,496	3,449
Tangible assets	26	6,581	6,536
Total assets		**689,457**	660,279
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	27	19,904	24,422
Negative fair value of hedging financial derivatives	41	10,972	9,177
Amounts due to banks	28	31,845	29,628
Amounts due to customers	29	485,969	469,799
Securities issued	30	38,017	34,525
Current tax liabilities		568	0
Deferred tax liabilities	33	4,721	2,441
Accruals and other liabilities	31	8,921	10,761
Provisions	32	956	1,055
Subordinated debt	34	0	6,002
Total liabilities		**601,874**	587,811
Share capital	35	19,005	19,005
Share premium and reserves		68,578	53,463
Total shareholders' equity		**87,583**	72,468
Total liabilities and shareholders' equity		**689,457**	660,279

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

These Financial Statements were approved by the Board of Directors on 28 February 2013.

Signed on behalf of the Board of Directors:

Henri Bonnet Chairman of the Board of Directors and CEO

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

Separate Statement of Changes in Shareholders' Equity

Year ended 31 December 2012

(CZKm)	Share capital	Capital and reserve funds and retained earnings*	Cash flow hedging	Translation of a foreign net investment	Financial assets available for sale	Total
Balance at 31 December 2010	**19,005**	**44,545**	**4,363**	**2**	**1,099**	**69,014**
Treasury shares, other	0	(517)	0	0	0	(517)
Payment of dividends	0	(10,263)	0	0	0	(10,263)
Transactions with owners	**0**	**(10,780)**	**0**	**0**	**0**	**(10,780)**
Profit for the period	0	7,951	0	0	0	7,951
Other comprehensive income for the period, net of tax	0	0	5,747	1	535	6,283
Comprehensive income for the period	**0**	**7,951**	**5,747**	**1**	**535**	**14,234**
Balance at 31 December 2011	**19,005**	**41,716**	**10,110**	**3**	**1,634**	**72,468**
Treasury shares, other	0	85	0	0	0	85
Payment of dividends	0	(6,082)	0	0	0	(6,082)
Transactions with owners	**0**	**(5,997)**	**0**	**0**	**0**	**(5,997)**
Profit for the period	0	12,248	0	0	0	12,248
Other comprehensive income for the period, net of tax	0	0	4,599	1	4,264	8,864
Comprehensive income for the period	**0**	**12,248**	**4,599**	**1**	**4,264**	**21,112**
Balance at 31 December 2012	**19,005**	**47,967**	**14,709**	**4**	**5,898**	**87,583**

Note: / Capital and reserve funds and retained earnings consist of statutory reserve funds, other funds created from profit, share premium, purchased treasury shares, undistributed net profit from the period and retained earnings. Retained earnings amount to CZK 32,030 million (2011: CZK 30,122 million) and statutory reserve fund CZK 3,801 million (2011: CZK 3,801 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 2012

(CZKm)	**2012**		2011	
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest receipts	26,611		26,648	
Interest payments	(6,843)		(10,217)	
Commission and fee receipts	8,169		8,474	
Commission and fee payments	(1,186)		(1,456)	
Net income from financial transactions	(1,765)		1,792	
Other income receipts	92		102	
Cash payments to employees and suppliers, and other payments	(9,877)		(9,912)	
Operating cash flow before changes in operating assets and operating liabilities	**15,201**		15,431	
Due from banks	43,632		14,954	
Financial assets at fair value through profit or loss	(16,591)		(1,087)	
Loans and advances to customers	(25,241)		(39,048)	
Other assets	(480)		259	
(Increase)/decrease in operating assets	**1,320**		(24,922)	
Amounts due to banks	(2,665)		734	
Financial liabilities at fair value through profit or loss	(4,522)		10,450	
Amounts due to customers	16,189		29,282	
Other liabilities	(2,238)		3,675	
Increase/(decrease) in operating liabilities	**6,764**		44,141	
Net cash flow from operating activities before taxes	23,285		34,650	
Income taxes paid	(1,581)		(1,659)	
Net cash flows from operating activities		**21,704**		32,991
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Dividends received	257		762	
Maturity of investments held to maturity*	0		40	
Purchase of financial assets available for sale	(15,535)		(25,965)	
Sale and maturity of financial assets available for sale*	17,156		9,027	
Purchase of tangible and intangible assets	(1,676)		(1,740)	
Sale of tangible and intangible assets	47		57	
Purchase of investments in subsidiaries and associates	(410)		(1,400)	
Sale/decrease of investments in subsidiaries and associates	68		63	
Net cash flow from investment activities		**(93)**		(19,156)
CASH FLOWS FROM FINANCING ACTIVITIES				
Paid dividends	(6,026)		(10,206)	
Purchase of treasury shares	0		(575)	
Securities issued	3,891		4,423	
Securities redeemed*	(1,688)		(2,961)	
Repayment of subordinated debt*	(6,002)		0	
Net cash flow from financing activities		**(9,825)**		(9,319)
Net increase/(decrease) in cash and cash equivalents	**11,786**		4,516	
Cash and cash equivalents at the beginning of the year	13,790		9,303	
FX differences on Cash and cash equivalents at beginning of year	(41)		(29)	
Cash and cash equivalents at the end of the year (see Note 36)		**25,535**		13,790

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

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

TABLE OF CONTENTS

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 follows:

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

The 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% (2011: 60.35%) of the Bank's issued share capital.

2 Events for the year ended 31 December 2012

Dividends declared in respect of the year ended 31 December 2011

At the General Meeting held on 26 April 2012, the shareholders approved a dividend for the year ended 31 December 2011 of CZK 160 per share before tax. The dividend was declared in the aggregate amount of CZK 6,082 million. An amount of CZK 1,869 million was allocated to retained earnings.

Repayment of the subordinated debt

In December 2011, the Bank announced the intention to repay the subordinated debt early. The intention was subject to proceedings and approvals, including the approval of the Czech National Bank (hereafter only "CNB") as the regulator. Due to the positive result of these discussions and the capital position of the Bank, the subordinated debt was repaid on 27 January 2012. Subsequently, the Bank has its whole regulatory capital in the form of Tier 1 capital, i.e. the highest quality capital from the point of view of capital regulation, and it saved interest costs relating to the subordinated debt as a result of the early repayment.

Changes in the Bank's Financial Group

In May 2012, the shareholders' equity in Bastion European Investments S.A. was decreased by EUR 2.4 million (CZK 68 million). The decrease was initiated only by the Bank, as the majority shareholder of Bastion European Investments S.A.

In May 2012, the shareholders' equity of KB Real Estate, s.r.o. was increased by CZK 410 million due to the acquisition of a new office building in Prague – Stodůlky which was realised on 1 June 2012.

In August 2012, the share capital of Penzijní fond Komerční banky, a.s. was increased by CZK 100 million from retained earnings to a level of CZK 300 million in connection with the pension reform (regulatory requirement for future pension company).

Sale of financial assets

In 2012, the Bank sold the equity investment in Českomoravská záruční a rozvojová banka, a.s. The net gain from the sale for the Bank was CZK 830 million. The acquisition cost was CZK 60 million.

During the year ended 31 December 2012, the Bank sold Portuguese government bonds in the nominal amount 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 amount of EUR 10 million and USD 10 million, i.e. in total in CZK equivalent of CZK 450 million. The net gain from the sale was CZK 11 million.

During the first quarter of 2012, the Bank decided to participate in the exchange of the Greek Government Bonds ("GGB's"). Subsequently, the Bank has decided to realize the divestment of all New Greek Government Bonds ("NGGB's") and GDP warrants with a negative impact of CZK 357 million, which was booked as *'Net profit on financial operations'*.

For information about these operations refer to Notes 7 and 18.

Uncertainty in capital markets

In 2012, the effects of the global financial and economic crisis persisted, in particular the increased uncertainty in capital markets caused by the difficulties of some states of the European Union. The Bank could therefore be in subsequent periods at increased risk particularly in relation to the uncertainty associated with valuation, the potential impairment of assets, contingent liabilities and future developments in the markets. The potential risks may have an impact on the Financial Statements of the Bank in the future. For information about the Bank's exposure to these risks refer to Note 17, 18 and 22.

The presented Separate Financial Statements for the year ended 31 December 2012 are based on the current best estimates and 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 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 100,577 million and total consolidated profit is CZK 14,231 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 ("IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2012.

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 Statement of Comprehensive Income), a Statement of Changes in Shareholders' Equity, a Cash Flow Statement, and Notes to the Financial Statements containing accounting policies and explanatory disclosures.

3.2 Underlying assumptions of Separate Financial Statements

3.2.1 Accrual basis

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

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

3.2.2 Going concern

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

3.2.3 Offsetting

Assets and liabilities or income and expenses are not offset, unless required or permitted under IFRS.

3.2.4 Reporting period

The Group reports for a 12-month period that 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 figures 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 though 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 line 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 non-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 3.5.4);
- the value of intangible assets (refer to Note 3.5.8);
- the amount of impairment of assets (refer to Notes 3.5.4 and 3.5.8);
- provisions recognised under liabilities (refer to Note 3.5.9);
- 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 3.5.6).

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

3.3.4 Investments in subsidiaries and associates

A subsidiary is an entity in which the Bank has control, i.e. directly or indirectly owns more than half voting power 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 power.

Investments, in which the Bank, directly or indirectly, owns the voting power 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 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 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 fair value hedge accounting under IAS 39 applied to interest rate hedging on a portfolio basis for banking deposits which has not been approved by the European Union.

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

- IFRS 1 First-time Adoption of IFRS – amendment: Government Loans
- IFRS 9 Financial Instruments
- IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures – amendment: Mandatory Effective Date and Transition Disclosures
- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – amendment: Transition guidance
- Annual Improvements 2012
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – amendment "Investment Entities"

3.4.2 Standards and interpretations adopted in the current period

These are the standards that were adopted effective from 2 January 2011 to 1 January 2012 inclusive. The following standards and interpretations have no impact in the current period (and/or prior period).

Standard	Impact/Comments
IFRS 1 First-time Adoption of IFRS – amendment: "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters"	The amendment removes the fixed dates to provide relief for first-time adopters of IFRS from having to reconstruct transactions that occurred before their date of transition to IFRS and provides guidance for entities emerging from severe hyperinflation either to resume presenting IFRS statements or to present IFRS financial statements for the first time.
IFRS 7 Financial Instruments: Disclosures – amendment: "Disclosures – Transfer of Financial Assets"	The amendment enhances disclosure related to the evaluation of the risk exposures relating to transfers of financial assets and the effects of those risks on an entity's financial position and promotes transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets.
IAS 12 Income Taxes – amendment: "Deferred Tax: Recovery of Underlying Assets"	The amendment specifies measuring of deferred tax assets/liabilities when investment property is measured using the fair value model in IAS 40 and incorporates SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets after excluding investment property measured at fair value from the scope of the guidance previously contained in SIC-21.

3.4.3 Standards and interpretations adopted effective from 1 January 2012 or thereafter

The standards and interpretations or their amendments described below are in effect. However, they do not apply to reporting periods beginning on 1 January 2012 and the Bank has decided not to early adopt.

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 component of the existing standard IAS 39 relating to the classification and derecognition of financial assets and financial liabilities.

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.

The impact of the application of the revised standard IAS 19 Employee benefits related to the elimination of the "corridor approach" amounts to CZK 48 million (before deferred tax). This amount will be recognised within equity as at 1 January 2013 in accordance with the transition guidance of the revised standard.

Standard	**Summarised content**	**Effective for reporting period beginning on or after**
IFRS 9 Financial Instruments – new standard	The standard initially covered only the classification and measurement of financial assets for which it has newly introduced two portfolios – financial assets subsequently measured at amortised cost and financial assets subsequently measured at fair value. Financial assets subsequently measured at fair value are remeasured to profit and loss except for equity instruments for which the entity irrevocably opts for the possibility to recognise changes in the fair value in other comprehensive income upon first-time recognition or first-time application. Derivatives embedded in financial assets are no longer separated according to the standard. In October 2010, the requirements in IAS 39 for classification and measurement of financial liabilities and for derecognition of financial assets/liabilities were carried forward unchanged to the standard. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk. In December 2011, the Board issued the amendment that postpones the mandatory effective date of IFRS 9. Newly the Standard should be applied for annual periods beginning on or after 1 January 2015.	1 January 2015
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 are reclassified from other comprehensive income to profit or loss. Moreover, a new title of 'Statement of Profit or Loss and Other Comprehensive Income' is used for the statement containing all items of income and expense.	1 July 2012
IAS 19 Employee Benefits – revised Defined Benefit Plans	The revised standard requires immediate recognition of defined benefit cost and improves presentation and disclosure.	1 January 2013
IAS 27 Separate Financial Statements – revised standard	The revised standard does not change current requirements related to Separate Financial Statements.	1 January 2013*

Standard	Summarised content	Effective for reporting period beginning on or after
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 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.	1 January 2013
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.	1 January 2013
IFRS 10 Consolidated Financial Statements – new standard	The new standard is based on current consolidation requirements stipulated in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. However, this standard presents a revised definition of control and related application guidance so that a single control model can be applied to all entities.	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 about consolidated and unconsolidated entities to be published.	1 January 2013*
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – amendment: "Transitional Guidance"	The amendments explain that the 'date of initial application' in IFRS 10 (resp. IFRS 11 and IFRS 12) means 'the beginning of the annual reporting period in which the standard is applied for the first time'. It also clarifies how an investor shall adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application is different when applying IFRS 10 when compared with applying IAS 27/SIC-12.	1 January 2013

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – amendment "Investment Entities"	The amendments define an investment entity, introduce an exception to consolidating particular subsidiaries for investment entities and require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities.	1 January 2014
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).	1 January 2013
Annual Improvements to IFRS 2012 – new standard	Annual Improvements amend five standards in the total of 6 points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – new interpretation	Interpretation addresses recognition of production stripping costs as an asset ("stripping activity asset") and its initial and subsequent measurement.	1 January 2013
IAS 32 Financial Instruments: Presentation – amendment "Offsetting Financial Assets and Financial Liabilities"	The amendment relates to criterion that an entity "currently has a legally enforceable right to set off the recognised amounts" newly added into application guidance.	1 January 2014
IFRS 7 Financial Instruments: Disclosures – amendment: "Mandatory Effective Date and Transition"	The standard has been amended due to the change of the mandatory effective date of IFRS 9 Financial instruments.	1 January 2015

/ 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 2012

The Bank did not make use of the possibility for voluntary earlier application of standards or interpretations in the reporting period beginning 1 January 2012.

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 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 at the date of initial recognition translated into the functional currency using the spot exchange rate announced by the bank authority (hereafter only "BA") for the respective foreign currency. Depending on the functional currency the bank authority means Czech National Bank for the Czech crown and European Central Bank for the euro.

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

I. foreign currency monetary items are translated using the closing rate (exchange rate announced by BA at the end of the reporting period);

II. non-monetary items that are measured in term at historical cost are translated using BA's exchange rate at the date of the translation;

III. non-monetary items that are measured at fair value in a foreign currency are translated using BA's 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 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 exchange rate differences are recognised in the same way. These non-monetary items include equity instruments. In other comprehensive income 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 exchange rate differences related to changes in their amortized 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

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 expenses and similar expenses'* using the effective interest rate (refer to 3.5.4.7 Effective interest rate method). Interest income and expense related to interest rate hedging derivatives are recognized 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'*. Interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss are recognised in the Income Statement in the line *'Net profit on financial operations'*.

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'*.

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

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 re-translation to functional currency and realised gains/losses on available for sale financial assets are presented in the line *'Net profit on financial operations'*.

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in the process of collection.

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, in cash and cash equivalents, the cash and balances with central banks at the beginning and end of the period and current amounts due from and to banks.

3.5.4 Financial instruments

3.5.4.1 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 provision (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 sale trade date according to its categorisation into an individual portfolio, i.e. either in profit or loss or in other comprehensive income.

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

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

3.5.4.2 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 fair value of a financial instrument on 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 *‘Provisions for loans and other credit commitments’*.

3.5.4.3 ‘Day 1’ profit or loss

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 from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets (a ‘Day 1’ profit or loss).

3.5.4.4 Financial assets and liabilities classification and subsequent measurement

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

I. Financial assets and liabilities at fair value through profit or loss;

II. Held to maturity investments;

III. Loans and receivables;

IV. Available for sale financial assets;

V. Financial liabilities at amortised cost.

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

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

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

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

Financial liabilities at fair value through profit or loss include liabilities from securities sold and 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 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

Investments held to maturity 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 an integral component of the effective interest rate. The amortization 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 client's creditworthiness, changes in tax laws, business combination or sale of a part of business (segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for financial assets held to maturity to calculate the capital adequacy), the entire portfolio would have to be reclassified as *‘Financial assets available for sale’*. Furthermore, the Bank would be prohibited from classifying any financial asset as *‘Financial assets held to maturity’* for the following two years.

(iii) Loans and receivables

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

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

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral component of the effective interest rate. The amortization 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

Financial assets available for sale 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.

Financial assets available for sale are subsequently measured at fair value and at the end of each reporting period tested 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 under the item *'Net value gain on financial assets available for sale, 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 recognized in the Income Statement in the line *'Net profit 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 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 *'Income from dividends'*.

(v) Financial liabilities at amortised cost

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

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

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.

3.5.4.5 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 not 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 *'Financial assets available for sale'*, or *'Financial assets held to maturity'* 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. The Bank may also reclassify, in certain circumstances, financial assets out of the *'Financial assets available for sale'* 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 *'Financial assets held to maturity'* portfolio into the *'Financial assets available for sale'* portfolio or *'Loans and receivables'* portfolio, without triggering the "tainting rules", in cases when asset is near to maturity, the Bank has received almost the whole principal of the financial asset or there was a unique and exceptional event that is out of the Bank's control and the Bank could not expect it. Such unique cases are a significant decrease of a client's credit worthiness, changes in tax laws or in legislative requirements, 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 financial assets held to maturity to calculate the capital adequacy).

For a financial asset reclassified out of the *'Financial assets available for sale'* 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.

3.5.4.6 Fair value and hierarchy of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of financial instruments. The hierarchy of fair values has the following three levels:

- Level 1: prices quoted for specific financial instruments on active markets (without modification);
- Level 2: prices quoted on active markets for similar financial instruments or other valuation techniques for which all significant input information is based on data identifiable on the market;
- Level 3: valuation techniques for which not all significant input information is based on data identifiable on the market.

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 specific instrument.

The Bank treats a security as quoted on an active market if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

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

I. quoted prices for similar assets or liabilities in active markets;

II. quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);

III. inputs other than quoted prices, e.g. inputs based on interest rates, yield curves, 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 is estimated using the present value of future cash flow, and the fair value of unquoted equity instruments is estimated using the present value of future cash flow or using price/book value ratios refined to reflect the specific circumstances of the issuer. The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models, as appropriate, and they are adjusted for the credit risk of the counterparty.

3.5.4.7 Effective interest rate method

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

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

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

3.5.4.8 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 an impairment assessment, calculated based on the future cash flow discounted by the loan's original effective interest rate.

3.5.4.9 Impairment and uncollectibility 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, payment default, 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 fact that requires the application of Bank management judgment. As indicators of possible significant or prolonged decline, the Bank regards unrealised loss in regard of instrument acquisition cost or the fact that the instrument quoted price has been below its carrying amount in 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* 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 41(A)). Assets, that are not identified for impairment on an individual basis, are included in the collective assessment of impairment.

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

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

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

For a financial asset available for sale and in the case of objective evidence of its impairment, the 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 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.

3.5.4.10 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 *'Financial assets available for sale'* 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 *'Due from banks'* or *'Loans and advances to customers'*.

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

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

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

3.5.4.11 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;
- 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 3.5.4.4 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;
- changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

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

I. a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or

II. a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or

III. hedging of a net investment in a foreign operation.

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

On this basis, the Bank hedges the interest rate risk and 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, an adjustment to the carrying amount of a 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 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 the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

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

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

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 41(C).

3.5.4.12 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:

- 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;
- the host contract is not measured at fair value with fair value changes recognised in the Income Statement.

3.5.5 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 assets' 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'*;
- 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 category *'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).

3.5.6 Income tax

3.5.6.1 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.

The 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, as the case may be, to realise the asset and settle the liability simultaneously.

3.5.6.2 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.

The 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.

3.5.7 Leasing

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

<u>The Bank as lessor</u>
Operating leases
The Bank presents assets that are the subjects of an operating lease in the appropriate items 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 Bank 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 payments is recognised as *'Loans and advances to customers'* while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

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

The Bank as lessee

Operating lease

Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line *'General administrative expenses'*. Possible penalty payments due to 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 item 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 category as the leased asset. However, if the legal ownership of the asset held under finance lease is not transferred to the lessee by the end of the lease term, 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 expenses and similar expenses'*. 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.

3.5.8 Tangible and intangible assets

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

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

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

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

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

	2012	2011
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – 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
- Lift, electrical installation	25	25
- Facade	30	30
- Roof	20	30
- Net book value – building or 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 4	According to the useful life, typically 4
Licenses – 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.

3.5.9 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;
- a reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

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

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

3.5.10 Employee benefits

3.5.10.1 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. These provisions are presented in the line *'Provisions'*, it's creation, release and use are presented in the line *'Personel expenses'*.

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 amount of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

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

The Bank has following share plans and deferred compensation schemes:

3.5.10.2 Deferred bonus payments

The Bank implemented a new compensation scheme for employees with a significant impact on the risk profile according to European regulation (Capital Requirements Directive III; No. 2010/76/EU). 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 following year; and (ii) a deferred component which is spread over three years. The amounts of both components are further split equally to 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 subjected 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 to reach the Société Générale group net income equal or higher than zero;
- in the case of bonuses paid in the cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the condition is to reach the Komerční banka group net income higher than zero. Moreover, for employees of investment banking there is a condition that the Bank's net investment banking operating income is higher then 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. multiplied by numbers of granted shares and it is spread during 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 recognise over the vesting period in the line *'Personnel expenses'*.

3.5.10.3 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's model 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 each accounting date , the number of these instruments is revised taking into account performance and service conditions and the overall cost of the plan as originally determined is adjusted. Expenses recognised from the start of the grant are then adjusted accordingly. Social security, health insurance contributions and contributions to retirement pension insurance costs related to granted rights to free shares are recognised in the lines *'Personnel expenses'* and *'Provisions'*.

The shares will be acquired in two tranches:

- the first tranche will account for 40% of the allocation, i.e. 16 shares and it is contingent on Société Générale S.A. achieving a positive net income by the Société Générale Group (Initial criterion of 10% Return of Equity, net of tax has been changed by Société Générale Board of Directors based on the General Shareholders' Meeting dated 22 May 2012), in 2012, Bank employees will acquire shares on 31 March 2015;
- the second tranche will account for 60% of the allocation, i.e. 24 shares and is contingent on customer satisfaction increasing between 2010 and 2013 in Société Générale S.A. three core businesses (French Networks, International Retail Banking, Corporate and Investment Banking), Bank employees will acquire shares on 31 March 2016.

3.5.11 Share capital

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

Treasury shares
Where the Bank purchases the Bank's equity instruments, the consideration paid, and including any attributable transaction costs, is recognised as a deduction from the *'Share premium and reserves'* line in *'Total 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'*.

3.5.12 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/obligation 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 within the control of the Bank. A contingent liability is also a present obligation where an outflow of resources embodying economic benefits will not be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities, for example, include irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants. Items off-balance sheet include also such interest and foreign currency instruments as forwards, swaps, options and futures. For more information about operations with derivatives (refer to 3.5.4.11 Derivatives and hedge accounting).

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.

3.5.13 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 a 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:* trading with financial instruments;
- *Other:* head office of the Bank.

The Investment Banking segment does not achieve 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 expenses of individual operating segments are not reported separately, but on a net basis.

In addition, the Bank monitors net fee and commission income, net profit 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 in amounts 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.

3.5.14 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 allowances to cover credit risk associated with the Bank's clients, as well as its liquidity, interest rate and foreign currency positions.

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Net interest income and similar income	9,467	9,249	6,136	5,826	55	7	2,134	2,894	17,792	17,976
Net fee and commission income	4,901	4,616	2,234	2,309	(1)	7	(117)	172	7,017	7,104
Net profit on financial operations	843	854	988	1,068	947	976	390	15	3,168	2,913
Other income	113	125	(26)	(37)	132	111	(71)	(79)	148	120
Net banking income	**15,324**	14,844	**9,332**	9,166	**1,133**	1,101	**2,336**	3,002	**28,125**	28,113

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with the 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 expenses.

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

The Bank's income is primarily (over 99%) generated on the territory of the Czech Republic.

5 Net interest income and similar income

Net interest income and similar income comprise:

(CZKm)	**2012**	2011
Interest income and similar income	30,284	29,799
Interest expenses and similar expenses	(12,749)	(12,585)
Dividend income	257	762
Net interest income and similar income	**17,792**	17,976
Of which net interest income arising from		
- loans and advances	16,883	17,123
- investments held to maturity	6	36
- financial assets available for sale	3,494	3,052
- financial liabilities at amortised cost	(4,930)	(4,667)

'Interest income and similar income' includes interest on substandard, doubtful and loss loans of CZK 372 million (2011: CZK 444 million) due from customers and interest of CZK 70 million (2011: CZK 386 million) on securities that have suffered impairment. During the year ended 31 December 2012, the Bank derecognised these securities. As at 31 December 2012, 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 9,915 million (2011: CZK 9,588 million) and *'Interest expenses and similar expense'* includes interest expenses from hedging financial derivatives of CZK 7,833 million (2011: CZK 7,918 million). Net interest income from these derivatives amounts to CZK 2,082 million (2011: CZK 1,670 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

'Income from dividends' includes received dividends from subsidiaries and associates of CZK 257 million (2011: CZK 673 million) and received dividends from financial assets available for sale of CZK 0 million (2011: CZK 89 million).

6 *Net fee and commission income*

Net fee and commission income comprises:

(CZKm)	**2012**	2011
Transactions	4,248	4,303
Loans and deposits	2,555	2,890
Others	1,400	1,366
Total fee and commission income	**8,203**	8,559
Transactions	(958)	(940)
Loans and deposits	(156)	(437)
Others	(72)	(78)
Total fee and commission expenses	**(1,186)**	(1,455)
Total net fee and commission income	**7,017**	7,104

The line *'Others'* includes mainly fees and commissions from trade finance, investment banking and the distribution of the Group companies' products. The line comprises fee income arising from trust and other fiduciary activities in the amount of CZK 73 million (2011: CZK 69 million) and fee expense in the amount of CZK 8 million (2011: CZK 8 million).

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

Net profit/(loss) on financial operations comprises:

(CZKm)	**2012**	2011
Net realised gains/(losses) on securities held for trading	146	(42)
Net unrealised gains/(losses) on securities held for trading	238	493
Net realised gains/(losses) on securities available for sale	460	(5)
Net realised and unrealised gains/(losses) on security derivatives	123	89
Net realised and unrealised gains/(losses) on interest rate derivatives	(162)	188
Net realised and unrealised gains/(losses) on trading commodity derivatives	44	17
Net realised and unrealised gains/(losses) on foreign exchange from trading	1,005	767
Net realised gains/(losses) on foreign exchange from payments	1,314	1,406
Total net profit/(loss) on financial operations	**3,168**	2,913

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

A loss of CZK 1,442 million (2011: CZK 1,321 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 gain arising from the retranslation of hedged loan receivables and financial assets available for sale reported in the same line.

8 Other income

'Other income' is predominantly composed of income from provided services to the financial group and property rental income.

9 Personnel expenses

Personnel expenses comprise:

(CZKm)	**2012**	2011
Wages, salaries and bonuses	4,348	4,159
Social costs	1,714	1,694
Total personnel expenses	**6,062**	5,853
Physical number of employees at the period-end	7,895	7,979
Average recalculated number of employees during the period	7,845	7,855
Average cost per employee (CZK)	**772,743**	745,168

'Social costs' include costs of CZK 78 million (2011: CZK 76 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 44 million (2011: CZK 44 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include the charge of the provision for restructuring in the amount of CZK 10 million (2011: CZK 0 million) relating to the project to reorganise of the distribution network and also the release and use of the restructuring provision of CZK 0 million (2011: CZK 10 million) relating to the change in the legal status of Komerční banka Bratislava a.s. to a foreign branch of the Bank (refer to Note 32).

Indexed bonuses

In 2012, the total amount relating to bonuses indexed on the Société Générale share price and the Komerční banka share price recognized in *'Personnel expenses'* is CZK 27 million (2011: CZK: 2 million) and the total amount of CZK 27 million (2011: CZK 6 million) recognized as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Bank. The total number of shares according to which are bonuses indexed on the Société Générale share price calculated is 16,934 pieces (2011: 24,852 pieces). The total number of shares according to which are bonuses indexed on the Komerční banka share price calculated is 9,487 pieces (2011: 0 pieces).

The movement in the number of shares was as follows:

	2012		2011	
(pieces)	**SG shares**	**KB shares**	SG shares	KB shares
Balance at 1 January	**24,852**	**0**	8,027	0
Paid out during the period	(7,918)	0	(1,407)	0
New guaranteed number of shares	0	9,487	18,232	0
Balance at 31 December	**16,934**	**9,487**	24,852	0

Free shares

The share price at the granted date is equal to 34.55 EUR for the first tranche and 33.15 EUR for the second tranche. The total number of granted free shares for both periods is 284,840 pieces (2011: 294,520 pieces). In 2012, the total amount relating to the free shares program recognized in *'Personnel expenses'* is CZK 46 million (2011: CZK 41 million) and from the start of the grant the cumulative amount of CZK 92 million (2011: CZK 46 million) is recognized as *'Share premium'* in equity.

10 General administrative expenses

General administrative expenses comprise:

(CZKm)	**2012**	2011
Insurance	107	109
Marketing and representation	508	526
Sale and banking products expenses	334	381
Other employees expenses and travelling	119	131
Real estate expenses	1,203	1,171
IT support	790	857
Equipment and supplies	223	169
Telecommunications, postage and data transfer	343	390
External consultancy and other services	670	626
Other expenses	114	167
Total general administrative expenses	**4,411**	4,527

'General administrative expenses' include the release and use of the provision for restructing in the amount of CZK 9 million (2011: CZK 11 million) relating to the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Bank (refer to Note 32).

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise:

(CZKm)	**2012**	2011
Tangible and intangible assets depreciation and amortization (refer to Notes 25 and 26)	1,549	1,631
Impairment and disposal of fixed assets	12	0
Total depreciation, impairment and disposal of assets	**1,561**	1,631

12 Cost of risk

Allowance for loan impairment and provisions for other credit commitments

Allowances for loan losses in the total amount of CZK 1,379 million (2011: CZK 1,377 million) include a net loss from allowances and provisions for loans losses in the amount of CZK 1,848 million (2011: 1,864 million) and a net gain from written-off and transferred loans in the amount of CZK 469 million (2011: 487 million).

The movement in Allowances and Provisions was as follows:

(CZKm)	**2012**	2011
Balance at 1 January	**(13,377)**	(13,063)
Charge of allowances and provisions for loans losses		
- individuals	(2,464)	(2,432)
- corporates*	(4,294)	(4,202)
Release and use of allowances and provisions for loans losses		
- individuals	1,529	1,569
- corporates*	3,381	3,201
Impact of loans written-off and transferred	1,095	1,705
Exchange rate differences attributable to provisions	122	(155)
Balance at 31 December	**(14,008)**	(13,377)

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

The balance of Allowances and Provisions as at 31 December 2012 and 2011 comprises:

(CZKm)	**2012**	2011
Allowances for loans to banks (refer to Note 20)	0	0
Allowances for loans to customers (refer to Note 21)	(13,525)	(12,759)
Allowances for other loans to customers (refer to Note 21)	(1)	(1)
Provisions for guarantees and other credit related commitments (refer to Note 32)	(482)	(617)
Total	**(14,008)**	(13,377)

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 0 million as at 31 December 2012 (2011: CZK 5,566 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 28 million (2011: net profit of CZK 10 million) mainly consists of the charge for provisions of CZK 260 million (2011: CZK 26 million) and the release and use of provisions of CZK 256 million (2011: CZK 36 million) for legal disputes, together with the net costs incurred by the Bank as a result of the outcome of legal disputes of CZK 24 million (2011: CZK 0 million).

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

13 Profit/(loss) on subsidiaries and associates

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

(CZKm)	**2012**	2011
Balance at 1 January	**(355)**	(355)
Charge for allowances	0	0
Use of allowances	0	0
Balance at 31 December	**(355)**	(355)

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

14 Income taxes

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

(CZKm)	**2012**	2011
Tax payable – current year, reported in profit or loss	(2,406)	(1,444)
Tax paid – prior year	24	(31)
Deferred tax (refer to Note 33)	(68)	65
Hedge of a deferred tax asset against foreign currency risk	14	(19)
Total income taxes	**(2,436)**	(1,429)
Tax payable – current year, reported in equity	0	14
Total tax expense	**(2,436)**	(1,415)

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

(CZKm)	**2012**	2011
Profit before tax	**14,684**	9,380
Theoretical tax calculated at a tax rate of 19% (2011: 19%)	2,790	1,782
Tax on pre-tax profit adjustments	20	(9)
Non-taxable income	(1,088)	(1,003)
Expenses not deductible for tax purposes	763	770
Tax allowance	(2)	(2)
Tax credit	(77)	(83)
Hedge of a deferred tax asset against foreign currency risk	(14)	19
Movement in deferred tax	68	(65)
Tax losses	0	(8)
Other	0	(3)
Income tax expense	**2,460**	1,398
Prior period tax expense	(24)	31
Total income taxes	**2,436**	1,429
Tax payable on financial assets available for sale reported in equity*	0	(14)
Total tax expense	**2,436**	1,415
Effective tax rate	16.59%	15.23%

Note: / This amount represents the tax payable on unrealised gains from the revaluation of financial assets available for sale 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 CAS. Tax credit arises from interest income on bonds issued by EU states.

The corporate tax rate for the year ended 31 December 2012 is 19% (2011: 19%). The Bank's tax liability is calculated based upon the accounting profit taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

As at 31 December 2012, the Bank records unused tax losses in the amount of CZK 77 million (2011: CZK 166 million). These tax losses are Slovak tax losses from previous years, applicable only for Slovak corporate tax paid by the Slovak branch of the Bank.

These tax losses can be used in the following time frame:

(CZKm)	1 year	2 years	3 years	4 years	5 years
In the amount of	0	0	0	0	77

Further information about deferred tax is presented in Note 33.

15 Distribution of net profit

For the year ended 31 December 2012, the Bank generated a net profit of CZK 12,248 million (2011: CZK 7,951 million). The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount CZK 230 per share (2011: CZK 160 per share) that in total represents an amount of CZK 8,742 million. The proposal is subject to the Supervisory Board's review and subsequently of the approval to the General Shareholders' meeting.

In accordance with the resolution of the General Shareholders' meeting, held on 26 April 2012, the aggregate balance of the net profit of CZK 7,951 million for the year ended 31 December 2011 was allocated as follows: CZK 6,082 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. Since 2008, the reserve fund achieved the level required by the Commercial Code and the Articles of Association of the Bank, i.e. 20% of the share capital of the Bank.

16 Cash and current balances with central banks

Cash and current balances with central banks comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Cash and cash equivalents	6,452	7,541
Current balances with central banks	21,207	8,707
Total cash and current balances with central banks	**27,659**	16,248

Obligatory minimum reserves in the amount of CZK 736 million (2011: CZK 7,877 million) are included in *'Current balances with central banks'* and they bore interest. As at 31 December 2012, the interest rate was 0.05% (2011: 0.75%) in the Czech Republic and 0.75% (2011: 1.00%) in the Slovak Republic.

17 Financial assets at fair value through profit or loss

As at 31 December 2012 and 2011, *'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 at *'Financial assets at fair value through profit or loss'*.

(CZKm)	**31 Dec 2012**	31 Dec 2011
Securities	33,962	15,564
Derivative financial instruments	17,945	19,723
Financial assets at fair value through profit or loss	**51,907**	35,287

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 41(C).

Trading securities comprise:

	31 Dec 2012		31 Dec 2011	
(CZKm)	**Fair value**	**Cost***	Fair value	Cost*
Shares and participation certificates	**0**	**0**	7	7
Emission allowances	**813**	**855**	0	0
Fixed income debt securities	8,505	8,309	9,697	8,904
Variable yield debt securities	1,939	1,927	1,622	1,577
Bills of exchange	1,852	1,839	689	686
Treasury bills	20,853	20,836	3,549	3,546
Total debt securities	**33,149**	**32,911**	15,557	14,713
Total trading securities	**33,962**	**33,766**	15,564	14,720

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

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Ministry of Finance at fair value of CZK 20,853 million (2011: CZK 3,549 million).

As at 31 December 2012, the portfolio of trading securities includes securities at fair value of CZK 11,013 million (2011: CZK 10,487 million) that are publicly traded on stock exchanges and securities at fair value of CZK 22,949 million (2011: CZK 5,077 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Trading shares and participation certificates at fair value comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Shares and participation certificates		
- Czech crowns	0	7
Total trading shares and participation certificates	**0**	7

Trading shares and participation certificates at fair value, allocated by issuer, comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Trading shares and participation certificates issued by:		
- Other entities in the Czech Republic	0	7
Total trading shares and participation certificates	**0**	7

Emission allowances at fair value comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Emission allowances		
- Other currencies	813	0
Total emission allowances	**813**	0

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Emission allowances issued by:		
- Foreign financial institutions	813	0
Total emission allowances	**813**	0

Debt trading securities at fair value comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Variable yield debt securities		
- Czech crowns	1,837	1,569
- Other currencies	102	53
Total variable yield debt securities	**1,939**	1,622
Fixed income debt securities (including bills of exchange and treasury bills)		
- Czech crowns	27,798	11,863
- Other currencies	3,412	2,072
Total fixed income debt securities	**31,210**	13,935
Total trading debt securities	**33,149**	15,557

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Debt trading securities issued by:		
- State institutions in the Czech Republic	28,575	12,492
- Foreign state institutions	2,503	2,000
- Financial institutions in the Czech Republic	114	70
- Foreign financial institutions	93	45
- Other entities in the Czech Republic	1,864	921
- Other foreign entities	0	29
Total trading debt securities	**33,149**	15,557

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Country of Issuer	**Fair value**	Fair value
Italy	13	9
Poland	129	1,326
Slovakia	2,361	665
Other countries	0	0
Total	**2,503**	2,000

Of the debt securities issued by state institutions in the Czech Republic, CZK 7,651 million (2011: CZK 8,925 million) represents securities eligible for refinancing with the CNB.

18 Financial assets available for sale

Financial assets available for sale comprise:

	31 Dec 2012		31 Dec 2011	
(CZKm)	**Fair value**	**Cost***	Fair value	Cost*
Shares and participation certificates	**2**	**2**	702	62
Fixed income debt securities	83,318	72,571	74,390	75,875
Variable yield debt securities	11,061	10,553	11,364	11,188
Total debt securities	**94,379**	**83,124**	85,754	87,063
Total financial assets available for sale	**94,381**	**83,126**	86,456	87,125

Note: / Acquisition cost for shares and participation certificates, amortised acquisition cost for debt securities*

As at 31 December 2012, *'Financial assets available for sale'* portfolio includes securities at fair value of CZK 94,379 million (2011: CZK 85,754 million) that are publicly traded on stock exchanges and securities at fair value of CZK 2 million (2011: CZK 702 million) that are not publicly traded.

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Shares and participation certificates		
- Czech crowns	0	700
- Other currencies	2	2
Total shares and participation certificates available for sale	**2**	702

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Shares and participation certificates available for sale issued by:		
- Banks in the Czech Republic	0	700
- Non-banking foreign entities	2	2
Total shares and participation certificates available for sale	**2**	702

In 2012, the Bank sold the 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 was CZK 60 million.

Debt securities available for sale at fair value comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Fixed income debt securities		
- Czech crowns	65,350	53,023
- Other currencies	17,968	21,367
Total fixed income debt securities	**83,318**	74,390
Variable yield debt securities		
- Czech crowns	9,398	9,671
- Other currencies	1,663	1,693
Total variable yield debt securities	**11,061**	11,364
Total debt securities available for sale	**94,379**	85,754

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Debt securities available for sale issued by:		
- State institutions in the Czech Republic	58,454	46,602
- Foreign state institutions	19,737	22,029
- Financial institutions in the Czech Republic	15,326	15,269
- Foreign financial institutions	862	1,854
- Other entities in the Czech Republic	0	0
- Other foreign entities	0	0
Total debt securities available for sale	**94,379**	85,754

Debt securities available for sale issued by foreign state institutions:

(CZKm)	**31 Dec 2012**		31 Dec 2011	
Country of Issuer	**Fair value**	**Cost***	Fair value	Cost*
Italy	7,907	6,717	7,302	7,381
Luxemburg	1,040	1,029	0	0
Poland	5,664	5,051	7,817	7,350
Portugal	0	0	218	261
Greece	0	0	2,071	7,327
Slovakia	5,126	4,603	4,621	4,724
Total	**19,737**	**17,400**	22,029	27,043

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 50,669 million (2011: CZK 39,035 million) represents securities eligible for refinancing with the CNB.

During the year ended 31 December 2012, the Bank acquired bonds with a nominal value of CZK 12,350 million. The whole amount comprised of bonds issued by State institutions in the Czech Republic. During 2012, the Bank had a regular repayment of debt securities at the maturity in the aggregate nominal amount 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 2012, the Bank sold Portuguese government bonds in the nominal amount 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 amount 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 the Greek Government Bonds ("GGB's"). The conditions of the exchange were as follows:

- 53.5% write-off of the original nominal value of GGB's;
- 15% of the original nominal value of GGB's is replaced by securities issued by the EFSF (newly established institution of the European Financial Stability Fund) considered to be equivalent to cash, with 1-2 years maturity;
- 31.5% of the original nominal value of GGB's to be replaced with New Greek Government Bonds ("NGGB's"), with the same issuer (Greek government), the same currency (Euro) and issued under UK law. NGGB's will consist of 20 tranches with a maturity of 11 to 30 years replicating an amortisation of 5% p.a. commencing in 2023. The coupon on the new Greek government bonds will be as follows:
  - 2012-2015: 2.00%
  - 2016-2020: 3.00%
  - 2021: 3.65%
  - 2022-2042: 4.30%
- GDP warrants for the full original nominal value of GGB's, which will provide the holder with interests (no principal) in case the GDP growth of Greece in a particular year exceeds a certain percentage.

Subsequently, the Bank has decided to realize the divestment of all NGGB's and GDP warrants with a negative impact of CZK 357 million, which was booked as *'Net profit on financial operations'* (refer to Note 7).

19 Assets held for sale

As at 31 December 2012, the Bank reported assets held for sale at a carrying amount of CZK 3 million (2011: CZK 13 million) comprising buildings and land owned by the Bank which the management of the Bank decided to sell as component of the plan to optimise the distribution network. These buildings are not depreciated.

20 Amounts due from banks

Balances due from banks comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Current account with other banks	5,455	60
Debt securities	4,786	6,797
Loans and advances to banks	7,484	12,256
Advances due from the Czech National Bank (reverse repo transactions)	21,000	59,011
Term placements with other banks	17,138	16,003
Total amounts due from banks, gross	**55,863**	94,127
Allowances for amount due from banks (refer to Note 12)	0	0
Total amounts due from banks , net	**55,863**	94,127

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 with fair value:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Treasury bills	20,614	57,881
Debt securities issued by state institutions	2,683	6,674
Debt securities issued by other institutions	0	644
Shares	278	284
Investment certificates	77	0
Total	**23,652**	65,483

Securities acquired as loans and receivables

As at 31 December 2012, the Bank maintains in its portfolio bonds at an amortised cost of CZK 4,786 million (2011: CZK 6,797 million) and a nominal value of CZK 4,705 million (2011: CZK 6,705 million), of which CZK 2,590 million represents bond issued by the parent company Société Générale S.A. (2011: CZK 4,590 million) which the Bank acquired under an initial offering and normal market conditions in 2010. The second bond issued by the parent company Société Générale S.A., which was held on this portfolio, was repaid during 2012 (there were partial repayments of the nominal value of the bond in the total amount of CZK 2,000 million in 2012). Additionally, the Bank carries three issues of securities placed by financial institutions with an aggregate nominal value of CZK 2,115 million in this portfolio (2011: CZK 2,115 million).

21 Loans and advances to customers

Loans and advances to customers comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Loans to customers	406,934	382,492
Bills of exchange	421	439
Forfaits	1,776	1,651
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**409,131**	384,582
Debt securities	461	461
Other amounts due from customers	123	405
Total loans and advances to customers, gross	**409,715**	385,448
Allowances for loans to customers		
- individuals	(3,816)	(3,140)
- corporates*	(9,709)	(9,619)
Total allowances for loans to customers	**(13,525)**	(12,759)
Allowances for other amounts due from customers	(1)	(1)
Total allowances for loans and other amounts due from customers (refer to Note 12)	**(13,526)**	(12,760)
Total loans and advances to customers, net	**396,189**	372,688

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

As at 31 December 2012, loans and advances to customers include interest due of CZK 1,141 million (2011: CZK 1,140 million), of which CZK 505 million (2011: CZK 689 million) relates to overdue interest.

As at 31 December 2012, loans provided to customers under reverse repurchase transactions in the amount of CZK 218 million (2011: CZK 298 million) are collateralised by securities with fair values of CZK 120 million (2011: CZK 193 million).

As at 31 December 2012, the loan portfolio of the Bank (excluding other amounts due from customers) comprises of the following breakdown by classification:

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

As at 31 December 2011, the loan portfolio of the Bank (excluding other amounts due from customers) comprises the following breakdown by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	352,732	153,342	199,390	0	352,732	0%
Watch	11,421	4,298	7,123	(862)	10,559	12%
Substandard	3,488	2,117	1,371	(686)	2,802	50%
Doubtful	3,835	1,538	2,297	(1,387)	2,448	60%
Loss	13,106	837	12,269	(9,824)	3,282	80%
Total	384,582	162,132	222,450	(12,759)	371,823	

Set out below is the breakdown of loans by sector (net of other amounts due from customers):

(CZKm)	**31 Dec 2012**	31 Dec 2011
Food industry and agriculture	15,902	14,706
Mining and extraction	1,279	1,902
Chemical and pharmaceutical industry	5,378	5,483
Metallurgy	8,183	8,743
Automotive industry	2,472	2,287
Manufacturing of other machinery	7,633	7,038
Manufacturing of electrical and electronic equipment	3,134	2,542
Other processing industry	8,034	8,094
Power plants, gas plants and waterworks	21,783	22,469
Construction industry	9,685	10,439
Retail	11,872	11,083
Wholesale	27,120	24,882
Accommodation and catering	1,019	1,138
Transportation, telecommunication and warehouses	10,158	7,243
Banking and insurance industry	46,500	43,770
Real estate	27,854	26,829
Public administration	30,758	29,048
Other industries	17,524	14,733
Individuals	152,843	142,153
Total loans to customers	**409,131**	384,582

The majority of loans (more than 90%) were provided to entities on the territory of the Czech Republic.

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

(CZKm)	**31 Dec 2012** Total client loan collateral*	**31 Dec 2012** Discounted client loan collateral value**	**31 Dec 2012** Applied client loan collateral value***	31 Dec 2011 Total client loan collateral*	31 Dec 2011 Discounted client loan collateral value**	31 Dec 2011 Applied client loan collateral value***
Guarantees of state and governmental institutions	4,492	2,713	2,696	10,368	3,433	3,415
Bank guarantee	17,501	14,953	14,857	16,060	13,404	12,791
Guaranteed deposits	1,673	1,106	928	1,145	1,143	942
Issued debentures in pledge	0	0	0	4	3	3
Pledge of real estate	269,817	178,739	128,553	252,142	161,617	116,193
Pledge of movable assets	19,034	1,707	1,641	18,970	1,691	1,605
Guarantee by legal entity	21,839	13,425	12,908	20,908	13,802	13,145
Guarantee by individual (natural person)	1,159	182	156	1,200	171	139
Pledge of receivables	31,177	3,592	3,239	36,098	3,692	3,395
Insurance of credit risk	11,804	11,213	11,213	10,928	10,381	10,381
Other	841	414	98	2,095	129	123
Nominal value of collateral	**379,337**	**228,044**	**176,289**	369,918	209,466	162,132

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 coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of falling prices in the market, the risk of insolvency, etc.*

*/*** The applied collateral value is the discounted collateral value reduced up to the actual amount of the collateralized exposure balance.*

Pledges on industrial real-estate represent 13% of total pledges on real estate (2011: 13%).

Debt securities designated as loans and receivables

As at 31 December 2012, the Bank holds in its portfolio debt securities at an amortised cost of CZK 461 million (2011: CZK 461 million) and in the nominal amount of CZK 450 million (2011: CZK 450 million). During 2012, there were no purchase, sale nor redemption.

Loans and advances to customers – restructured

(CZKm)	**31 Dec 2012**	31 Dec 2011
Individuals	754	545
Corporates*	4,519	4,419
Total	**5,273**	4,964

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 2012, the Statement of Financial Position included loans to this client in the amount of CZK 1,331 million (2011: CZK 1,392 million) which was fully provided for. The decrease in the balance between 2012 and 2011 arises from a foreign exchange rate difference. The Bank did not report any off-balance sheet receivables from this client in 2012 and 2011. The Bank is continuing to take action in all relevant jurisdictions to recover its funds.

22 *Financial assets held to maturity*

Financial assets held to maturity comprise:

	31 Dec 2012		31 Dec 2011	
(CZKm)	**Carrying value**	**Cost***	Carrying value	Cost*
Fixed income debt securities	179	177	184	183
Total investments held to maturity	**179**	**177**	184	183

Note: / Amortised acquisition cost.*

As at 31 December 2012, *'Financial assets held to maturity'* portfolio includes bonds of CZK 179 million (2011: CZK 184 million) that are publicly traded on stock exchanges.

Fixed income debt securities held to maturity comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Fixed income debt securities		
- Foreign currencies	179	184
Total fixed income debt securities	**179**	184

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Fixed income debt securities issued by:		
- Foreign state institutions	179	184
Total fixed income debt securities	**179**	184

Debt securities held to maturity issued by foreign state institutions:

(CZKm)	**31 Dec 2012**		31 Dec 2011	
Country of Issuer	**Fair value**	**Cost***	Fair value	Cost*
France	189	177	196	183
Total investments held to maturity	**189**	**177**	196	183

Note: / Amortised acquisition cost.*

No purchase or sale within this portfolio took place during the year ended 31 December 2012. During 2012, there were no redemptions at maturity.

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Prepayments and accrued income	201	274
Settlement balances	597	262
Receivables from securities trading	19	37
Other assets	1,417	1,089
Total prepayments, accrued income and other assets	**2,234**	1,662

Other assets includes mainly provided advances and receivables for other debtors.

24 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Investments in subsidiary undertakings	24,446	24,104
Investments in associated undertakings	482	482
Total investments in subsidiaries and associates	**24,928**	24,586

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as at 31 December 2012:

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	3,473	0	3,473
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 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
Penzijní fond Komerční banky, a.s.	100	100	Additional pension insurance	Prague	230	0	230
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
Total					**24,446**	**0**	**24,446**

Associated undertakings

The following companies are associated undertakings of the Bank as at 31 December 2012:

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

Note: / The value of CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.*

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

(CZKm)	Investment at cost at 1 Jan 2012	Additions	Decreases	Investment at cost at 31 Dec 2012
Bastion European Investments S.A.	3,541	0	(68)	3,473
ESSOX, s.r.o.	1,165	0	0	1,165
Factoring KB, a.s.	1,190	0	0	1,190
KB Real Estate, s.r.o.	101	410	0	511
Modrá pyramida stavební spořitelna, a.s.	4,873	0	0	4,873
Penzijní fond Komerční banky, a.s.	230	0	0	230
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
Total subsidiaries	**24,104**	**410**	**(68)**	**24,446**
CBCB – Czech Banking Credit Bureau, a.s.	0*	0	0	0*
Komerční pojišťovna, a. s.	837	0	0	837
Total associates	**837**	**0**	**0**	**837**

Note: / The value of CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.*

Changes in equity investments in subsidiaries and associates in 2012

In May 2012, the shareholders' equity in Bastion European Investments S.A. was decreased by EUR 2.4 million (CZK 68 million). The decrease was initiated only by the Bank, as the majority shareholder of Bastion European Investments S.A.

In May 2012, the shareholders' equity of KB Real Estate, s.r.o. was increased by CZK 410 million due to the acquisition of a new office building in Prague – Stodůlky which was realised on 1 June 2012.

In August 2012, the share capital of Penzijní fond Komerční banky, a.s. was increased by CZK 100 million from retained earnings to a level of CZK 300 million in connection with the pension reform (regulatory requirement for future pension company).

25 Intangible assets

The movements in intangible assets during the year ended 31 December 2012 are as follows:

(CZKm)	Internally generated assets	Software	Other intangible assets	Acquisition of assets	Total
Cost					
31 December 2011	8,117	1,381	98	660	10,256
Additions	943	119	(36)	976	2,002
Disposals/transfers	(144)	(17)	0	(1,026)	(1,187)
Exchange rate difference	0	(1)	0	0	(1)
31 December 2012	**8,916**	**1,482**	**62**	**610**	**11,070**
Accumulated amortisation and allowances					
31 December 2011	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
Exchange rate difference	0	(1)	0	0	(1)
31 December 2012	**6,381**	**1,151**	**42**	**0**	**7,574**
Net book value					
31 December 2011	2,421	334	34	660	3,449
31 December 2012	**2,535**	**331**	**20**	**610**	**3,496**

During the year ended 31 December 2012, the Bank invested CZK 143 million (2011: CZK 142 million) in research and development through a charge in *'Operating expenses'*.

26 Tangible assets

The movements in tangible assets during the year ended 31 December 2012 are as follows:

(CZKm)	**Land**	**Buildings**	**Machinery, furniture and fixtures and other**	**Acquisition of assets**	**Total**
Cost					
31 December 2011	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)
Exchange rate difference	0	0	(1)	0	(1)
31 December 2012	**157**	**10,772**	**4,945**	**301**	**16,175**
Accumulated depreciation and Allowances					
31 December 2011	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)
Exchange rate difference	0	0	(1)	0	(1)
31 December 2012	**0**	**5,540**	**4,054**	**0**	**9,594**
Net book value					
31 December 2011	149	5,248	814	325	6,536
31 December 2012	**157**	**5,232**	**891**	**301**	**6,581**

As at 31 December 2012, the Bank recognised allowances against tangible assets of CZK 1 million (2011: CZK 16 million). These allowances primarily included allowances charged in respect of buildings and improvements of leased assets.

27 Financial liabilities at fair value through profit or loss

As at 31 December 2012 and 2011, *'Financial liabilities at fair value through profit or loss'* portfolio includes only liabilities arising from sold 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 at *'Financial liabilities at fair value through profit or loss'*.

(CZKm)	**31 Dec 2012**	31 Dec 2011
Sold securities	2,481	4,686
Derivative financial instruments	17,423	19,736
Financial liabilities at fair value through profit or loss	**19,904**	24,422

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 41(C).

28 Amounts due to banks

Amounts due to banks comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Current accounts	7,578	2,517
Amounts due to banks	24,267	27,111
Total amounts due to banks	**31,845**	29,628

The fair value of securities and treasury bills used as collateral for received repo loans from banks was CZK 395 million (2011: CZK 1,818 million) of which CZK 175 million (2011: CZK 662 million) was 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 175 million (2011: CZK 688 million).

The carrying amount of securities and loans to customers used as pledge for received loans was CZK 5,468 million (2011: CZK 0 million).

29 Amounts due to customers

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Current accounts	330,152	319,827
Savings accounts	84,090	66,903
Term deposits	55,058	69,000
Depository bills of exchange	6,287	10,316
Amounts received from customers	6,498	0
Other payables to customers	3,884	3,753
Total amounts due to customers	**485,969**	469,799

The fair value of securities and treasury bills that serve as a pledge of received repurchase loans from customers amounted to CZK 6,497 million (2011: CZK 0 million).

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Private companies	186,451	184,133
Other financial institutions, non-banking entities	20,692	17,620
Insurance companies	15,407	7,538
Public administration	1,272	1,395
Individuals	152,583	155,867
Individuals – entrepreneurs	23,027	24,538
Government agencies	64,676	60,355
Other	11,222	10,401
Non-residents	10,639	7,952
Total amounts due to customers	**485,969**	469,799

30 Securities issued

Securities issued comprise bonds of CZK 0 million (2011: CZK 0 million) and mortgage bonds of CZK 38,017 million (2011: CZK 34,525 million). Mortgage bonds are issued to fund the Bank's mortgage activities.

Debt securities are repayable, according to the remaining maturity, as follows:

(CZKm)	**31 Dec 2012**	31 Dec 2011
In less than one year	0	0
In one to five years	14,286	12,666
In five to ten years	3,547	3,944
In ten to twenty years	0	0
Over twenty years	20,184	17,915
Total debt securities	**38,017**	34,525

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

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

Name	Interest rate	Currency	Issue date	Maturity date	**31 Dec 2012 CZKm**	31 Dec 2011 CZKm
HZL Komerční banky, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	2,200	2,306
HZL Komerční banky, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	11,434	10,360
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	3,147	3,161
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	2,468	2,474
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	1,842	1,045
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	2,079	0
HZL Komerční banky, a.s., CZ0002001530, CZ0002001548	4.29% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	2,465	2,468
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first one 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	5,133	4,349
HZL Komerční banky, a.s., CZ0002001746	Rate of the interest rate swap sale in CZK for 5 years plus 150 bps	CZK	28 Dec 2007	28 Dec 2037	0	1,289
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	6,197	6,290
HZL Komerční banky, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	652	783
HZL Komerční banky, a.s., CZ0002002801	4.22%	CZK	18 Dec 2007	1 Dec 2017	400	0
Total bonds					**38,017**	34,525

Note: Six-month PRIBOR was 67 basis points as at 31 December 2012 (2011: 145 basis points).

Three-month PRIBID was 18 basis points as at 31 December 2012 (2011: 78 basis points).

The value of the interest rate swap CZK sale average for five years as at 31 December 2012 was 82 bps (2011: 169 bps).

The value of the interest rate swap CZK sale average for ten years as at 31 December 2012 was 137 bps (2011: 219 bps).

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

31 Accruals and other liabilities

Accruals and other liabilities comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Settlement balances and outstanding items	0	8
Payables from securities trading and issues of securities	1,407	1,433
Payables from payment transactions	4,523	6,785
Other liabilities	2,804	2,371
Accruals and deferred income	187	164
Total accruals and other liabilities	**8,921**	10,761

'Payables from payment transactions' in the year ended 31 December 2012 decreased due to a lower amount of payments comprised onto the CNB's clearing centre.

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

Deferred income fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 44 million (2011: CZK 22 million).

32 Provisions

Provisions comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Provisions for contracted commitments (refer to Note 9 and 12)	464	429
Provisions for other credit commitments (refer to Note 12)	482	617
Provision for restructuring (refer to Note 9 and 10)	10	9
Total provisions	**956**	1,055

In 2012, the Bank created a provision for restructuring in respect to the project of the reorganisation of 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 fully release and use for the provision reflecting the expenses incurred in 2012. The charge, release and use of provisions is reported in the Income Statement lines *'Personnel costs'* (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 issued credit commitments. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, termination of rental agreements and the provision for retirement bonuses.

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Provision for off-balance sheet commitments	409	502
Provision for undrawn loan facilities	73	115
Total (refer to Note 12)	**482**	617

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

(CZKm)	**1 Jan 2012**	Additions	Disposals	Accrual	Foreign exchange difference	**31 Dec 2012**
Retirement bonuses	97	19	(11)	6	0	111
Other provisions for contracted commitments	332	290	(266)	0	(3)	353
Provisions for restructuring	9	10	(9)	0	0	10
Total	**438**	**319**	**(286)**	**6**	**(3)**	**474**

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 is as follows:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	1	1
Difference between accounting and tax net book value of assets	1	1
Revaluation of hedging derivatives – equity impact (refer to Note 39)	4	4
Revaluation of financial assets available for sale – equity impact (refer to Note 40)	0	0
Other temporary differences	0	0
Net deferred tax assets	**6**	6

Deferred tax liabilities is as follows:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Banking provisions and allowances	254	271
Allowances for assets	1	4
Non-banking provisions	39	49
Difference between accounting and tax net book value of assets	(389)	(371)
Revaluation of hedging derivatives – equity impact (refer to Note 39)	(3,356)	(2,295)
Revaluation of financial assets available for sale – equity impact (refer to Note 40)	(1,375)	(225)
Other temporary differences	105	126
Net deferred tax liabilities	**(4,721)**	(2,441)

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

Deferred tax recognised in the Financial Statements:

(CZKm)	**2012**	2011
Balance at the beginning of the period	**(2,435)**	(991)
Movement in the net deferred tax liability – profit and loss impact (refer to Note 14)	(68)	65
Movement in the net deferred tax liability – equity impact (refer to Note 39 and 40)	(2,212)	(1,509)
Balance at the end of the period	**(4,715)**	(2,435)

34 Subordinated debt

In 2012, the Bank repaid the subordinated debt (2011: CZK 6,002 million). The nominal value of the subordinated debt received by the Bank at the end of 2006 was CZK 6,000 million, which was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt carried 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 the intention to repay the subordinated debt which was subject to proceeding and approval including the Czech National Bank as the regulator. Due to the positive result of these negotiations and the capital position of the Bank, the subordinated debt was repaid on 27 January 2012. Subsequently, 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, and it saved interest costs relating to the subordinated debt.

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 dematerialized form with a nominal value of CZK 500 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of issued shares. The share capital is fully paid.

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

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

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

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

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation is 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 (that 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 2012 was 236,361 pieces (2011: 491,214 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 2012:

Name of the entity	Registered office	Ownership percentage
SOCIETE GENERALE S.A.	29 Bld Haussmann, Paris	60.35
CHASE NOMINEES LIMITED	125 London Wall, London	6.15
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	3.41

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 2012, the Bank held 238,672 treasury shares at a cost of CZK 726 million (2011: 238,672 treasury shares at a cost of CZK 726 million).

Capital Management

The Bank manages its capital adequacy to ensure its sufficient level while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel II capital adequacy regulation currently in force, 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 into the Bank's risk profile deterioration.

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.

This process is iterative, because the results of stress testing are taken into account when determining the possible dividend strategies. Conversely, the expected dividend strategies are a prerequisite for simulating future levels of capital adequacy. For the Bank, the dividend payment strategy is the main tool for capital adequacy management. Secondary management tools comprise purchasing the Bank's own shares into treasury and managing the volume of subordinated debt.

The Bank's capital principally consists of the following balances: share capital, reserve funds and undistributed profit (as at 31 December 2012 the Bank did not have subordinated debt as it was repaid as at 27 January 2012). After the subordinated debt repayment the Bank has all its regulatory capital in the form of high-quality Tier 1 capital.

The Bank did not purchase its own treasury shares during 2012 and as at 31 December 2012 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 2011: 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 upcoming changes in regulatory requirements affecting the capital and the capital adequacy (together called as Basel III and on European level as CRD IV), and analyzes their potential impact on 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 a stand-alone and consolidated basis. During the past year, the Bank complied with all regulatory imposed requirements. The Bank regularly prepares the regulatory report on Pillar 2 and submits it to the CNB.

(CZKm)	**31 Dec 2012**	31 Dec 2011
Tier 1 capital	51,228	49,321
Tier 2 capital	0	6,000
Deductible items of Tier 1 and Tier 2	(2,126)	(2,829)
Total regulatory capital	**49,102**	52,492

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

(CZKm)	**31 Dec 2012**	31 Dec 2011	**Change in the year**
Cash and balances with central banks (refer to Note 16)	27,659	16,248	11,411
Amounts due from banks – current accounts (refer to Note 20)	5,455	60	5,395
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts (refer to Note 28)	(7,578)	(2,517)	(5,061)
Cash and cash equivalents at the end of the year	**25,535**	13,790	**11,745**

37 Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2012. 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 272 million (2011: CZK 166 million) for these legal disputes (refer to Note 32). The Bank has also recorded an accrual of CZK 44 million (2011: CZK 147 million) for costs associated with a potential payment of interest on the pursued claims.

As at 31 December 2012, the Bank assessed lawsuits filled 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 loans and therefore the Bank makes provisions for these instruments on the same basis as it is applicable to loans.

Capital commitments

As at 31 December 2012, the Bank had capital commitments of CZK 199 million (2011: CZK 491 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 solvency) on the same basis as it is applicable to the loans.

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

Principal off-balance sheet exposures include undrawn overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. In accordance with the IFRS definition of conditioned commitment the Bank distinguishes 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 solvency) in accordance with the same algorithm as for the loans.

Financial commitments and contingencies comprise:

(CZKm)	**31 Dec 2012**	31 Dec 2011
Non-payment guarantees including commitments to issued non-payment guarantees	35,235	37,544
Payment guarantees including commitments to issued payment guarantees	11,148	10,764
Received bills of exchange/acceptances and endorsements of bills of exchange	0	23
Committed facilities and unutilised overdrafts	13,483	15,586
Undrawn credit commitments	47,010	46,744
Unutilised overdrafts and approved overdraft loans	33,856	34,385
Unutilised limits under framework agreements to provide financial services	9,517	11,043
Open customer/import letters of credit uncovered	518	554
Stand-by letters of credit uncovered	551	673
Confirmed supplier/export letters of credit	131	252
Total commitments and contingencies	**151,449**	157,568

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as 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 2012, the Bank recorded provisions for these risks in the amount of CZK 482 million (2011: CZK 617 million). Refer to Note 32.

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Food industry and agriculture	6,595	8,557
Mining and extraction	1,572	1,036
Chemical and pharmaceutical industry	2,042	2,376
Metallurgy	5,138	4,742
Automotive industry	868	699
Manufacturing of other machinery	8,246	8,943
Manufacturing of electrical and electronic equipment	2,121	1,665
Other processing industry	4,317	4,537
Power plants, gas plants and waterworks	13,878	15,496
Construction industry	32,946	34,788
Retail	4,110	4,115
Wholesale	12,446	12,702
Accommodation and catering	493	591
Transportation, telecommunication and warehouses	7,120	7,521
Banking and insurance industry	8,388	7,190
Real estate	2,976	3,490
Public administration	9,699	12,426
Other industries	16,694	14,317
Individuals	11,800	12,377
Total commitments and contingencies	**151,449**	157,568

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

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

	31 Dec 2012			31 Dec 2011		
(CZKm)	**Total commit-ments and contin-gencies collateral***	**Discounted commitme-nts and con-tingencies collateral value****	**Applied commit-ments and contin-gencies collateral value*****	Total commit-ments and contin-gencies collateral*	Discounted commitme-nts and con-tingencies collateral value**	Applied commit-ments and contin-gencies collateral value***
Guarantees of state and governmental institutions	359	333	333	42	38	38
Bank guarantee	1,679	1,616	1,523	2,111	2,016	1,726
Guaranteed deposits	1,893	1,862	1,759	2,136	2,095	1,926
Pledge of real estate	7,501	4,344	3,567	7,252	4,037	3,359
Pledge of movable assets	84	8	8	116	7	7
Guarantee by legal entity	6,042	3,115	2,980	5,841	4,007	3,870
Guarantee by individual (natural person)	29	1	1	20	1	1
Pledge of receivables	1,764	0	0	2,135	0	0
Insurance of credit risk	4,306	4,087	4,087	4,882	4,638	4,636
Other	5	4	4	3	3	3
Total nominal value of collateral	**23,662**	**15,370**	**14,262**	24,538	16,842	15,566

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 coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of falling prices in the market, the risk of insolvency, etc.*

*/*** The applied collateral value is the discounted collateral value reduced up to the actual amount of the collateralized exposure balance.*

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 2012, the Bank was controlled by Société Générale S.A. which owns 60.35% of its issued share capital.

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

Amounts due to and from the Group companies

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

(CZKm)	**31 Dec 2012**	31 Dec 2011
Bastion European Investments S.A.	3,167	3,211
ESSOX, s.r.o.	6,108	6,799
Factoring KB, a.s.	2,421	2,171
KB Real Estate, s.r.o.	611	0
SG Equipment Finance Czech Republic s.r.o.	13,278	9,804
Total loans	**25,585**	21,985
ESSOX, s.r.o.	274	313
Factoring KB, a.s.	3	1
KB Real Estate, s.r.o.	42	88
Modrá pyramida stavební spořitelna, a.s.	1,001	1,505
Penzijní fond Komerční banky, a.s.	1,003	2,913
Protos, uzavřený investiční fond, a.s.	6,740	7,106
SG Equipment Finance Czech Republic s.r.o.	3,397	1,015
Total deposits	**12,460**	12,941

The positive fair value of financial derivatives to companies in the Financial Group amounted to 273 million (2011: CZK 359 million) and a negative fair value amounted to CZK 42 million (2011: CZK 1 million).

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds with a nominal amount of CZK 16,650 million (2011: CZK 14,490 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds with the nominal amount of CZK 1,143 million (2011: CZK 972 million) issued by the Bank.

As at 31 December 2012 and 2011, other amounts due to and from the Group companies were not significant.

Interest income from loans granted to Group companies:

(CZKm)	**2012**	2011
Bastion European Investments S.A.	124	123
ESSOX, s.r.o.	162	198
Factoring KB, a.s.	21	19
KB Real Estate, s.r.o.	12	0
Modrá pyramida stavební spořitelna, a.s.	32	4
SG Equipment Finance Czech Republic s.r.o.	265	145
Total interest from loans granted by Bank	**616**	489

In addition to interest on loans to the Bank's Financial Group, other income in the year ended 31 December 2012 amounted to CZK 337 million (2011: CZK 350 million) and total expenses amounted to CZK 1,084 million (2011: CZK 774 million).

As at 31 December 2012, the Bank reported guarantees granted to Group companies totalling CZK 863 million (2011: CZK 715 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

(CZKm)	**31 Dec 2012**	31 Dec 2011
ALD Automotive Czech Republic s.r.o.	2,848	2,618
Belrosbank	11	0
BRD Romania	3	136
ESSOX SK s.r.o.	0	197
Komerční pojišťovna, a.s.	519	462
Rosbank	87	101
SG Express bank	3	2
SG London	262	0
SG Orbeo	0	378
SG Private Banking (Suisse)	2	5
Société Générale Paris	15,877	19,617
Société Générale Warsaw	499	0
Succursale Newedge UK	5	10
Total	**20,116**	23,526

Principal balances owed to the Société Générale Group entities include:

(CZKm)	**31 Dec 2012**	31 Dec 2011
BRD Romania	1	2
Crédit du Nord	6	4
ESSOX SK s.r.o.	25	130
Inter Europe Conseil	2	8
Komerční pojišťovna, a.s.	1,468	869
PEMA Praha	19	0
SG Amsterdam	42	28
SG Frankfurt	1	0
SG Lisabon	90	533
SG London	0	23
SG New York	2	2
SG Private Banking (Suisse)	100	39
SG Zurich	1	0
SGBT Luxemburg	285	10
Société Générale Paris	15,592	22,806
Société Générale Warsaw	26	1
Splitska Banka	2	2
Total	**17,662**	24,457

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 2012, the Bank also carried off-balance sheet exposures for the Société Générale Group, of which off-balance sheet notional assets and liabilities amounted to CZK 189,974 million (2011: CZK 180,708 million) and CZK 192,709 million (2011: CZK 191,004 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 2012 and 2011, 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 2012, the Bank made total income of CZK 27,917 million (2011: CZK 24,119 million) and had total expenses of CZK 28,004 million (2011: CZK 26,717 million). Income includes interest income from debt securities issued by Société Générale Group, income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise expenses of interbank deposits, a loss from financial operations, interest expenses on hedging derivatives and expenses related to the provision of management, consultancy and software services.

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

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

(CZKm)	**2012**	2011
Remuneration to the Board of Directors members*	52	45
Remuneration to the Supervisory Board members**	5	5
Remuneration to the Directors' Committee members***	57	60
Total	**114**	110

Note:

/ **Remuneration to the Board of Directors members** includes amounts paid during the year ended 31 December 2012 to the current and former directors of the Bank under mandate and management contracts, net of bonuses for 2012 but including bonuses for 2011, figures for expatriate members of the Board of Directors include remuneration net of bonuses for 2012 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 2012 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** represents the sum of compensation and benefits paid in 2012 under management contracts or under expatriate relocation contracts in respect of expatriates. This balance does not reflect any compensation provided to the Board of Directors members (as it 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 2012, the total balance reflects his/her aggregate annual remuneration.*

	31 Dec 2012	31 Dec 2011
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 2012, the Bank recorded an estimated payable (including indexed bonuses) of CZK 21 million (2011: CZK 18 million) for Board of Directors bonuses.

In respect of loans and guarantees as at 31 December 2012, the Bank recorded loan receivables totalling CZK 5 million (2011: CZK 7 million) granted to the members of the Board of Directors, Supervisory Board and Directors' Committee. During 2012, draw-downs of CZK 0 million were made under the loans granted. Loan repayments were during 2012 amounted to CZK 2 million.

39 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 category of equity in the hedging reserve.

(CZKm)	**2012**	2011
Cash flow hedge fair value at 1 January	12,401	5,283
Deferred tax asset/(liability) at 1 January	(2,291)	(920)
Balance at 1 January	**10,110**	4,363
Movements during the year		
Gains/(losses) from changes in fair value	8,072	9,192
Deferred income tax	(1,533)	(1,746)
	6,539	7,446
Transferred to interest income/expense	(2,487)	(1,973)
Deferred income tax	472	375
	(2,015)	(1,598)
Transferred to personnel expenses	(1)	0
Deferred income tax	0	0
	(1)	0
Change in the hedge of foreign currency risk of foreign net investment	**76**	(101)
	76	(101)
Cash flow hedge fair value at 31 December	18,061	12,401
Deferred tax asset/(liability) at 31 December (refer to Note 33)	(3,352)	(2,291)
Balance at 31 December	**14,709**	10,110

40 Movements in the revaluation of available for sale financial assets

(CZKm)	**2012**	2011
Reserve from fair value revaluation at 1 January	1,867	1,206
Deferred tax liability/income tax liability at 1 January	(233)	(107)
Balance at 1 January	**1,634**	1,099
Movements during the year		
Gains/(losses) from changes in fair value	5,874	(1,002)
Deferred tax liability/income tax liability	(1,080)	190
	4,794	(812)
(Gains)/losses from the sale	(460)	0
Deferred tax liability/income tax liability	(70)	0
	(530)	0
(Gains)/losses from impairment	0	1,663
Deferred tax liability/income tax liability	0	(316)
	0	1,347
Reserve from fair value revaluation at 31 December	7,281	1,867
Deferred tax liability/income tax liability at 31 December	(1,383)	(233)
Balance at 31 December	**5,898**	1,634

41 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 type of transactions. As a result, specific ratings are assigned to both the Bank's clients and to specific clients' transactions. In relevant cases the same rating assignment is applied to respective guarantors and sub-debtors, which enables a better assessment of the quality of accepted guarantees and collaterals.

The Bank uses a 22-degree range for the evaluation of the client's risk profile; the last three degrees indicate the client's default, the others are used for non-defaulted portfolio.

In 2012, the Bank predominantly focused on three core areas: (1) a review of selected credit risk models in order to optimally reflect the current macroeconomic situation and to set the goals of the Bank; (2) to increase the effectiveness of monitoring the risk profile of individual client portfolios and the quality of tools and models of credit risk management; and (3) to increase the credit risk knowledge in business departments via special training.

As in previous years, the results of regular stress testing played an important role, which allowed a more precise estimate of the expected intensity of credit risk for the following periods (particularly for the Cost of Risk budget) and thus the optimization of the Bank's credit risk management tools and provide more accurate estimation of expected future losses.

(a) Business clients and municipalities

For entrepreneurs, corporate clients and municipalities, the Bank uses the obligor rating with the aim to evaluate the Probability of Default (PD) of the counterparty 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. Both these models are also used for regular updates of Expected Loss (EL) an Unexpected Loss (UL) of all client exposures reported in accordance with the Basel II requirements.

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

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

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

In 2012, the Bank updated a special model to assign a rating to association of owners and building societies based on individual characteristics of these clients. Updated model now better distinguish between these two types of jurisdiction subjects.

In 2012, the Bank also updated the LGD model 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 the 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.

In 2012, the Bank performed regular up-dating of application rating models on the basis of the new statistical observations.

Pursuant to the back testing of the rating and LGD models and the results of stress testing, the Bank initiated a regular review of the pricing process of all loan products provided to individuals with the aim to optimize 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 an evaluation of the negative information and thus substantially contributes to protect the Bank from risky entities.

(e) Credit bureaus

In 2012, the evaluation of data from credit bureaus was again one of the principal factors impacting the assessment of applications for client funding, predominantly in the retail client segments. During the year, the Bank principally focused on optimising the rules for reflecting information from credit bureaus in the approval process, predominantly 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 coordinated reactions to credit fraud attacks. The system is fully integrated with 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, which in particularly difficult circumstances could jeopardize the financial stability of the Bank. The Bank’s credit concentration risk is actively managed in the overall credit risk management using standard tools (evaluation, setting internal limits, reporting, use of risk mitigation techniques, and simulation). The Bank maintains the target 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. The system of internal limits is established so that the Bank complies with regulatory limits set in respect of concentration risk. Refer to Note 21 and 37 for quantitative information about credit concentration risk.

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

	Total exposure			Applied collateral		
(CZKm)	Statement of financial position	Off-balance sheet*	**Total credit exposure**	Statement of financial position	Off-balance sheet*	**Total collateral**
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**
Financial assets available for sale	**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**	**148,778**	**558,493**	**176,289**	**14,105**	**190,394**
- 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	136,978	**393,266**	64,192	13,013	**77,205**
of which: top corporate clients	122,507	80,251	**202,758**	35,235	5,908	**41,143**
- debt securities	461	x	**461**	0	x	**0**
- other amounts due from customers	123	x	**123**	0	x	**0**
Financial assets held to maturity	**179**	**x**	**179**	**0**	**x**	**0**
Total	**659,279**	**151,449**	**810,728**	**197,748**	**14,262**	**212,010**

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

*/** This item also includes loans provided to individuals entrepreneurs.*

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

The Bank's maximum credit exposure as at 31 December 2011:

	Total exposure			Applied collateral		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Balances with central banks	8,707	x	8,707	0	x	0
Financial assets at fair value through profit or loss	35,287	x	35,287	0	x	0
Positive fair value of hedging financial derivatives	18,801	x	18,801	0	x	0
Financial assets available for sale	86,456	x	86,456	0	x	0
Amounts due from banks	94,127	5,517	99,644	59,319	28	59,347
Loans and advances to customers	385,448	152,051	537,499	162,132	15,538	177,670
- individuals	142,153	12,377	154,530	101,632	1,053	102,685
of which: mortgage loans	123,553	4,730	128,283	100,460	1,028	101,488
consumer loans	14,826	202	15,028	1,173	22	1,195
- corporates**	242,429	139,674	382,103	60,500	14,485	74,985
of which: top corporate clients	110,706	77,846	188,552	32,490	6,259	38,749
- debt securities	461	x	461	0	x	0
- other amounts due from customers	405	x	405	0	x	0
Financial assets held to maturity	184	x	184	0	x	0
Total	629,010	157,568	786,578	221,451	15,566	237,017

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

*/** This item also includes loans provided to individuals entrepreneurs.*

The maximum credit exposure is presented on a gross basis net of the impact of allowances.

Classification of receivables

The Bank classifies its receivables arising from financial activities into five categories according to CNB regulation No. 123/2007. Categories Standard and Watch represent non-default, 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 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 investors.

Characteristics of receivables that are not classified

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

Allowances for receivables

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. Allowances are established on the basis of the present value of the estimated future cash flows and after consideration of all available information, including the estimated value of collateral and expected duration of the recovery process.

The remaining, individually immaterial exposures are provisioned based on statistical models. These models were developed based on the Basel II principles using historically observed losses for clients not individually assessed. These models were implemented in 2007. In November 2011, models used for the calculation of allowances were updated based on new information on incurred losses for the most recent period and total revision of Expected Loss (EL)/Expected Loss Best Estimate (ELBE) models namely in connection to (i) changes in internal risk processes; (ii) results from back-tests focused on performance of ELBE model for some products; and (iii) continuing negative macroeconomic and real estate market outlooks. On the basis of regular back-testing of models conducted on a bi-annual basis, the Bank regularly verifies the validity of values EL and ELBE for calculating of allowances and provisions.

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

	31 Dec 2012		31 Dec 2011	
(CZKm)	**Individually**	**Statistical model**	Individually	Statistical model
Individuals	639	8,807	4,320	4,357
Corporates*	17,882	2,652	20,346	2,827
Total	**18,521**	**11,459**	24,666	7,184

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

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

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

As at 31 December 2011, the Bank reported the following loans before due date and past due loans not impaired:

(CZKm)	Loans before due date	Past due loans, not impaired 1 to 29 days	30 to 59 days	60 to 89 days	90 days to 1 year	Over 1 year	Total	Total
Banks								
- standard	93,853	0	0	0	0	0	0	93,853
- watch	266	0	0	0	0	0	0	266
Total	94,119	0	0	0	0	0	0	94,119
Customers								
- standard	346,395	6,301	35	1	0	0	6,337	352,732
- watch	10,029	0	0	0	0	0	0	10,029
Total	356,424	6,301	35	1	0	0	6,337	362,761

The amount of the used collateral in respect of past due loans not impaired was CZK 3,107 million (2011: CZK 3,117 million).

Loan collateral

The Bank uses collateral as one of credit risk mitigation techniques. The Bank defines general risk management principles connected with collateralization of the exposure towards clients. The risk management related to collateralization is performed by departments within the Risk Management Arm independently on business lines.

The Bank has fully implemented in its internal system the rules for an assessment of collateral 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 business division Slovakia, the Bank uses for assessment of collateral eligibility the Standardized (STD) approach.

The amount of the recognized 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 represents the most frequent 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) involves the fulfilment of collateral eligibility according to CNB Decree 123/2007.

The Bank (except of business division Slovakia) uses the on-line connection to the state-run Real Estate Register for reviewing and acquiring data on pledged real estates in approving mortgages and in the process of regular monitoring of selected events that may put the pledge of the Bank on the 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 the internal specialized department which cooperates with various external valuation experts.

In 2012, together with the principal activity involving real estate valuation, the Bank focused on the ongoing monitoring of the real estate market with the aim to promptly identify an adverse development and to take appropriate measures as required. The Bank monitors both the residential real estate market and the commercial real estate market. The integral component of the monitoring is the revaluation of selected real estates depending on the Basel II requirements. As a result of the statistical monitoring of market prices of residential real estates, revaluation take place three times per year. In line with this activity, a regular annual process of updating the discount factor values used to update the values of residential real estates was set up.

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 an extended period of recovery, increased judicial enforcement and an increase in the complexity of the recovery process, especially in real estate collateral.

Given the growing volume of the retail loan portfolio in recovery, the Bank continues improving the efficiency and process of the recovery. These efforts also involve the intensified and enhanced use of external recovery capacities which cover approximately 16% of the total portfolio of exposures in recovery and 79% of the total number of clients in recovery. During 2012, the Bank continued in regular sales of packaged uncollateralized retail receivables to selected investors, so the maximum achievable recovery rate is obtained. The main emphasis is on the further automation of the recovery process.

The Bank paid increased attention to the application of the new Insolvency Act and its reflection in the process of collecting the receivables for 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, both in bankruptcy proceeding or in reorganizations, which are used by the Bank depending on the debtor's circumstances and 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 estimates the potential future development of the market value of a derivative and the potential loss that the Bank may incur if the counterparty fails to comply with its obligations. The maximum potential exposure is calculated at the confidence level of 99% and depends on the current market value and type of the derivative product, the remaining period until the maturity of the derivative transaction and the nominal value and volatility of the underlying assets.

As at 31 December 2012, the Bank posted a credit exposure of CZK 18,286 million (2011: CZK 17,665 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement cost at market rates as at 31 December 2012 of all outstanding agreements. The netting agreement is taken into account where applicable.

The Bank put 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 its compliance with all limits and if exceeding the Bank takes corrective action to reduce risk exposure. The Board of Directors is informed about any breaches on a regular basis.

(B) Market risk

Segmentation of the Bank's financial operations

For market risk management purposes, the Bank has internally split its activities into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions entered into by the Bank's dealers for trading purposes or for accommodating customer needs. The Structural Book principally consists of business transactions (lending, acceptance of deposits, amounts due to and from customers), hedging transactions within the Structural Book and other transactions not included in the Market Book.

Products with market risk traded by the Bank

Products that are traded by the Bank and can generate market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards, options), interest rate instruments (interest rate swaps, FRAs, interest rate futures, interest rate options), corporate and governmental bonds, emission allowances as well as other specific products (e.g. bond futures, bills of exchange programmes, cash management for selected clients, etc.). On the market book, the Bank trades derivatives on its own account and for sale to customers. On the structural book derivatives are used for hedging of structural risk. With some clients, the Bank entered into complex derivatives known as structured derivatives. These structures are designed to allow clients to use the sophisticated features of the deals that cannot be achieved by simple (so-called "plain-vanilla") derivatives. The Bank is not exposed to market risks (e.g. volatility risk) associated with these derivatives as they are immediately closed by mirror deals having the opposite risk profile to clients' deals (so-called "back-to-back deals“).

Market risk in the Market Book

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 Value-at-Risk for a one-day holding period with a confidence level of 99% was CZK -14 million as at 31 December 2012 (2011: CZK -5 million). The average Global Value-at-Risks was CZK -12 million as at 31 December 2012 (2011: CZK -10 million).

The accuracy of the VaR model is validated through a back-testing calculation, when actual sales results and hypothetical results (i.e., results excluding deals closed during the day) are compared with the VaR results. The number of excesses should not occur in more cases than 1% of days for a given period. In 2012, 1.6% (2011: 2.0%) of the daily losses (actual or hypothetical) exceeded 99% of VaR. Post crisis development in market conditions has resulted in the emergence of some new market factors that are not currently fully covered by the existing VaR model. A project for improving the VaR calculation by implementing a more sophisticated VaR model is launched in cooperation with Société Générale's Market Risks Department.

In addition, the Bank performs stress tests that capture the events with a lower probability of occurrence than VaR scenarios, and that measure potential losses relevant to all open positions generated by larger shocks on a daily basis. Several types of stress tests for foreign exchange, interest rate and equity exposures are used. They are developed either based on actual large shock events in the past (such as the bond crisis of 1998) or from a hypothetical crisis that could harm the positions.

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

The Bank has established a system of market risk limits, which aims at reducing the losses due to movements in market prices by limiting the size of the open positions. On a daily basis the Bank monitors its compliance with all limits and if exceeding the Bank takes corrective action to reduce risk exposure. The Board of Directors is informed on a monthly basis about the exposure development to market risk.

Market risk in the Structural Book

The Bank manages foreign exchange risk so as to achieve minimum 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 over a one-year period attributable to the movements in interest rates with a 99% confidence level from the initial value.

The indicators are monitored separately for CZK, USD and 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 instant, one-off and adverse parallel shift of the market yield curve of 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 2012, the interest rate risk sensitivity was in CZK CZK -66 million (2011: CZK -104 million), in EUR CZK -37 million (2011: CZK -15 million), in USD CZK -23 million (2011: CZK -31 million) and in other currencies CZK -30 million (2011: CZK -21 million) upon hypothetical assumption of a change in market interest rates of 1%. 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 FRAs and interest rate swaps) and appropriate investments in securities or a selection of interest rate parameters of other assets and liabilities.

(C) Financial derivatives

The Bank operates a system of market risk and counterparty limits which are designed to restrict inadequate 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:

	31 Dec 2012		31 Dec 2011		**31 Dec 2012**		31 Dec 2011	
	Notional value		Notional value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Interest rate instruments								
Interest rate swaps	454,040	454,040	417,644	417,644	13,393	13,628	9,828	9,803
Interest rate forwards and futures*	31,011	31,011	85,931	85,931	7	8	15	17
Interest rate options	4,519	4,519	22,512	22,512	3	3	535	535
Total interest rate instruments	**489,570**	**489,570**	526,087	526,087	**13,403**	**13,639**	10,378	10,355
Foreign currency instruments								
Currency swaps	126,518	126,586	136,828	137,041	854	925	1,955	2,191
Cross currency swaps	74,561	74,036	39,595	39,755	2,329	1,650	1,102	1,139
Currency forwards	25,791	26,009	29,806	29,644	175	399	718	560
Purchased options	33,555	33,274	25,754	25,715	460	0	1,030	0
Sold options	33,274	33,555	25,684	25,724	0	460	0	1,030
Total currency instruments	**293,699**	**293,460**	257,667	257,879	**3,818**	**3,434**	4,805	4,920
Other instruments								
Futures on debt securities*	0	0	0	0	0	0	0	0
Forwards on emission allowances	1,763	1,399	7,457	7,417	426	56	3,606	3,540
Commodity forwards	1,302	1,302	1,035	1,035	16	15	36	35
Commodity swaps	2,243	2,243	13,953	13,953	60	57	896	884
Commodity cross currency swaps	8,798	8,798	0	0	222	222	0	0
Purchased commodity options	0	0	11	11	0	0	2	0
Sold commodity options	0	0	11	11	0	0	0	2
Total other instruments	**14,106**	**13,742**	22,467	22,427	**724**	**350**	4,540	4,461
Total	**797,375**	**796,772**	806,221	806,393	**17,945**	**17,423**	19,723	19,736

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

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

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

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

Financial derivative instruments designated as held for trading at nominal values by remaining maturity as at 31 December 2011:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	80,041	231,354	106,249	417,644
Interest rate forwards and futures*	85,647	284	0	85,931
Interest rate options	0	1,113	21,399	22,512
Total interest rate instruments	165,688	232,751	127,648	526,087
Foreign currency instruments				
Currency swaps	134,632	1,972	224	136,828
Cross currency swaps	4,311	20,916	14,368	39,595
Currency forwards	25,235	4,324	247	29,806
Purchased options	20,725	5,029	0	25,754
Sold options	20,652	5,032	0	25,684
Total currency instruments	205,555	37,273	14,839	257,667
Other instruments				
Futures on debt securities	0	0	0	0
Forwards on emission allowances	7,447	10	0	7,457
Commodity forwards	1,035	0	0	1,035
Commodity swaps	8,428	5,525	0	13,953
Commodity cross currency swaps	0	0	0	0
Purchased commodity options	11	0	0	11
Sold commodity options	11	0	0	11
Total other instruments	16,932	5,535	0	22,467
Total	388,175	275,559	142,487	806,221

Note: / The remaining 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:

	31 Dec 2012		31 Dec 2011		**31 Dec 2012**		31 Dec 2011	
	Notional value		Notional value		**Fair value**		Fair value	
(CZKm)	**Assets**	**Liabilities**	Assets	Liabilities	**Positive**	**Negative**	Positive	Negative
Interest rate swaps for cash flow hedging	412,767	412,766	350,284	350,284	25,782	7,223	18,687	6,159
Interest rate swaps for fair value hedging	19,710	19,710	11,821	11,822	0	3,350	0	1,887
Cross currency swaps for cash flows hedging	33,150	30,490	31,036	29,193	215	399	114	1,089
Cross currency swaps for fair value hedging	0	2,640	0	2,709	29	0	0	42
Forwards on stocks for cash flow hedging	7	7	0	0	1	0	0	0
Total	**465,634**	**465,613**	393,141	394,008	**26,027**	**10,972**	18,801	9,177

Remaining maturity of derivatives designated as hedging 31 December 2012:

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

Remaining maturity of derivatives designated as hedging 31 December 2011:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for cash flow hedging	49,367	178,021	122,896	350,284
Interest rate swaps for fair value hedging	0	386	11,435	11,821
Cross currency swaps for cash flow hedging	418	26,798	3,820	31,036
Forwards on stocks for cash flow hedging	0	0	0	0
Total	49,785	205,205	138,151	393,141

The periods for which the hedged cash flows are expected to occur and for which they are expected to affect profit or loss for instruments designated as cash flow hedging:

	31 Dec 2012			31 Dec 2011		
(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows hedged	**(132)**	**(3,061)**	**(2,634)**	(640)	(5,319)	(4,320)

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

During 2012, the Bank recorded the following hedges:

1. Interest rate risk hedge:

   a. The fair value of provided long-term loans/investments in long-term government securities classified into the *'Financial assets available for sale'* portfolio is hedged by an interest rate swap and cross currency swap, respectively;

   b. Future cash flows of a portfolio of current assets traded on the interbank market 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 client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Income Statement on an ongoing basis).

2. Foreign exchange risk hedge:

   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 includes 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 liabilities traded on the interbank market).

3. Share price risk hedge:

   a. Part of bonuses to selected Bank's employees is paid in cash equivalents of the Société Générale S.A. share price. The Bank hedges the risk of change of Société Générale S.A. share price. Hedging instruments are equity forwards.

4. Hedge of an investment in a foreign subsidiary:

   a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term liabilities traded on the interbank market and short-term client liabilities).

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

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

(D) Interest rate risk

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

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

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

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	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**
Financial assets available for sale	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**
Financial assets held to maturity	0	1	178	0	0	**179**
Current tax assets	0	0	0	0	4	**4**
Deferred tax assets	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	0	0	0	0	2,234	**2,234**
Investments in subsidiaries and associates	0	0	0	0	24,928	**24,928**
Intangible assets	0	0	0	0	3,496	**3,496**
Tangible assets	0	0	0	0	6,581	**6,581**
Total assets	**257,042**	**86,159**	**170,621**	**67,489**	**108,146**	**689,457**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	2,481	0	0	0	17,423	**19,904**
Negative fair values of hedging financial derivative transactions	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	4,721	**4,721**
Accruals and other liabilities	0	0	0	0	8,921	**8,921**
Provisions	0	0	0	0	956	**956**
Subordinated debt	0	0	0	0	0	**0**
Total liabilities	**78,071**	**22,479**	**22,977**	**16,499**	**461,848**	**601,874**
Statement of Financial Position interest rate sensitivity gap at 31 December 2012	**178,971**	**63,680**	**147,644**	**50,990**	**(353,702)**	**87,583**
Derivatives*	372,319	250,112	207,768	199,559	0	**1,029,758**
Total off-balance sheet assets	**372,319**	**250,112**	**207,768**	**199,559**	**0**	**1,029,758**
Derivatives*	437,927	247,961	230,390	112,932	0	**1,029,210**
Undrawn portion of loans**	(5,386)	1,004	4,147	235	0	**0**
Undrawn portion of revolving loans**	(331)	331	(149)	149	0	**0**
Total off-balance sheet liabilities	**432,210**	**249,296**	**234,388**	**113,316**	**0**	**1,029,210**
Net off-balance sheet interest rate sensitivity gap at 31 December 2012	**(59,891)**	**816**	**(26,620)**	**86,243**	**0**	**548**
Cumulative interest rate sensitivity gap at 31 December 2012	**119,080**	**183,576**	**304,600**	**441,833**	**88,131**	**x**

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

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

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	7,877	0	0	0	8,371	16,248
Financial assets at fair value through profit or loss	3,356	5,715	4,642	1,851	19,723	35,287
Positive fair values of hedging financial derivatives	0	0	0	0	18,801	18,801
Financial assets available for sale	961	9,139	26,019	49,639	698	86,456
Assets held for sale	0	0	0	0	13	13
Amounts due from banks	85,669	2,976	4,486	996	0	94,127
Loans and advances to customers, net	179,831	59,629	119,404	13,824	0	372,688
Financial assets held to maturity	0	1	183	0	0	184
Current tax assets	0	0	0	0	236	236
Deferred tax assets	0	0	0	0	6	6
Prepayments, accrued income and other assets	0	0	0	0	1,662	1,662
Investments in subsidiaries and associates	0	0	0	0	24,586	24,586
Intangible assets	0	0	0	0	3,449	3,449
Tangible assets	0	0	0	0	6,536	6,536
Total assets	277,694	77,460	154,734	66,310	84,081	660,279
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	4,686	0	0	0	19,736	24,422
Negative fair values of hedging financial derivative transactions	0	0	0	0	9,177	9,177
Amounts due to banks	27,685	1,943	0	0	0	29,628
Amounts due to customers	60,019	15,606	3,760	0	390,414	469,799
Securities issued	2,295	1,290	10,362	20,578	0	34,525
Deferred tax liabilities	0	0	0	0	2,441	2,441
Accruals and other liabilities	0	0	0	0	10,761	10,761
Provisions	0	0	0	0	1,055	1,055
Subordinated debt	6,002	0	0	0	0	6,002
Total liabilities	100,688	18,839	14,122	20,578	433,584	587,811
Statement of Financial Position interest rate sensitivity gap at 31 December 2011	177,006	58,621	140,612	45,732	(349,503)	72,468
Derivatives*	339,412	244,508	210,925	163,979	0	958,824
Total off-balance sheet assets	339,412	244,508	210,925	163,979	0	958,824
Derivatives*	403,951	238,789	235,288	81,821	0	959,849
Undrawn portion of loans**	(5,009)	(263)	4,700	572	0	0
Undrawn portion of revolving loans**	(254)	254	0	0	0	0
Total off-balance sheet liabilities	398,688	238,780	239,988	82,393	0	959,849
Net off-balance sheet interest rate sensitivity gap at 31 December 2011	(59,276)	5,728	(29,063)	81,586	0	(1,025)
Cumulative interest rate sensitivity gap at 31 December 2011	117,730	182,079	293,628	420,946	71,443	x

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

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

Average interest rates as at 31 December 2012 and 2011:

	31 Dec 2012			31 Dec 2011		
	CZK	**USD**	**EUR**	CZK	USD	EUR
Assets						
Cash and balances with central banks	0.00%	x	x	0.40%	x	x
Treasury bills	0.52%	x	x	1.08%	x	x
Amounts due from banks	0.35%	0.46%	0.54%	0.97%	1.04%	1.37%
Loans and advances to customers	3.66%	2.06%	2.38%	4.06%	2.38%	3.29%
Interest earning securities	2.84%	3.61%	3.01%	3.62%	4.16%	4.02%
Total assets	**2.59%**	**1.55%**	**1.81%**	2.95%	2.20%	2.79%
Total interest earning assets	**3.13%**	**1.65%**	**1.97%**	3.40%	2.36%	3.02%
Liabilities						
Amounts due to central banks and banks	0.09%	0.56%	1.03%	0.27%	1.23%	1.64%
Amounts due to customers	0.35%	0.08%	0.11%	0.43%	0.10%	0.30%
Debt securities	3.52%	x	0.00%	3.66%	x	0.00%
Subordinated debt	0.00%	x	x	1.32%	x	x
Total liabilities	**0.48%**	**0.19%**	**0.38%**	0.55%	0.15%	0.60%
Total interest bearing liabilities	**0.29%**	**0.20%**	**0.41%**	0.46%	0.16%	0.65%
Off-balance sheet assets						
Derivatives (interest rate swaps, options, etc)	1.89%	2.68%	1.77%	2.34%	1.92%	2.20%
Undrawn portion of loans	3.12%	2.18%	3.70%	3.04%	2.30%	3.70%
Undrawn portion of revolving loans	5.67%	x	0.88%	6.21%	x	1.30%
Total off-balance sheet assets	**2.13%**	**2.61%**	**1.77%**	2.63%	2.01%	2.19%
Off-balance sheet liabilities						
Derivatives (interest rate swaps, options, etc)	1.57%	2.38%	1.94%	2.05%	1.89%	2.38%
Undrawn portion of loans	3.12%	2.18%	3.70%	3.04%	2.30%	3.70%
Undrawn portion of revolving loans	5.67%	x	0.88%	6.21%	x	1.30%
Total off-balance sheet liabilities	**1.84%**	**2.35%**	**1.93%**	2.37%	1.99%	2.36%

Note: The above table sets out the average interest rates for December 2012 and 2011 calculated as a weighted average for each asset and liability category.

On 29 June 2012, the CNB decreased the 2W repo rate from 0.75% to 0.50%, subsequently on 1 October to 0.25% and on 2 November to 0.05%. This approximately corresponded with movements of Czech crown money market rates, where the rates declined by 0.30% (O/N) to 0.86% (12M). The market spreads have experienced almost no change during 2012 and stagnated on the level of 18-39 basis points (1D-1Y). Interest rates in derivatives market declined by 80-90 basis points (2-10Y).

Euro money market rates decreased during 2012 by 0.32% (O/N) to 1.14% (12M). Derivative market rates declined by about 80-100 basis points (2-10Y).

Dollar money market rates decreased during 2012 by 0.35% (12M) and derivative market rates declined by about 45 basis points (2-10Y).

Breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	**31 Dec 2012** Fixed interest rate	Floating interest rate	No interest	Total	31 Dec 2011 Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and balances with central banks	0	736	26,923	**27,659**	0	7,877	8,371	16,248
Financial assets at fair value through profit or loss	31,210	1,939	18,758	**51,907**	13,935	1,622	19,730	35,287
Positive fair values of hedging financial derivative transactions	0	0	26,027	**26,027**	0	0	18,801	18,801
Financial assets available for sale	83,318	11,061	2	**94,381**	74,390	11,364	702	86,456
Amounts due from banks	4,169	51,517	177	**55,863**	7,605	86,443	79	94,127
Loans and advances to customer	228,455	163,372	4,362	**396,189**	221,144	149,311	2,233	372,688
Financial assets held to maturity	179	0	0	**179**	184	0	0	184
Liabilities								
Amounts due to central banks	1	0	0	**1**	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	19,904	**19,904**	0	0	24,422	24,422
Negative fair values of hedging financial derivative transactions	0	0	10,972	**10,972**	0	0	9,177	9,177
Amounts due to banks	5,978	25,379	488	**31,845**	6,881	22,388	359	29,628
Amounts due to customers	2,849	479,020*	4,100	**485,969**	4,563	459,231*	6,005	469,799
Securities issued	15,633	22,384	0	**38,017**	14,304	20,221	0	34,525
Subordinated debt	0	0	0	**0**	6,002	0	0	6,002

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 set-up. For this purpose, the fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameter definition of their interest rate set-up 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 Management Board. 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 that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Bank is managed as stipulated above (especially not based on the undiscounted cash flows).

The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	25,495	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**
Financial assets available for sale	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**
Financial assets held to maturity	0	0	1	178	0	0	**179**
Current tax assets	0	0	0	0	0	4	**4**
Deferred tax assets	0	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	126	2	0	0	0	2,106	**2,234**
Investments in subsidiaries and associates	0	0	0	0	0	24,928	**24,928**
Intangible assets	0	0	0	0	0	3,496	**3,496**
Tangible assets	0	0	0	0	0	6,581	**6,581**
Total assets	**55,274**	**73,344**	**84,491**	**148,254**	**213,905**	**114,189**	**689,457**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss	2,481	0	0	0	0	17,423	**19,904**
Negative fair values of hedging financial derivative transactions	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	4,721	**4,721**
Accruals and other liabilities	8,401	181	0	0	0	339	**8,921**
Provisions	51	46	243	109	5	502	**956**
Subordinated debt	0	0	0	0	0	0	**0**
Equity	0	0	0	0	0	87,583	**87,583**
Total liabilities	**461,302**	**31,727**	**23,554**	**24,702**	**26,632**	**121,540**	**689,457**
Statement of Financial Position liquidity gap at 31 December 2012	**(406,028)**	**41,617**	**60,937**	**123,552**	**187,273**	**(7,351)**	**0**
Off-balance sheet assets*	21,944	116,077	65,598	85,472	38,383	0	**327,474**
Off-balance sheet liabilities*	25,670	138,494	141,959	115,933	41,409	15,197	**478,662**
Net off-balance sheet liquidity gap at 31 December 2012	**(3,726)**	**(22,417)**	**(76,361)**	**(30,461)**	**(3,026)**	**(15,197)**	**(151,188)**

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	8,364	0	0	0	0	7,884	16,248
Financial assets at fair value through profit or loss	107	2,794	5,753	4,846	2,054	19,733	35,287
Positive fair values of hedging financial derivatives	0	0	0	0	0	18,801	18,801
Financial assets available for sale	47	1,321	10,253	29,662	47,583	(2,410)	86,456
Assets held for sale	0	0	13	0	0	0	13
Amounts due from banks	47,241	34,608	2,869	4,708	1,258	3,443	94,127
Loans and advances to customers	4,037	32,926	61,282	101,486	153,250	19,707	372,688
Financial assets held to maturity	0	0	1	183	0	0	184
Current tax assets	0	0	231	0	0	5	236
Deferred tax assets	0	0	0	0	0	6	6
Prepayments, accrued income and other assets	52	1	0	0	0	1,609	1,662
Investments in subsidiaries and associates	0	0	0	0	0	24,586	24,586
Intangible assets	0	0	0	0	0	3,449	3,449
Tangible assets	0	0	0	0	0	6,536	6,536
Total assets	59,848	71,650	80,402	140,885	204,145	103,349	660,279
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss	4,686	0	0	0	0	19,736	24,422
Negative fair values of hedging financial derivative transactions	0	0	0	0	0	9,177	9,177
Amounts due to banks	19,779	1,513	1,768	1,798	4,770	0	29,628
Amounts due to customers	417,988	28,945	17,013	5,726	127	0	469,799
Securities issued	0	65	237	12,577	21,646	0	34,525
Deferred tax liabilities	0	0	0	0	0	2,441	2,441
Accruals and other liabilities	10,264	175	0	0	0	322	10,761
Provisions	10	82	212	271	3	477	1,055
Subordinated debt	0	6,002	0	0	0	0	6,002
Equity	0	0	0	0	0	72,468	72,468
Total liabilities	452,728	36,782	19,230	20,372	26,546	104,621	660,279
Statement of Financial Position liquidity gap at 31 December 2011	(392,880)	34,868	61,172	120,513	177,599	(1,272)	0
Off-balance sheet assets*	30,618	110,662	66,987	64,072	18,659	0	290,998
Off-balance sheet liabilities*	35,119	134,812	138,434	101,324	23,692	16,261	449,642
Net off-balance sheet liquidity gap at 31 December 2011	(4,501)	(24,150)	(71,447)	(37,252)	(5,033)	(16,261)	(158,644)

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

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

(CZKm)	**On demand up to 7 days**	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**Total**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss (except derivatives)	2,481	0	0	0	0	0	**2,481**
Amounts due to banks	20,606	1,391	1,446	4,453	4,100	0	**31,996**
Amounts due to customers	429,908	30,362	21,275	6,322	91	0	**487,958**
Securities issued	2	189	1,506	19,445	23,985	0	**45,127**
Current tax liabilities	0	0	568	0	0	0	**568**
Deferred tax liabilities	0	0	0	0	0	4,721	**4,721**
Accruals and other liabilities	8,401	182	0	0	0	339	**8,922**
Provisions	51	46	243	109	5	502	**956**
Subordinated debt	0	0	0	0	0	0	**0**
Total non-derivative financial liabilities	**461,450**	**32,170**	**25,038**	**30,329**	**28,181**	**5,562**	**582,730**
Other loans commitment granted	1,806	14,670	60,229	12,059	1,016	15,154	**104,934**
Guarantee commitments granted	1,989	7,738	15,952	18,581	2,050	43	**46,353**
Total contingent liabilities	**3,795**	**22,408**	**76,181**	**30,640**	**3,066**	**15,197**	**151,287**

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 2011.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial assets at fair value through profit or loss (except derivatives)	4,686	0	0	0	0	0	4,686
Amounts due to banks	19,791	1,517	1,783	1,904	4,837	0	29,832
Amounts due to customers	418,081	29,219	17,291	7,439	1,529	0	473,559
Securities issued	4	146	1,420	16,707	23,974	0	42,251
Deferred tax liabilities	0	0	0	0	0	2,442	2,442
Accruals and other liabilities	10,264	175	0	0	0	322	10,761
Provisions	10	82	212	271	3	477	1,055
Subordinated debt	7	6,002	0	0	0	0	6,009
Total non-derivative financial liabilities	452,844	37,141	20,706	26,321	30,343	3,241	570,596
Other loans commitment granted	2,412	16,218	54,645	17,832	1,687	16,190	108,984
Guarantee commitments granted	2,075	7,999	16,736	18,520	3,183	71	48,584
Total contingent liabilities	4,487	24,217	71,381	36,352	4,870	16,261	157,568

(F) Foreign exchange position

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

(CZKm)	**CZK**	**EUR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and current balances with central banks	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 derivative transactions	24,163	1,506	358	0	**26,027**
Financial assets available for sale	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**
Financial assets held to maturity	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, net	21,455	3,473	0	0	**24,928**
Intangible assets	3,496	0	0	0	**3,496**
Tangible assets	6,575	6	0	0	**6,581**
Total assets	**574,812**	**101,118**	**11,601**	**1,926**	**689,457**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	17,655	2,059	153	37	**19,904**
Negative fair values of hedging financial derivative transactions	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	4,721	0	0	0	**4,721**
Accruals and other liabilities	7,625	1,064	156	76	**8,921**
Provisions	781	125	44	6	**956**
Subordinated debt	0	0	0	0	**0**
Equity	87,471	112	0	0	**87,583**
Total liabilities	**607,666**	**68,535**	**10,724**	**2,532**	**689,457**
Net FX position at 31 December 2012	**(32,854)**	**32,583**	**877**	**(606)**	**0**
Off-balance sheet assets*	959,470	231,308	67,709	5,147	**1,263,634**
Off-balance sheet liabilities*	928,108	261,750	68,624	4,494	**1,262,976**
Net off-balance sheet FX position at 31 December 2012	**31,362**	**(30,442)**	**(915)**	**653**	**658**
Total net FX position at 31 December 2012	**(1,492)**	**2,141**	**(38)**	**47**	**658**

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

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	14,487	1,258	259	244	16,248
Financial assets at fair value through profit or loss	31,768	2,050	144	1,325	35,287
Positive fair values of hedging financial derivative transactions	17,654	814	333	0	18,801
Financial assets available for sale	63,396	20,235	2,825	0	86,456
Assets held for sale	13	0	0	0	13
Amounts due from banks	78,694	11,171	3,850	412	94,127
Loans and advances to customers	319,796	49,818	2,866	208	372,688
Financial assets held to maturity	0	184	0	0	184
Current tax assets	236	0	0	0	236
Deferred tax assets	0	6	0	0	6
Prepayments, accrued income and other assets	1,528	122	12	0	1,662
Investments in subsidiaries and associates, net	21,045	3,541	0	0	24,586
Intangible assets	3,449	0	0	0	3,449
Tangible assets	6,528	8	0	0	6,536
Total assets	558,594	89,207	10,289	2,189	660,279
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	22,560	1,707	148	7	24,422
Negative fair values of hedging financial derivative transactions	7,281	1,719	177	0	9,177
Amounts due to banks	17,072	12,272	245	39	29,628
Amounts due to customers	420,237	40,357	6,860	2,345	469,799
Securities issued	34,525	0	0	0	34,525
Deferred tax liabilities	2,441	0	0	0	2,441
Accruals and other liabilities	9,390	1,124	170	77	10,761
Provisions	711	290	44	10	1,055
Subordinated debt	6,002	0	0	0	6,002
Equity	72,449	19	0	0	72,468
Total liabilities	592,669	57,488	7,644	2,478	660,279
Net FX position at 31 December 2011	(34,075)	31,719	2,645	(289)	0
Off-balance sheet assets*	881,008	248,979	67,529	4,150	1,201,666
Off-balance sheet liabilities*	847,178	280,800	70,406	3,802	1,202,186
Net off-balance sheet FX position at 31 December 2011	33,830	(31,821)	(2,877)	348	(520)
Total net FX position at 31 December 2011	(245)	(102)	(232)	59	(520)

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 the operational risk management. Besides standard operational risk instruments used within AMA approach, such as operational losses collection, RCSA (risk control self assessment), KRI (key risk indicators) or SA (scenario analysis), the Bank developed and deployed also the permanent supervision system consisting of a set of operational (everyday) controls and set of formalized (periodic) controls. In 2012, the process of risk self assessment was performed in close cooperation with mapping of risks for the purposes of internal audit. The effectiveness of the collection of information on operational risk events was improved simultaneously with the extention of the detail of information that are being collected.

The information collected by the Operational Risks Department is regularly analyzed and provided to the management of the Bank. Based on these information, the management may decide on further strategic steps within the frame 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

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other generally acceptable pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the 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 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, with 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) Investments held to maturity

The fair values of securities carried in the 'Held to maturity' portfolio are estimated based on discounted cash flow models using the interest rate currently offered at the balance sheet date.

(e) Amounts owed 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 balance sheet date. The carrying value of term deposits at variable interest rates approximates their fair values at the balance sheet 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 balance sheet date.

(f) Debt 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 balance sheet at their fair value:

	31 Dec 2012		31 Dec 2011	
(CZKm)	**Carrying value**	**Fair value**	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	27,659	27,659	16,248	16,248
Amounts due from banks	55,863	56,132	94,127	94,278
Loans and advances to customers, net	396,189	408,577	372,688	381,931
Financial assets held to maturity	179	189	184	196
Financial liabilities				
Amounts due to central banks and banks	31,846	31,859	29,629	29,635
Amounts due to customers	485,969	486,081	469,799	469,840
Securities issued	38,017	39,753	34,525	36,674
Subordinated debt	0	0	6,002	6,003

(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:

(CZKm)	**31 Dec 2012**	**Level 1**	**Level 2**	**Level 3**	31 Dec 2011	Level 1	Level 2	Level 3
Financial assets								
Financial assets at fair value through profit or loss								
- shares and participation certificates	0	0	0	0	7	7	0	0
- emission allowances	813	813	0	0	0	0	0	0
- debt securities	33,149	7,577	25,572	0	15,557	8,746	6,811	0
- derivatives	17,945	426	17,519	0	19,723	3,606	16,117	0
Financial assets at fair value through profit or loss	**51,907**	**8,816**	**43,091**	**0**	35,287	12,359	22,928	0
Positive fair value of hedging financial derivatives	**26,027**	**0**	**26,027**	**0**	18,801	0	18,801	0
Financial assets available for sale								
- shares and participation certificates	2	0	0	2	702	0	0	702
- debt securities	94,379	65,600	28,779	0	85,754	55,919	27,764	2,071
Financial assets available for sale	**94,381**	**65,600**	**28,779**	**2**	86,456	55,919	27,764	2,773
Financial assets at fair value	**172,315**	**74,416**	**97,897**	**2**	140,544	68,278	69,493	2,773
Financial liabilities								
Financial liabilities at fair value through profit or loss								
- sold securities	2,481	2,481	0	0	4,686	4,686	0	0
- derivatives	17,423	56	17,367	0	19,736	3,540	16,196	0
Financial liabilities at fair value through profit or loss	**19,904**	**2,537**	**17,367**	**0**	24,422	8,226	16,196	0
Negative fair value of hedging financial derivatives	**10,972**	**0**	**10,972**	**0**	9,177	0	9,177	0
Financial liabilities at fair value	**30,876**	**2,537**	**28,339**	**0**	33,599	8,226	25,373	0

Financial assets at fair value – Level 3:

	2012		2011	
(CZKm)	**Financial assets available for sale**	**Total**	Financial assets available for sale	Total
Balance at 1 January	**2,773**	**2,773**	702	702
Comprehensive income/(loss)				
- in the Income Statement	(107)	(107)	(4,909)	(4,909)
- in Other Comprehensive Income	190	190	1,663	1,663
Purchases	0	0	0	0
Sales	(890)	(890)	0	0
Settlement	(1,964)	(1,964)	(44)	(44)
Transfer from Level 1	0	0	5,361	5,361
Balance at 31 December	**2**	**2**	2,773	2,773

Shares and participation certificates

When using an alternative method of valuation based on 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.

42 Assets under management

As at 31 December 2012, the Bank held client assets on balance sheet in the amount of CZK 1,028 million (2011: CZK 977 million) and also managed assets in the amount of CZK 287,932 million (2011: CZK 235,902 million). No held or managed assets were from the Bank's subsidiaries.

43 Post balance sheet events

Pension reform

Based on the new legislation issued on 28 December 2011, a revision of the pension system will be processed in the Czech Republic in the following years. Under Act No. 427/2011 Coll. The Supplementary Pension Saving Act its 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 on 1 January 2013.

In accordance with the requirements of the pension reform, the net assets of the Penzijní fond Komerční banky, a.s. will be divided between pension scheme participants and pension fund shareholders. The net assets of pension scheme participants will be allocated to a newly created transformed fund, which will be closed for new participants. However, similarly as before, the Bank will be 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 as well as positive equity of the transformed fund meaning that the Bank will retain control over the transformed fund.

As a result the Bank will continue to consolidate the transformed fund and use the same, full, consolidation method as before. The transformed fund will not be part of Regulatory consolidation scope. New participants will be offered the chance of participating in a supplementary pension scheme (so called Pillar III) with the possibility to choose one of the investment strategies. As a result of the revision of the current pension system in the Czech Republic, a new product will be introduced, a contract on pension savings (so called Pillar II). The newly created KB Penzijní společnost, a.s. will become the provider of a supplementary pension scheme and contract on pension savings. The management has incorporated the expected impact of the revision of the pension system on significant judgements and estimates made in the separate financial statements.