partnership
sustainability
responsibility

NA PARTNERSTVÍ ZÁLEŽÍ

Annual Report 2012

Komerční banka, a.s.

Survey of Results 2008–2012

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2012	2011	2010[1]	2009[1]	2008[1]
Financial results					
Net banking income	**32,689**	32,764	32,386	32,195	32,927
of which Net interest income	**21,947**	22,190	21,431	21,242	20,474
of which Net fees and commissions	**7,018**	7,305	7,725	7,839	8,119
Total operating costs	**(13,511)**	(13,489)	(12,666)	(13,521)	(14,024)
Attributable net profit	**13,953**	9,475	13,330	11,007	13,161
Net profit per share (CZK)[2]	**369.41**	249.97	351.20	289.99	346.74
Balance sheet					
Total assets	**786,836**	754,810	698,014	695,075	699,083
Loans to customers, net	**451,547**	434,386	384,593	372,303	364,040
Amounts due to customers	**579,067**	560,701	538,051	551,809	554,570
Total shareholders' equity	**100,577**	81,850	76,078	68,792	63,013
Ratios (%)[3]					
Return on average equity (ROAE)[4]	**15.76**	12.31	18.73	17.01	23.61
Return on average assets (ROAA)[5]	**1.81**	1.30	1.91	1.58	1.93
Net interest margin	**3.12**	3.30	3.30	3.29	3.21
Cost/income ratio	**41.33**	41.17	39.11	42.00	42.59
Capital[6]					
Capital adequacy (%)	**14.66**	14.61	15.27	14.08	12.13
Tier 1 ratio (%)	**14.66**	13.44	13.95	12.72	10.77
Tier 1	**56,295**	52,692	49,363	44,677	37,624
Tier 2	**0**	6,000	6,000	6,000	6,000
Total regulatory capital	**53,684**	55,581	52,405	47,913	40,776
Total capital requirements	**29,289**	30,442	27,459	27,226	26,884
Other data					
Number of employees, average	**8,758**	8,774	8,619	8,815	8,804

Credit ratings (as of end of March 2013)[7]	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A2
Fitch	F1	A

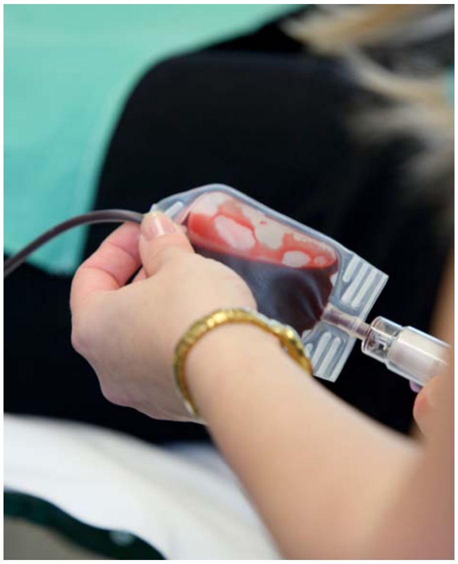
1) After reclassification
2) Net profit attributable to shareholders/average number of outstanding shares
3) According to the Komerční banka methodology
4) Net profit attributable to shareholders/average shareholders' equity excl. minority interest
5) Net profit attributable to shareholders/average assets
6) According to the Czech National Bank methodology based on Basel II since 2008
7) KB was assigned a credit rating by rating agencies registered under the Regulation of the European Parliament and Council Regulation (EC) No. 1060/2009

Unconsolidated data (CZK million)	2012	2011	2010[1]	2009[1]	2008[1]
Financial results					
Net banking income	**28,125**	28,113	28,255	28,795	29,073
of which Net interest income	**17,792**	17,976	17,610	17,609	16,842
of which Net fees and commissions	**7,017**	7,104	7,429	7,548	7,794
Total operating costs	**(12,034)**	(12,011)	(11,427)	(12,064)	(12,553)
Net profit	**12,248**	7,951	12,035	10,369	11,795
Balance sheet					
Total assets	**689,457**	660,279	607,106	605,087	610,001
Loans to customers, net	**396,189**	372,688	334,834	321,734	318,534
Amounts due to customers	**485,969**	469,799	441,285	456,758	461,105
Total shareholders' equity	**87,583**	72,468	69,014	62,690	59,016
Ratios (%)[2]					
Return on average equity (ROAE)[3]	**15.31**	11.24	18.28	17.04	21.79
Return on average assets (ROAA)[4]	**1.81**	1.25	1.99	1.71	1.97
Net interest margin	**3.02**	3.08	3.12	3.14	3.08
Cost/income ratio	**42.79**	42.72	40.44	41.90	43.18
Capital[5]					
Capital adequacy (%)	**15.32**	15.75	16.67	15.69	14.19
Tier 1 ratio (%)	**15.32**	14.38	15.19	14.17	12.66
Tier 1	**51,228**	49,321	48,162	44,259	39,471
Tier 2	**0**	6,000	6,000	6,000	6,000
Total regulatory capital	**49,102**	52,492	51,243	47,473	42,705
Total capital requirements	**25,648**	26,655	24,594	24,201	24,072
Other data[6]					
Number of employees, average	**7,808**	7,811	7,819	7,958	7,981
Number of points of sale[6]	**399**	397	395	398	394
Number of clients (thousands)[6]	**1,602**	1,602	1,590	1,620	1,629
Number of ATMs[6]	**702**	693	677	685	673

1) After reclassification. Unconsolidated data during 2008–2009 do not include operations in the Slovak Republic.
2) According to the Komerční banka methodology
3) Net profit/average shareholders' equity
4) Net profit/average assets
5) According to the Czech National Bank methodology based on Basel II since 2008
6) KB in the Czech Republic

This document contains a number of forward-looking statements relating to the targets and strategies of the Komerční banka Group. These statements are based on a series of assumptions, both general and specific. As a result, there is a risk that these projections will not be met. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Readers are therefore advised not to rely on this information more than is justified as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates. Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.

Data marked with + in this annual report are based on management accounting and were not audited.



At Komerční banka, we regard corporate social responsibility as a key factor for long-term success.

Komerční banka, a.s. (hereinafter also "KB" or the "Bank") is the parent company of KB Group (hereinafter also the "Group") and is a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services – such as pension fund and building society schemes, leasing, factoring, consumer lending and insurance – accessible through KB's branch network, its direct banking channels, and the subsidiaries' own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients.

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Further information

Detailed financial and operational information about Komerční banka Group is available in other publications on KB's website for shareholders and investors **www.kb.cz/en/about-the-bank/investor-relations/index.shtml**. Additional information on corporate social responsibility and ethics at KB is available in the section About the bank at **www.kb.cz/en/about-the-bank/about-us/basic-information.shtml**. Information about KB's products and services is accessible from the homepage **www.kb.cz/en**.

Contents

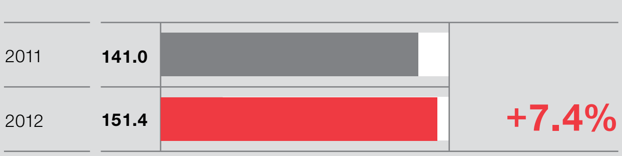
Main Client Segments

Individuals

KB is the third largest bank in the Czech market by number of clients in the individuals segment. The clients are served by 399 branches, direct banking and complementary distribution channels. KB maintains a leading position among active clients, as well as young people and children.

Key data (standalone KB, CZK million)[+]	**2012**	**2011**	**%**
Number of clients	**1,343,000**	1,336,000	0.5%
Volume of loans	**151.4**	141.0	7.4%
Volume of deposits	**152.6**	155.9	2.1%

Volume of loans (CZK million)

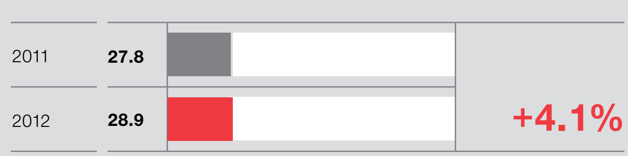


Small Businesses

The strategic goal of the small business segment is to develop financing, value-added, services and advisory, while reliably meeting the clients' day-to-day banking needs. The clients are offered customised financial solutions in 399 locations.

Key data (standalone KB, CZK million)[+]	**2012**	**2011**	**%**
Number of clients	**247,000**	252,000	-2.0%
Volume of loans	**28.9**	27.8	4.1%
Volume of deposits	**112.7**	111.9	0.7%

Volume of loans (CZK million)

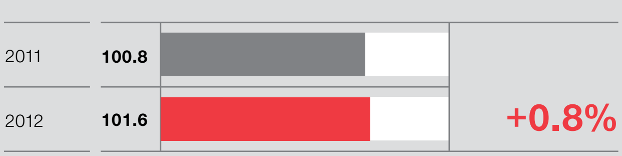


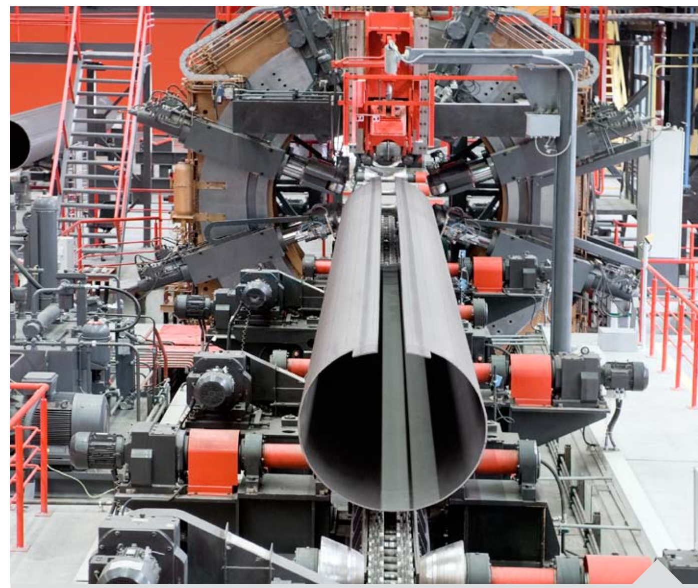
Corporates and Municipalities

As the leading bank for corporations in the Czech Republic, KB provides made-to-measure solutions in day-to-day banking, financing, asset management, trade finance, risk management and other services. It does so in long-term partnerships with clients.

Key data (standalone KB, CZK million)+	2012	2011	%
Volume of loans	**101.6**	100.8	0.8%
Volume of deposits	**131.0**	126.9	3.2%

Volume of loans (CZK million)



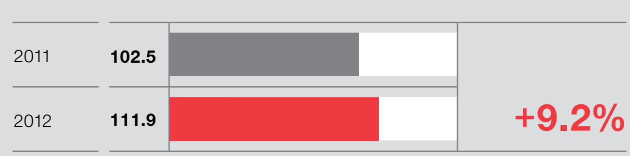


Top Corporations

KB maintains its prominent position among top corporate clients through dedicated relationship managers with an individual approach to clients. They are deployed in five business divisions (four in the Czech Republic and one in Slovakia).

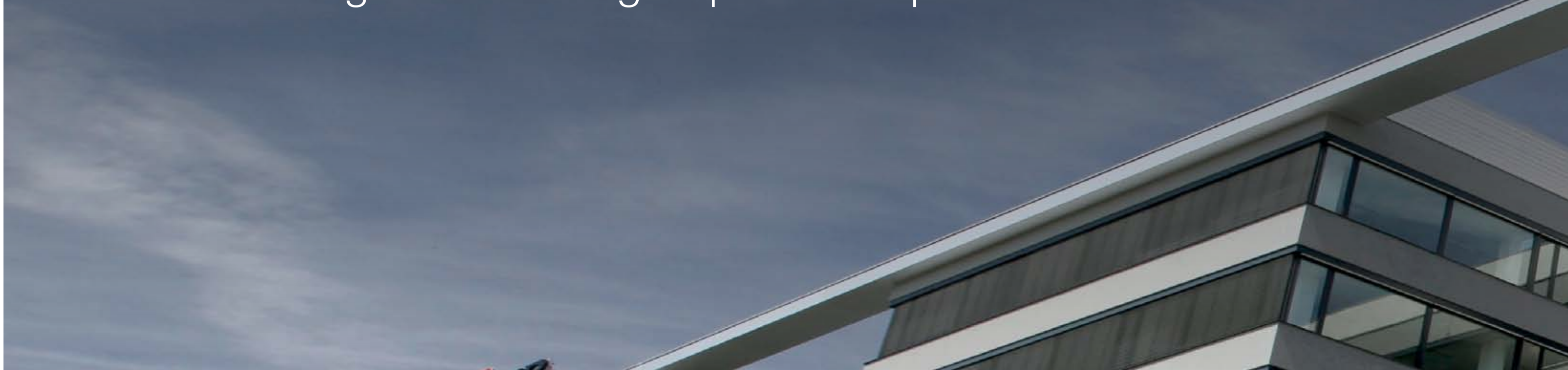
Key data (standalone KB, CZK million)+	2012	2011	%
Volume of loans	**111.9**	102.5	9.2%
Volume of deposits	**75.8**	68.8	10.2%

Volume of loans (CZK million)



partnership

Co-operation and partnership with our clients are key for us. This principle is expressed in our slogan “Partnership Matters”, highlighting our efforts to foster a strong relationship between the client and Komerční banka. KB is a strong, universal bank achieving excellent results and offering a wide range of services in the retail, corporate and investment banking areas. Since 2001, it has been able to call upon its membership in Société Générale Group, one of the largest financial groups in Europe.



2012: 2.5 million

Consolidated number of KB Group clients

17,000 m² – a lot of space for new ideas
The new headquarters building of Komerční banka and other KB Group companies will provide top office spaces while generating savings in operating costs. Moreover, it is a demonstration of our responsible approach to the environment. Located in Prague's Stodůlky neighbourhood, the building's operation is exceptionally economical and kind to the environment. It is one of the first buildings in Prague to obtain a BREEAM certificate. In addition to work facilities, the new headquarters will provide KB Group's employees with a wide range of services and work-break zones.

sustainability

KB endeavours to form long-term relationships in accordance with its sustainable development principle, fulfilling the needs of current generations without compromising those of future generations. Such is our approach, and we endeavour always to apply these principles.

We are aware of the impact we have on our surroundings, and we thus believe in the importance of acting responsibly. We therefore adopt appropriate measures aimed at eliminating negative environmental impacts as well as contributing to its protection and improvement.

Since 1990, Komerční banka has supported the use of renewable energy sources by financing related projects. In April 2008, KB became the first bank to join ČEZ Group's Green Energy project. This step is an expression of our responsibility to the environment and part of our efforts to support the development of usable renewable energy sources. We collect 3,200 MWh of Green Energy per year. We regularly monitor key environmental, social and economic indicators which provide information about the Bank's impact on its surroundings.

2012: 100 % Green Energy consumed

responsibility

We regard corporate social responsibility as one of the fundamental values of the Bank's business strategy as well as a requirement for long-term success. Charity projects are one of the areas in which we fulfil our social responsibility. Through KB's Jistota Foundation, we provide support wherever it is needed. Both Komerční banka as a whole and its individual employees contribute. We provide funds for projects directed toward developing civic society and education, as well as health care projects and projects focused on environmental protection. Over the course of its nearly 20 year existence, the foundation has become one of the most important corporate foundations in the Czech Republic, providing more than CZK 120 million in support for various projects.

2012: 18 years of the

Komerční banka's Jistota Foundation has provided support for

Jistota Foundation

18 years.

Statement of the Chairman of the Board of Directors

Henri Bonnet
Chairman of the Board of Directors

Dear Shareholders,

Looking back at the start of last year, we had anticipated that the Czech economy would register a slow return to growth during 2012. Nevertheless, it continued to decline. At that time, neither had we expected interest rates to decrease as markedly as they in fact did.

In spite of those adverse conditions, Komerční banka Group reported in 2012 the best result in its history. We have been able to increase the volume of our deposits, as well as the loans volume, which gain surpassed even that of the market as a whole. We continue to attain very healthy liquidity levels, which leave us a comfortable capacity for growing on the Czech market. We significantly reduced our costs of risk, due not only to one-off items accounted for in 2011 but also through continuously improving the quality of the loan portfolio. At the same time, we are keeping our operating costs under control even though investing into a number of important projects.

The move of a large part of Komerční banka's headquarters and our related companies Factoring KB and KB Penzijní společnost to a new building in Prague – Stodůlky, where some 1,000 employees now work, was a real plus for our internal organisation. This building is by the way the first in Prague to earn an international BREEAM certificate for environmentally friendly buildings.

Implementation of the new MojeBanka internet banking application was another

In spite of the challenging economic conditions, Komerční banka Group reported in 2012 the best result in its history.

important project. We also introduced innovations in the payments area, such as contactless payments and payments by means of QR codes. We now also offer a corporate credit card which provides a comprehensive solution to our corporate clients for monitoring their employees' expenditures.

Co-operation within Komerční banka Group is crucial for maintaining our leading position on the market into the future. As an example, I would point to the change in business model of Modrá pyramida, which now offers a number of KB products in its distribution network. This development constitutes mutually beneficial co-operation enabling flexible response to changes in client preferences and on the market generally.

From this perspective, 2012 was very important also for Penzijní fond KB, now renamed KB Penzijní společnost. Not only did we manage preparations for operating within the Czech Republic's new pension system, but we also successfully transformed Penzijní fond KB with regard to its business-support functions, a considerable portion of which are now carried out by support teams at KB.

In order for all innovations – whether technical or in the products offer – to have their anticipated effects, we must first capture the trends in clients' wishes and properly understand them. Of key importance here is our long-term partnership with clients. In developing our relationship managers, we focus foremost upon competence in the advisory approach to clients, as this is fundamental to the mutual strengthening of long-term relationships.

The several awards that Komerční banka Group received last year further confirm that we are headed in the right direction and that the Group's employees are doing a great job. Two of the most prestigious honours are the title Bank of the Year 2012, which we were awarded for the fifth time in the 11-year history of the competition organised by Fincentrum, and the title Best Bank 2012 presented by the daily newspaper Hospodářské noviny.

The year 2013 will be at least as demanding as the one just ended. By our estimates, the first half will still be marked by recession and recovery is not expected until the second half of the year. Crucial for the Czech economy will be developments in demand for Czech exports as well as whether the confidence of Czech households and businesses can be revitalised under the evolving economic and political circumstances.

We view our strong liquidity and level of capital as key in order to consolidate our position on the loan market and, thereby, to achieve an image of reference bank while pursuing its ongoing development. In the deposits area, we aim to offer the market's best solutions for long-term savings. Management of operating costs will again be kept under tight discipline in 2013. With the objective of preserving returns, we will be setting prices very carefully in order properly to reflect the costs of capital, liquidity and risks.

In relating directly with our clients, we want continuously to improve our advisory know-how and we endeavour to be as close as possible to our clients by building an efficient and perpetually modernising distribution network. Although the economic environment is not so favourable and the banking market is marked by increasing competitiveness, we are prepared to utilise all those opportunities that such a demanding environment may bring in 2013.

Komerční banka Group strives to maintain long-term and sustainable relationships not only with its customers, but also with its employees and within the society and environment where it operates. To be a partner means especially to act responsibly and to be prepared to offer support and assistance when needed. We recognise the importance of socially responsible conduct and our role in society. Komerční banka Group reflects social responsibility in its business model as well as in a number of activities extending beyond mere commercial interests. I invite you to read more about our activities in the area of corporate social responsibility during 2012 in the following pages of this annual report.

For our success we are grateful to our partners, shareholders, clients and employees. Your confidence and loyalty are key to achieving our ambitious plans.

HENRI BONNET
Chairman of the Board of Directors

Major Events in 2012

February

KB acted as joint lead manager in a pioneering issue of Slovak government bonds denominated in Czech crowns.

Penzijní fond KB was twice named best pension fund in the Czech Republic – first by the Global Banking and Finance Review portal and shortly thereafter by World Finance magazine.

In co-operation with Komerční pojišťovna, KB began offering the opportunity to invest through its Vital Invest insurance policies into a new guaranteed fund, Optimo Komodity, the returns of which derive from the performance of underlying commodity indices.

March

In a survey conducted by Global Finance magazine, Komerční banka was recognised as the second safest bank in the emerging markets of Central and Eastern Europe.

SG Equipment Finance Czech Republic introduced a new credit product for farmers, AGROÚVĚR PGRLF 3+, helping them to minimise the costs of financing new equipment. It is supported by the Czech Republic's Agriculture and Forestry Support and Guarantee Fund (PGRLF).

April

Komerční banka became the first bank in the Czech Republic to accept payment cards issued by the UnionPay card association in China.

At KB's Annual General Meeting, held on 26 April 2012, the shareholders approved a dividend payment of CZK 6,082 million. That is CZK 160 per share and represents a payout ratio of 64%.

Shareholders approved the Board of Directors' Report for 2011, the annual financial statements, as well as proposals for distributing the 2011 profit and the discretionary part of remuneration for members of the Board of Directors.

Mr Bořivoj Kačena was elected by the General Meeting to the Supervisory Board with effect from 30 April 2012.

The General Meeting extended KB's authority to acquire treasury shares representing up to 10% of its registered capital within the price range of CZK 1 to CZK 6,000.

May

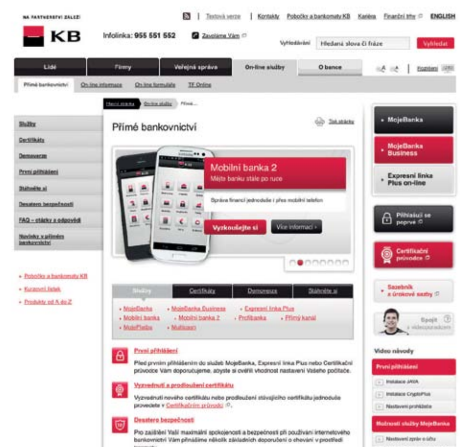
Modrá pyramida announced a change in its business model, which is encapsulated in a new slogan "Váš rádce na finance" (Your guide to finance). The organisation is transforming itself from award winning building society to a provider of comprehensive financial advisory with an all-embracing range of products – from building savings through housing finance to investments.

At KB's Annual General Meeting, held on 26 April 2012, the shareholders approved a dividend payment of CZK 6,082 million, that is CZK 160 per share.

In connection with the change in Modrá pyramida's business model, the investment funds of IKS KB were included into its product range from May.

June

KB launched a new generation of internet banking, MojeBanka. With more than 890,000 users in retail banking, the application allows safe and convenient access to KB's services as well as administration of clients' building savings, life insurance policies, pension savings and mutual funds. It even permits concluding selected contracts.



Another pioneering step for the Czech market was the introduction of the Videobanker service that enables clients to deal on-line with relationship managers who will recommend the best product and assist with filling out the applications.

The new building in Prague – Stodůlky was completed to provide modern office space and environmentally efficient operations for a part of KB's head office as well as for other Group companies. Recognising its low environmental impact, the new building holds a BREEAM certificate at the Very Good level.

July

On 31 July, the Supervisory Board elected **Pavel Čejka** and **Karel Vašák** as new members of KB's Board of Directors with effect from 1 August 2012. Mr Čejka, who replaced Patrice Taillandier-Thomas, is in charge of Strategy and Finance, Operations, Information Technology, Project Organisation and Management, Support Services, and Investment Banking Operations. Mr Vašák, who replaced Jan Juchelka, will be in charge of Top Corporations and Investment banking.

Modrá pyramida began offering a new product, Bezpečná půjčka. It is a consumer loan with insurance to protect against loss of ability to pay.

August

Komerční banka advanced substantially in contactless payments. From August, KB enabled clients to pay for their purchases using mobile telephones with NFC technology.

With effect from 1 August 2012, KB expanded the competences of its Ombudsman, who handles any contentious issues between certain companies in the Group and their clients. In addition to the clients of Komerční banka, Komerční pojišťovna, a.s. (hereinafter "Komerční pojišťovna"), Modrá pyramida stavební spořitelna, a.s. ("Modrá pyramida"), Penzijní fond Komerční banky, a.s. ("Penzijní fond KB") and ESSOX s.r.o. ("ESSOX") now also those of Factoring KB, a.s. (hereinafter "Factoring KB") and SG Equipment Finance Czech Republic s.r.o. ("SG Equipment Finance" or "SGEF") can seek help from the Ombudsman, JUDr Joseph Franciscus Vedlich, LLM.

September

The Czech National Bank awarded a licence to Penzijní fond Komerční banky for the business of KB Penzijní společnost, a.s. (hereinafter "KB Penzijní společnost").

In Hospodářské noviny's Best Bank 2012 competition, KB was awarded first place in the Best Bank 2012 category. In this same contest, Komerční banka made it into the winners' circle also in the category Friendliest Bank 2012 while both KB and Modrá pyramida ranked amongst the top three in the category Banking Innovator 2012.

Komerční pojišťovna was named Best Insurance Company in the Czech Republic for 2012 by the magazine World Finance.

Contactless versions of all credit cards were included into the offer, thus allowing users to pay at merchants swiftly just by waving their cards over a reader at the point of sale.

In co-operation with Rosbank, a Société Générale Group bank in Russia, KB started to offer its clients the made-to-measure "Russian payment" current account. This account provides favourable conditions for incoming and outgoing payments, and it guarantees same-day crediting for selected types of payments between KB and Rosbank.

Official hand-over of the new KB building in Prague – Stodůlky. From left: Board member of realty company VCES Ludovic Duplan and KB's Chairman of the Board of Directors Henri Bonnet.

October

In the Sodexo Employer of the Year competition, students named KB the Most Desired Employer of the Decade.

The Bank's website took first place in the Bank category of the Web Top 100 competition.

Modrá pyramida began offering the Moudré pojištění product from Komerční pojišťovna. This flexible and competitively priced insurance product provides comprehensive protection in cases of injury, illness and death.

November

fincentrum Banka roku 2012

Komerční banka retained the prestigious title **Bank of the Year 2012** in the contest organised by Fincentrum. KB won for the fifth time in the 11-year history of the Fincentrum Bank of the Year awards. KB took second place in the categories Most Trustworthy Bank of the Year and Mortgage Loan of the Year and third place in the Bank without Barriers category, in which banks' approach to disabled citizens was assessed. Modrá pyramida stavební spořitelna and Penzijní fond Komerční banky were ranked among the top three in their categories.

KB became the first bank on the Czech market to support payments assisted by QR codes for mobile telephones. The client simply takes a picture of the code using the handset's camera and an application converts the code into a payment order that needs only to be validated by the client.

December

Penzijní fond KB – from 1 January 2013 transformed into KB Penzijní společnost (pension company) – received all necessary authorisations, including approvals for the statutes of its funds, for the second and third pillars of the Czech Republic's reformed pension system. KB and Modrá pyramida obtained permissions to sell policies in both pension pillars from the beginning of 2013.

The Bank introduced the new KB Corporate Card as a comprehensive solution for monitoring and evaluating employees' expenditures and for recording these into accounting systems. MasterCard named KB Corporate Card its Commercial Card of the Year 2012 in the Czech Republic.

Macroeconomic Development in 2012

The year 2012 was one of recession in the Czech economy. Although the downturn was not so pronounced as in 2009, it was the longest in the country's history, lasting for an entire year. It was due mainly to declining domestic demand in relation to consumer and investor pessimism among households and companies in the light of domestic fiscal consolidation and weakening global economic activity. Even the Czech Republic's most important trading partner, the euro zone, slipped into recession last year.

The beginning of 2012 brought a negative shock for domestic demand. This came in the form of another wave of fiscal tightening consisting in, among other things, increased indirect taxes and decreased social transfers and money designated for public investments. A real drop in households' disposable incomes combined with extreme pessimism of Czech households to cause an unprecedented fall in household consumption by more than 3% for the year as a whole. In addition to fiscal consolidation, also contributing to the drop in investment activity among companies was the uncertain global environment which itself reflected the ongoing European debt crisis and subsequent descent of the entire European economy into recession. On the domestic front, companies also had to face instability in the business environment, and particularly so in relation to taxes, as it was still not clear even at the end of 2012 what the tax situation would look like in 2013. The weakening of foreign demand in relation to the euro zone recession became more and more apparent in the Czech economy during 2012's second half. The Czech economy thus recorded a drop of 1.2% in real terms for 2012 as a whole. Quarter-on-quarter decline was recorded in all quarters, albeit with a tendency for these decreases to diminish in magnitude through the year.

Despite the apparent deterioration in foreign demand, there was one positive contributing factor: the contribution from net exports was more than two percentage points. The foreign trade surplus (according to cross-border statistics) for 2012 exceeded CZK 310 billion, which represented year-on-year improvement of nearly CZK 120 billion and was the historically best such figure ever. This was mainly attributable to the balances for machinery and vehicles and for manufactured articles. Total nominal exports grew by 6.4% in comparison to 2011, while imports were 2.4% higher. Especially due to improved foreign trade in goods and services, the 2012 current account deficit narrowed to −2.4% of GDP from −2.7% of GDP in the previous year. The deficit was more than offset by surpluses on the capital account – and especially the financial account – so that not even last year did the Czech Republic suffer an external imbalance.

From the perspective of gross value added, manufacturing was among the most successful areas of the economy, even though a decline was recorded in this segment in 2012's final quarter. In contrast, there again was lower value added year on year in construction, as well as in agriculture and in the financial and insurance segments. The automotive segment fared especially well, as did electronic devices manufacturing, engineering and the chemical industry. Even that was not sufficient, however, for industrial production to finish in the black for 2012. On the contrary, after two years of growth, industrial output as a whole fell by 1.2% last year. The services sector diminished by 0.6% in real terms, with slight growth recorded only in transportation and warehousing and in administrative and business support services. Activities in the real estate segment and sectors related to tourism remained in marked downturn. The decline in the construction sector continued for the fourth successive year, as output fell by 6.5% in 2012 in real terms and in relative terms moved below the values of 2005. This was due to companies' reduced investment activity, fiscal consolidation as reflected in a curbing of large, publicly funded infrastructure projects, as well as weak demand among households for new real estate.

Even though the Czech Republic's state debt is among the lowest in Europe (in 2012, rising to just above 45% of GDP), its dynamics necessitate fiscal consolidation. Last year, this was addressed on both the spending and revenues sides. The government operated during 2012 with a CZK 101.0 billion deficit, which marked an improvement by more than CZK 40 billion in comparison with 2011. The budget had originally been approved with a deficit of CZK 105 billion. Under the ESA methodology, however, the deficit reached 5.0% of GDP according to the Ministry of Finance's estimates. Nevertheless, 1.5 percentage points of that constitute a one-off accounting for the obligation to gradually pay CZK 59 billion to churches under the approved act on church restitutions.

The recession in 2012 was reflected also in the labour market, which had been deteriorating since the spring. According to labour office statistics, the unemployment rate rose to 9.4% at the end of last year and was 0.8 percentage points higher than the previous year. The worsening labour market situation and the drop in real wages were themselves the causes of last year's 1.1% decline in retail sector sales. While sales fell by 2.3% in the automotive segment, retail sales excluding car sales decreased by 0.5%.

Weak consumer demand was reflected also in inflation, even though consumer price inflation reached 3.3% for 2012. CPI was 1.4 percentage points higher than in 2011, and it marked the highest level in four years. The rise in inflation was caused by increased indirect taxes, regulated prices, and prices for food and fuels. After adjusting for these factors, the inflationary pressures in the economy were actually minimal and adjusted inflation even decreased by 0.1%. Inflation therefore resulted only from factors outside the central bank's control. Concerns regarding deflationary trends (apparent especially in adjusted inflation) led to the central bank's further easing its monetary policy. CNB's key two-week repo rate thus reached what is technically zero (0.05%) in autumn, and the exchange rate became an instrument of monetary policy.

3.3%

CONSUMER PRICE INFLATION REACHED 3.3% FOR 2012

In 2012, fiscal consolidation efforts reinforced the Czech Republic's long-term stability but austerity measures decreased its economic output.

Komerční banka Shares on the Capital Market

Stock Exchange Listing
Komerční banka's shares are listed under ISIN CZ0008019106 on the Prime Market of the Prague Stock Exchange and are traded at RM-SYSTÉM Czech Stock Exchange.

Global depositary receipts (GDRs) representing shares of Komerční banka in the ratio 3:1 are traded on the London Stock Exchange.

Stock Market Performance
After an initial rebound at the beginning of the year, European stock markets in the first half of 2012 continued their declining trend from 2011, due to unresolved debt crises in certain countries in combination with political turmoil and a flow of weak data from the EU, Chinese and US economies. After bottoming in June, markets began a gradual rise, as European leaders announced several measures to support the stability of vulnerable states and financial institutions, extremist opposition parties garnered less support in elections than feared, and the US and Chinese economies seemed to be moving in the right direction.

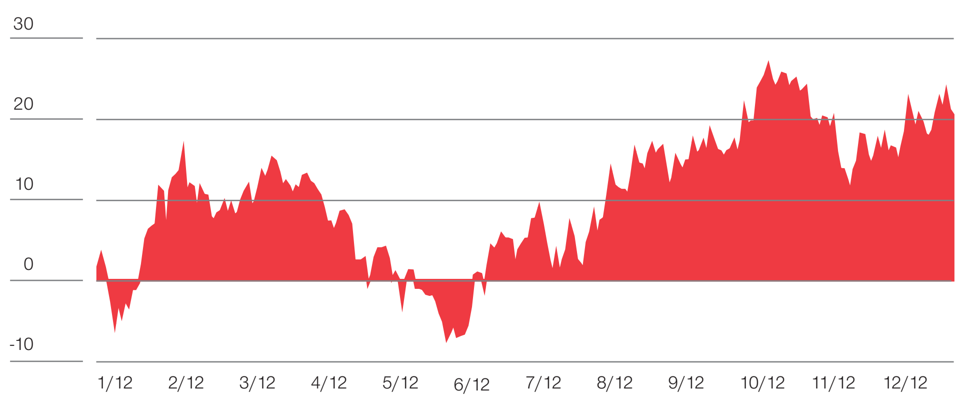
KB Share Price Development
The KB shares were trading at CZK 4,010 at the end of 2012, which was 20.4% above the closing price of a year earlier.

KB's share price development during 2012 was markedly influenced by the aforementioned factors. Although the title recorded solid gains in the first quarter, the trend turned negative with the influence of investors' heightened worries as to the solvency of Italy and Spain, stalemate after the first round of Greek elections, and soft data from Europe (including the Czech Republic) and China. Specifically for Komerční banka, investors viewed negatively the outlook for continued recession in the country and a prolonged environment of low interest rates with its negative implications for KB's net interest margin. Despite that the May announcement of results for the first quarter came out better than the market consensus estimate, KB's share price reached its 2012 low on 28 May, when it closed at CZK 3,089.

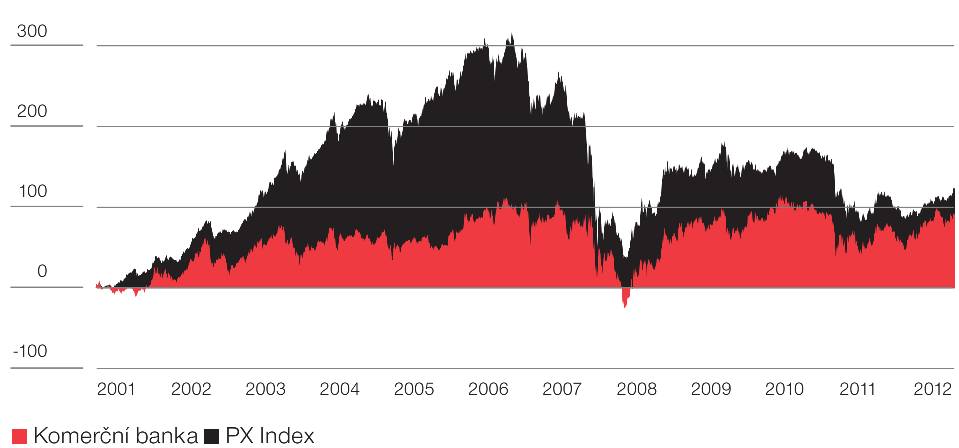
From this level, the share price began to rise along with the broader market. Upon delivering further solid quarterly results and with mitigation of investors' fears over potential disruption to the European banking system, KB's share price outperformed the Prague Stock Exchange's PX Index through the rest of 2012. The high for the year was reached on 10 October at CZK 4,214.

As of 31 December 2012, Komerční banka's market capitalisation stood at CZK 152.4 billion (EUR 6.1 billion), ranking it 3rd among titles listed on the Prague Stock Exchange. KB shares stand among the most liquid issues on the Prague exchange's Prime Market. The average daily trading volume of CZK 246 million (EUR 9.8 million) represented a daily capital rotation of 0.16%.

Development of KB share price in 2012 (% change)



Development of KB share price vs. PX Index during 2002–2012 (% change)



Dividends

At the Annual General Meeting in 2013, the Board of Directors will propose a dividend payment for 2012 of CZK 230 per share, which would represent a payout ratio at 62.7% of KB Group's attributable net profit and a corresponding gross dividend yield of 5.7% based on 2012's closing share price.

On 26 April 2012, the Annual General Meeting approved a dividend payment for 2011 of CZK 160 before tax, which amounted to 64.2% of the consolidated attributable net profit. The dividend was payable on 28 May 2012. The gross dividend of CZK 160 per share represented a dividend yield of 4.8% on the closing price of 2011.

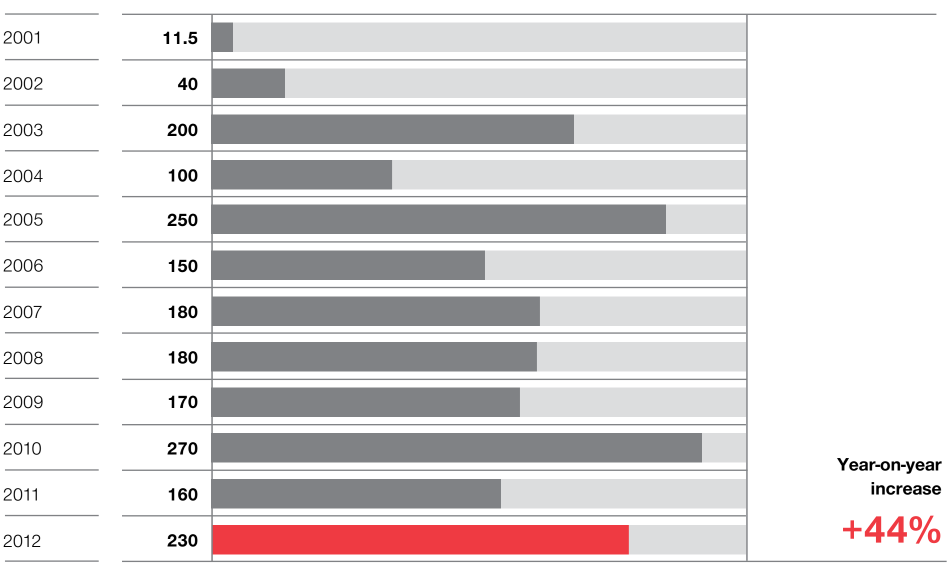
Komerční banka's dividend policy aims to ensure appropriate remuneration of shareholders for their investment while maintaining solid and safe capital adequacy with a view to potential growth opportunities and applicable as well as anticipated regulatory requirements.

Dividend and payout ratio history

	2011	2010	2009	2008	2007	2006
Dividend (CZK)[1]	160.0	270.0	170.0	180.0	180.0	150.0
Payout ratio (%)[2]	64.2	77.0	58.7	52.0	61.2	61.9

1) Dividend per share before tax. The withholding tax rate applicable to dividends in the Czech Republic is 15%, or 35% for certain non-residents.
2) Dividend/earnings per share attributable to shareholders (IFRS consolidated).

Dividend per share (CZK)



Total Return for Shareholders

The total return before tax from holding KB shares in 2012 was 24.7%, comprising increase in the share price by 20.4% and the contribution from reinvesting the net dividend (85% of the CZK 160 gross dividend) on the payment day.

During the same period, the PX Index rose by 14.0%. The Dow Jones Stoxx Eastern Europe 300 Banks Index, of which KB is a constituent, increased by 31.8% in 2012 and was 28.4% higher after conversion to the Czech currency.

The following table shows the cumulative and annualised average total return on investment for Komerční banka shareholders (including net dividend reinvested into shares) over various time periods ending 31 December 2012.

Total return to shareholders

Duration of shareholding	Position acquired	Cumulative total return	Average total return
10 years	30 December 2002	199.2%	11.6%
5 years	28 December 2007	16.2%	3.1%
1 year	30 December 2011	25.7%	25.7%

Information on Komerční banka Shares

	2012	2011	2010	2009	2008
Number of shares issued[1]	**38,009,852**	38,009,852	38,009,852	38,009,852	38,009,852
Number of shares outstanding	**37,771,180**	37,771,180	37,955,852	37,955,852	37,955,852
Market capitalisation (CZK billion)	**152.4**	126.6	168.6	149.3	112.9
EPS (CZK)[2]	**369.4**	250.0	351.2	290.0	346.7
BVPS (CZK)[3]	**2,589.5**	2,089.9	1,970.2	1,780.3	1,630.3
Share price (CZK)					
maximum	**4,214**	4,510	4,583	4,000	4,475
minimum	**3,089**	2,900	3,250	1,545	2,185
Closing price at year-end	**4,010**	3,330	4,435	3,929	2,970

1) Nominal value per share CZK 500
2) Earnings attributable to shareholders per average number of shares outstanding (IFRS consolidated)
3) Shareholders' equity exclusive of minority equity per average number of shares outstanding (IFRS consolidated; figure for 2008 not audited)

Dialogue with Shareholders and the Capital Market

Apart from Société Générale, an international financial services group headquartered in Paris, France, which holds 60.4% of KB's share capital, the Bank's free float is held by a diverse base of shareholders, ranging from large international asset managers to private individuals. From the total of almost 44,000 shareholders, individuals resident in the Czech Republic numbered nearly 39,000. By their number, most of the freely traded shares are managed from the United States (mainly Boston and New York) and the United Kingdom (especially London).

KB supports building long-term relationships with its shareholders through regular and open communication with all capital market participants. During 2012, KB management participated in more than 100 investor presentations and meetings, with more than 190 analysts and investors attending, in Prague, London, New York, Boston and Frankfurt.

More than 20 analysts regularly publish their research reports on Komerční banka.

Acquisition of Treasury Shares in 2012

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

Komerční banka shares in treasury

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

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

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

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

- The maximum number of shares that can be held by the Bank at any specific point in time shall be 3,800,985 ordinary shares representing the total nominal value of CZK 1,900,492,500.
- The acquisition price must be at least CZK 1 per share and not greater than CZK 6,000 per share.
- The period during which the Bank may acquire its own shares is 18 months.
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated Section 161a (1)(b), (c) and (d) of the Commercial Code.
- During the valid period, the Bank may buy and sell shares repeatedly without further limitations.

Culture's many faces

Komerční banka considers it important to support culture in all its variety. In the area of classical music, we sponsored the Antonín Dvořák Prize, and we long have been a partner of the National Theatre, the French Film Festival, as well as the Prague Zoo.

Board of Directors

PAVEL ČEJKA
Chief Administrative Officer

PETER PALEČKA
Corporate Secretary

HENRI BONNET
Chairman of the Board of Directors and Chief Executive Officer

KAREL VAŠÁK
Top Corporations and Investment banking

AURÉLIEN VIRY
Risk Management

VLADIMÍR JEŘÁBEK
Distribution - Corporate and Retail

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

Vision and Mission

Long-term Mutually Beneficial Relationships with Clients and Other Stakeholders

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

To Create Value for Clients, Shareholders and Employees

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

Principles of Corporate Social Responsibility

Code of Conduct

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

Corporate Governance

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

Sustainable Development

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

Strategic Assumptions

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

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

Ambition 2015

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

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

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

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

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

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

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

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

4 pillars **Ambition 2015**

1

Clients
who are always in the first position and at the centre of our focus. Komerční banka wants its clients to be successful and satisfied, because only then will they be loyal to the Bank as well as recommend its products and services to others.

2

Employees
because the Bank can achieve its objectives and have satisfied clients only with the most-talented and best-motivated employees.

3

Efficiency
KB will not cease in its efforts to boost operating efficiency in order to improve service levels and deliver higher value to its clients and shareholders.

4

Synergies
the goal is to maximise revenue and cost synergies and thereby deliver to clients – most effectively – the best of both KB Group and SG Group.

of non-banking financial assets of retail clients can be expected to grow faster than deposits.

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

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

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

Strategy

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

Business Development

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

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

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

Go to box on page 34
Pension Reform

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

Operational and Financial Performance

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

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

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

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

Main Challenges and Risks for the Bank and Group in 2013 and Expected Developments in the Financial Situation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Within this system, Komerční banka's own position is very strong. Credit-granting standards have been calibrated in order to assure the Bank's satisfactory performance even in the declining phase of the business cycle.

Our people

According to their work classifications, KB employees are continuously trained, especially in their approach to clients, sales skills and risk management. Further education of managers and other employees participating in the Strategic Talent Management Program is also emphasised. Internal internships allow employees to learn about the functions in various parts of the Bank. The quality of the work environment was supported by transferring a part of the headquarters employees into the new, modern building in Prague's Stodůlky District. KB's branches are continuously refurbished with the objective to provide a pleasant environment for meeting our clients.

Report on Business Activities

Clients of KB Group and Their Service

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

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

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

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

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

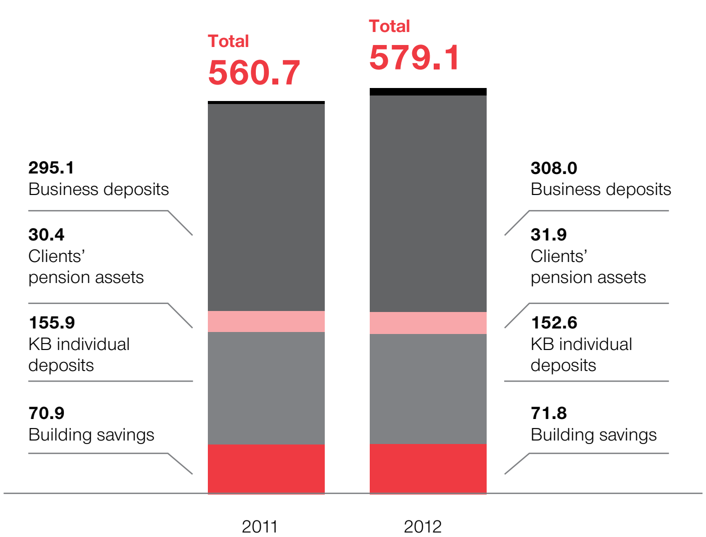
In order efficiently to fine-tune the service model to the needs of closely defined customer groups, Komerční banka is developing a system of detailed segmentation. The highest level segments in the Bank are the following:

- Individuals,
- Small Businesses (the indicative criterion being annual turnover up to CZK 60 million),
- Medium Enterprises and Municipalities (annual turnover up to CZK 1.5 billion), and
- Top Corporates (annual turnover exceeding CZK 1.5 billion).

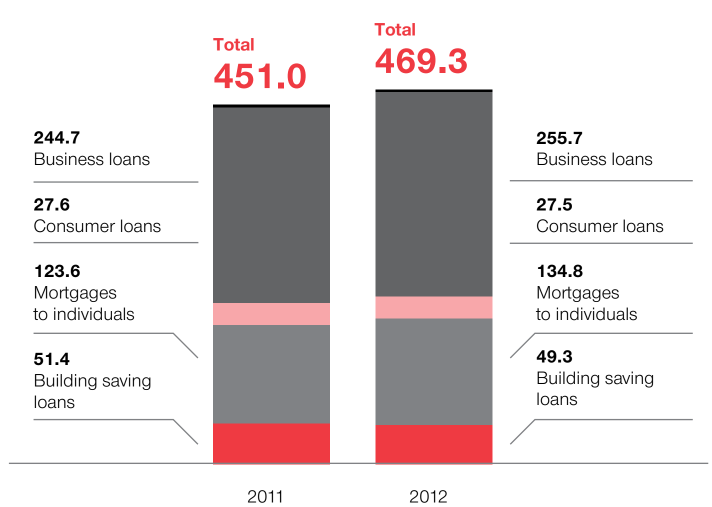
A set of sub-segments within these segments is elaborated, but the essential objectives remaining valid for all groups are to

- ensure a long-term personal approach to each client,
- offer a palette of key products corresponding to actual needs,
- satisfy the clients' rigorous demands, and
- provide individual financial advisory through active service.

Group deposits
(in CZK billion)



Group lending
(in CZK billion)



Individuals

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

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

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

Komerční banka achieved excellent results in this segment, especially for loan products. KB reinforced its market share for individual mortgages, as their volume grew by 9.1% to CZK 134.8 billion in 2012.

+9.1%

INCREASE IN THE OUTSTANDING VOLUME OF MORTGAGES TO INDIVIDUALS

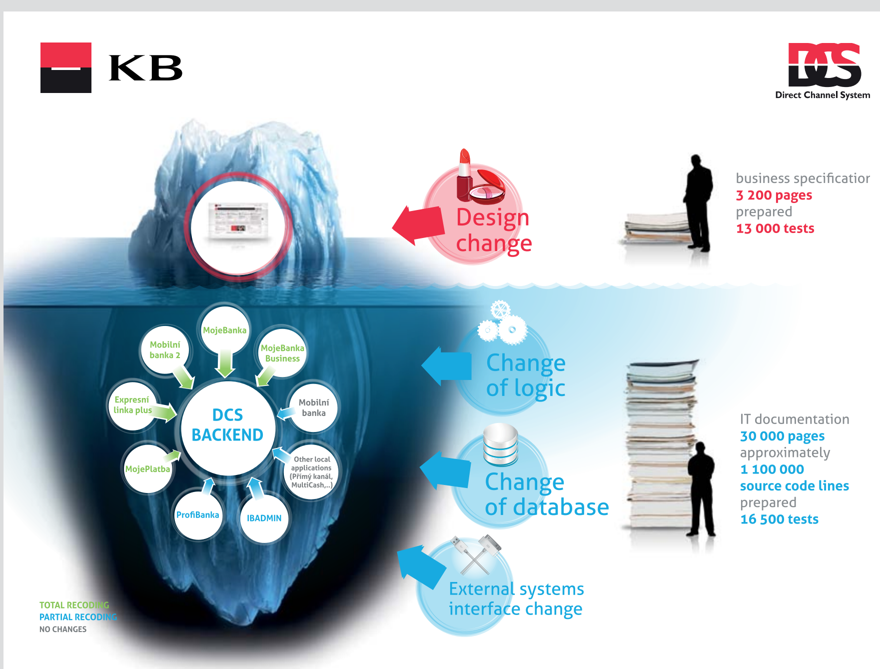
Internet banking and mobile banking

The AMBICE 2015 programme, which is ongoing in many Société Générale banks, is directed also to internet banking. Komerční banka has taken upon itself to improve this tool to be the best on the Czech market. From a breadth perspective, KB internet banking already offers the widest range of services. Nevertheless, it was vital to focus on the ergonomics and user friendliness of its applications.

A decision was taken to divide this product into two: one part designed exclusively for corporate clients and the other for retail clients. The new tool for large corporates retained not only the same design, but the procedures also remained unchanged, so that clients can operate in the environment to which they already are accustomed.

The tool for individuals and small business, however, is ergonomically entirely different. It is based on state-of-the-art trends and was designed in co-operation with an Italian design studio. It was tested by dozens of clients so that the creators were sure that it is as intuitive and easy to use as possible. The entire process took about a year, which is not long considering the extent of improvement. During this period, KB's internet banking went through the biggest change in its existence.

In parallel with the internet banking innovations, changes were occurring also in mobile banking. Thus, the two areas could be graphically connected, so the clients need not get used to two types of controls. They will find the same graphics to which they are accustomed from their computers also in their mobiles. The two banking systems are also unified from the security perspective. Through internet banking, the client may set how the banking application functions in his or her mobile by designating products, accounts and financial limits. The cohesion between the two applications is a great competitive advantage for KB.



What is behind the change of MojeBanka internet banking

Statement of the Chairman of the Board of Directors
Major Events in 2012
Strategy and Results
Risk Management
Corporate Social Responsibility and Employment Policy
Corporate Governance

Number of clients in Individuals segment during 2007–2012 (in thousands)

Individuals segment KB (Bank)[+]	2012	2011	Change
Number of mortgages	**109,600**	101,200	8.3%
Volume of mortgages (CZK billion)	**134.8**	123.6	9.1%
Number of consumer loans	**194,200**	206,800	-6.1%
Volume of consumer loans and overdraft loans (CZK billion)	**13.8**	14.8	-7.1%
Volume of credit card loans (CZK billion)	**2.7**	2.6	2.7%
Volume of deposits (CZK billion)	**152.6**	155.9	-2.1%
Number of active credit cards	**161,000**	163,200	-1.4%
Number of service packages opened	**1,049,644**	993,252	5.7%

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

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MojeOdměny

Go to box on page 32
Recognitions Received in 2012

Go to box on page 33
Innovations in Retail

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

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Pension Reform

Private Banking

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

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

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

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

MojeOdměny

Through its MojeOdměny (MyRewards) programme, Komerční banka rewards its clients – automatically and without their needing to sign up – for their activity in the forms of refunds or discounts on fees or as contributions to supplementary pension insurance. KB's MojeOdměny is open not only to individual clients, but also to entrepreneurs, companies and municipalities.

In 2012, the Bank expanded the range of rewards available for entrepreneurs and housing co-operatives, while the maximum reward for MůjÚčet (MyAccount) owners was increased to as much as 100% of the monthly account management fee upon fulfilling the stipulated conditions.

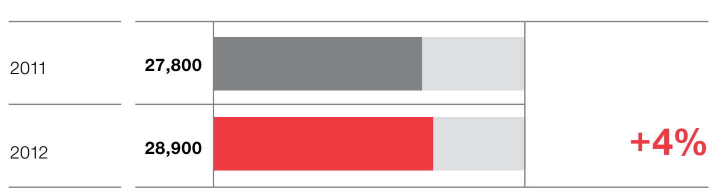
Active clients participating in the MojeOdměny concept earned back an average CZK 55 per month on account maintenance and ATM withdrawal fees or up to CZK 2,000 annually in bonus interest on a savings account. In total, KB gave rewards to approximately 500,000 clients every month.

Small Businesses

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

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

Loans to Small Businesses (CZK million)+
KB (Bank)



Deposits of Small Businesses (CZK million)+
KB (Bank)

Small Businesses segment KB (Bank)+	2012	2011	Change
Volume of drawn loans, credit card receivables, overdraft loans (CZK Billion)	**28.9**	27.8	4.1%
Number of loans	**128,500**	133,400	-3.7%
Volume of deposits (CZK Billion)	**112.7**	111.9	0.7%

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

Go to box on page 33
Innovations in Retail

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

Go to box on page 31
MojeOdměny

Recognitions Received in 2012

In 2012, Komerční banka won Fincentrum's **Bank of the Year** award for the fifth time in that competition's 11-year history. Komerční banka Group strode to the winners' circle for 6 of the 13 announced categories. In addition to its overall victory, KB took second in the categories "Most Trusted Bank of the Year" and "Mortgage of the Year" and placed third in the category "Bank without Barriers", which evaluates a bank's approach to people with disabilities. Modrá pyramida stavební spořitelna stood second in the category "Building Society of the Year", while Penzijní fond Komerční banka placed third in the "Pension Fund of the Year" category.

According to a study by Global Finance magazine, Komerční banka was the second **safest bank** in the developing markets of Central and Eastern Europe in 2012.

Komerční banka was also named **Best Bank 2012** in the prestigious Hospodářské noviny awards. Moreover, KB placed second in the Hospodářské noviny competition within the category "Bank Innovator" for its contactless mobile phone payments, and Modrá pyramida came in third for its quickly available unsecured housing loan (Rychloúvěr). KB placed third in the category **"Most Client-Friendly Bank of 2012"**.

Other Group companies also participated in these successes. Komerční pojišťovna was proclaimed by World Finance as the **Best Czech Insurance Company in 2012** (Insurance Awards 2012), while **Penzijní fond KB** was named best pension fund in the Czech Republic by financial portal Global Banking & Finance Review and by World Finance.

Product and Service Innovations in Retail

In addition to the offer for pension savings, KB and the other Group companies presented a number of innovations and significant improvements during 2012.

One of the largest teams ever working in the Bank was developing the new **MojeBanka internet banking and Mobilní Banka mobile banking applications.** Their objective was to create the best internet banking application on the market while simultaneously connecting it to mobile banking for smartphones. The functionality and ergonomics of KB's entire internet banking system were fundamentally improved. Internet banking for retail and corporate clients was separated in order to respect the different needs of clients in these segments. A **MojeBanka Business** version was released containing, in addition to basic functions, such instruments for managing corporate finances as batch orders and electronic pledging of receivables. The Bank is preparing more innovations and improvements for both applications.

Internet banking now allows users to submit **on-line requests to open accounts and draw loans** in both the Individuals and Small Businesses segments. KB also launched the on-line **Videobanker** service, which enables clients to see on their computer screens the banker with whom they are speaking and who will recommend to them the best product, help with filling out a form, then arrange a meeting at the branch where the client will pick up a prepared package of services or a credit card.

In the area of banking technologies, Komerční banka made radical advances in **contactless payments**. KB enables its clients to pay for purchases using their mobile phones with NFC technology. The offer also was expanded with new **contactless versions of all credit cards**, thus allowing clients to pay quickly at retailers simply by raising the card to the payment terminal. KB is progressively equipping retailers with new terminals for accepting contactless payment cards and mobile phone payments. Komerční banka is the first bank on the Czech market to support **QR code payments** for mobile phones: the client simply scans the code using the phone's camera and the application transforms it into a payment order. The client then need only authorise the transaction.

In the cash management area, the Bank introduced **deposit ATMs** enabling clients to deposit cash in CZK to accounts 24 hours a day. Deposits can be made only to current accounts maintained at Komerční banka using a debit card issued for the given account. It is possible to deposit money to accounts in CZK as well as in foreign currencies (CAD, CHF, GBP, USD and EUR). Select ATMs received new personalised services, such as memory of preferred cash withdrawal amounts.

Other changes span the majority of product groups. Here are just a few examples: In the investments area, **new mutual funds** were introduced, including the possibility to invest in the development of commodity indices with guaranteed 100% return of invested funds as of the maturity date through the Optimo Komodity Secured Fund. For holders of **credit cards for entrepreneurs**, KB entered into co-operation with the Benzina petrol station chain in order to bring clients 2.2% savings on the price of fuel. New **credit risk insurance for the Profi loan** was directed to entrepreneurs, covering the risks of long-term inability to work, full disability and death. By no means of least importance, **Modrá pyramida's business model underwent a change** as the building society was transformed into a provider of comprehensive financial advisory with a full range of products.

Among other changes in the direct banking area during 2013, Komerční banka will adjust the internet banking log-in and signing procedures so that client convenience is significantly improved while preserving the level of security even as dependence on certain outdated third-party technologies is eliminated. Internet banking also will be made available for tablets, and Videobanker will expand into additional services.

The Videobanker on-line service is a new component of KB's internet banking application.

Trade Finance and Export Financing

Owing in part to the good export performance of Czech companies, trade and export financing services developed successfully in 2012. Exports to countries east of the Czech Republic showed higher dynamics, while exports to the euro zone remained flat. KB recorded solid demand for services in the areas of documentary payments, bank guarantees and factoring of receivables from both long-term and new clients. The Bank also executed substantial export contracts – and especially to CIS countries – in the form of export buyer's credits.

The volume and number of processed bank guarantees grew, as did the volume and numbers of transactions financed by receivables factoring and forfaiting. Total revenues in the area of trade and export financing increased by 8% year on year, while revenues from export letters of credit rose by 10% and those from export financing by 37%.

Last November, KB introduced an improvement to the popular and successful TF OnLine application, which is a tool for on-line processing of documentary payments and bank guarantees. The latest version added new functions while improving user-interaction and overall design.

Pension Reform

The main objective of that part of the pension reform effective from 1 January 2013 was to increase the entitlement basis for the pension security system in accordance with a decision of the Constitutional Court and to improve the system's sustainability in the context of demographic change.

In the newly established funds of the second and third pillars, the assets of pension companies and managed funds are separated with the objective of boosting transparency and protection for clients' funds. Client assets in an existing pension fund became part of a so-called transformed fund.

As from 1 January 2013, the company Penzijní fond Komerční banky, a.s. was transformed into KB Penzijní společnost, a.s. pursuant to the Supplemental Pension Savings Act. KB Penzijní společnost, a.s. has as its subjects of business to collect participant and employer contributions plus state contributions and then to manage those funds pursuant to the Supplemental Pension Savings Act (3rd pillar), to collect and manage funds of savings participants in pension funds (2nd pillar), and to organise supplementary pension insurance by means of a transformed fund. As of the end of 2012, KB Penzijní společnost had acquired all necessary licences and approvals for fund statutes of the second and third pillars. Komerční banka and Modrá pyramida acquired the necessary licences for selling pension savings and supplemental pension savings.

Komerční banka Group is participating in the second and third pillars of the Czech Republic's pension system in accordance with its strategy to foster long-term relationships with its clients and comprehensively to satisfy their financial needs.

As part of the pension reform, the Czech pension system was expanded to include a second pillar, so-called individual savings. From 2013, the pension system thus includes three pillars:

The state system

wherein funds collected for social benefits are divided on a pay-as-you-go basis.

1.

Individual savings

whereby clients older than 18 can now join the individual savings pillar and exclude a part of the contribution to the state system. That, in turn, leads to a proportional decrease in the claim to be satisfied from the state system. Individual savings are financed by three percentage points from the existing payments of mandatory social insurance and a further two percentage points paid by the client.

2.

Supplemental pension savings

which tie into the previous pension funds, although the rules have been changed. As in the individual savings pillar, clients will have the possibility to select from several investment strategies. Supplemental pension savings are financed by participants' own funds, supported by a state contribution, tax allowances, and possibly an employer contribution.

3.

Loans to Enterprises and Municipalities (CZK million)[+]
KB (Bank)

2011	100,800	
2012	101,600	+1%

Deposits of Enterprises and Municipalities (CZK million)[+]
KB (Bank)

2011	126,900	
2012	131,000	+3%

Enterprises and Municipalities

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

In this environment, KB managed to increase the total volumes of loans and deposits. The total volume of loans provided in the Enterprises and Municipalities segment during 2012 expanded by 0.8% year on year to CZK 101.6 billion. Deposits grew by 3.2% to CZK 131.0 billion.[+] These results confirm KB's stable and leading market position. Market research shows that 51% of medium-size and large companies in the Czech Republic are KB clients. In 2012, the Bank served approximately 10,500 clients in the Enterprises and Municipalities segment.

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

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

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

KB EU Point

KB EU POINT is an advisory service from Komerční banka in the area of project financing using grants from EU structural funds and other sources. The experts at KB EU Point operate in all regions of the Czech Republic.

Despite the closing of the EU budget period 2007–2013, regional EU Point specialists consulted on nearly 1,000 grant projects. In contrast to the past, they were involved with more projects in advanced realisation phases – so-called project sustainability periods. As projects are gradually implemented, clients also increase their drawing of loans. The total amount of the loans drawn for pre-financing or co-financing of subsidised projects again increased relative to 2011. KB also continued to provide loans under advantageous conditions in co-operation with the European Investment Bank (EIB). Thanks to the EIB programme, small and medium-size entrepreneurs could obtain a lower interest rate on loans for financing development projects.

EU POINT

Product and Service Innovations for Corporate Clients

KB continued to pursue its strategic objective of reinforcing its position as the reference bank on the market, and in 2012 it presented a number of new products, services and processes:

Russian Payment

The Russian Federation is the world's ninth largest economy and is among the Czech Republic's most dynamically growing trading partners. In September 2012, KB and its affiliate Rosbank from SG Group introduced a joint offer for payment systems including, among other things, advantageous prices on the Czech market for incoming payments from Russia and outgoing payments to Russia, as well as crediting of payments in EUR and RUB to accounts at Rosbank on the same day of receiving the order (i.e. in the D+0 regime).

Corporate Card

KB Corporate Card constitutes a comprehensive solution for employees' business expenses and their evaluation while providing for export into accounting systems. Eliminating cash advances saves companies time and money. This credit card's limits are set up not only for the account owner but also for the individual cardholders. Statements are accessible through KB Direct Banking. MasterCard named KB Corporate Card as the Commercial Card of 2012 in the Czech Republic.

Other new products KB offered to corporate clients include the **Agroúvěr loan for farmers**, prepared in co-operation with subsidiary company SGEF; **a deposit offer for churches**; **the Auto úvěr (Auto Loan)**, developed in co-operation with subsidiary company ESSOX; and an offer for **financing of energy conservation measures**. The processes for providing **operating capital financing for hospitals** were optimised, and possibilities were developed for **hedging agricultural commodity prices**.

Top Corporations

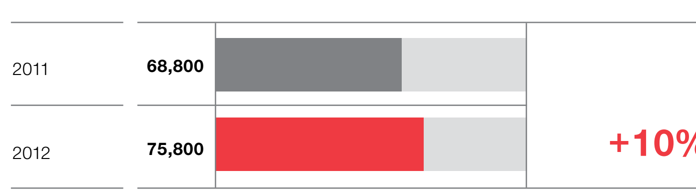
Despite the Czech economy's declining output during 2012, Komerční banka boosted loan volumes provided to large corporations and the amount of acquired deposits. The tempo of loan growth in this segment especially accelerated in the second half due to financing of some substantial acquisitions. Owing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

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

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

Loans to Top Corporations (CZK million)+
KB (Bank)

Deposits of Top Corporations (CZK million)+
KB (Bank)



Komerční banka, a.s., pobočka zahraničnej banky

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

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

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

KB was very successful in Slovakia in this situation, achieving its best ever net profit for as long as it has operated in Slovakia, regardless of legal form. The year-on-year increase in net profit was 151%. The Slovak branch was successful in both client financing and deposits acquisition. Even as through the year the margins from loans and deposits decreased on the market, KB SK acquired into its portfolio clients with high-quality credit profiles. In combination with well-established credit risk management processes influence of provisioning on the net profit was adequate.

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

Investment Banking

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

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

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

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

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

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

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

Stodůlky

In 2012, Komerční banka assumed for use a new headquarters building in Prague's Stodůlky District within the newly constructed CITY WEST quarter. It is one of the first structures in Prague to obtain a BREEAM certificate for environmentally friendly buildings. In addition to being ecologically responsible, it will bring Komerční banka savings in operating costs.

The new structure, with an area of 17,000 m2, is the fourth of Komerční banka's headquarters buildings, joining those at Na Příkopě, Václavské náměstí and Vysočanská. In addition to top-notch offices, the new headquarters will provide a wide range of services and work-break zones to 1,200 employees of Komerční banka, Factoring KB and Penzijní fond KB. It also features a new bank branch, a shop with refreshments, a cafeteria and other services.

"Moving into the new building in Stodůlky will allow us to decrease the number of buildings in use from the current 11 to four. Throughout the entire process we made maximum effort to accommodate our employees, for whom the move represents a big change. In addition to using questionnaire survey and active communication, we also invited them to help select the interior furnishings and the colour toning of the individual zones. The comfort and satisfaction of our employees are really key for us," remarks Henri Bonnet, Chairman of the Board and CEO of Komerční banka.

7/2012

10/2010

7/2011

Payment Products and Operations

Payment Cards

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

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

Non-cash Transactions

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

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

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

1,600,000

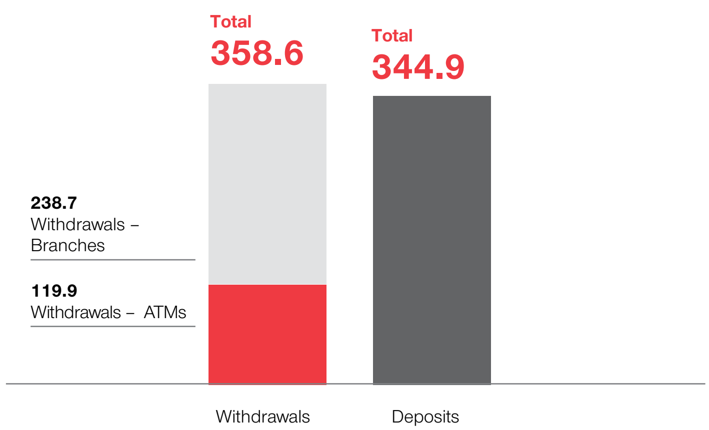
NUMBER OF ACTIVE PAYMENT CARDS

Cash Transactions

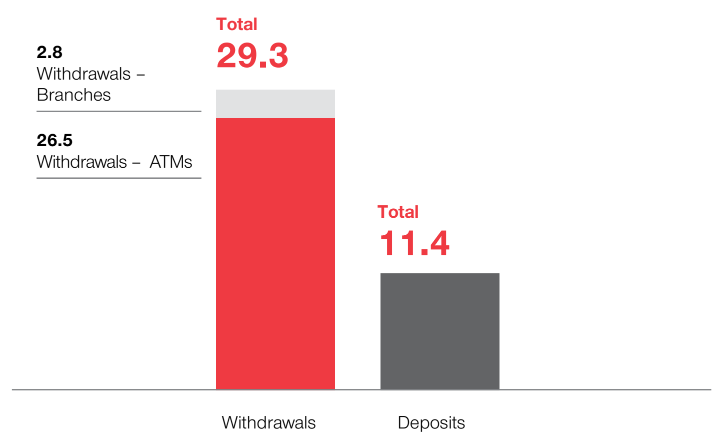
Komerční banka successfully completed its project to centralise cash processing. Seven cash centres were established (Prague, Brno, Hradec Králové, Ostrava, Pilsen, Tábor and Ústí nad Labem) for processing client cash deposits in packages. The volume of these deposits grew by CZK 29.9 billion year on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

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

Volume of cash transactions in 2012
(CZK billion)



Number of cash transactions in 2012
(number in millions)



Fourth KB Headquarters Building

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

Construction had begun in autumn 2010. The building was completed in March 2012 and handed over for operation in July 2012. By the end of the year, some 900 KB employees, over 50 Penzijní Fond KB employees and almost 50 Factoring KB employees had moved in. Simultaneously, the process of optimising the KB Group office space portfolio in Prague, where 9 office buildings are no longer used by the Group, was completed.

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

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

Description of Real Estate Owned by the Bank

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

Summary of the real estate managed by the Bank:

As of 31 December 2012	Number	Of which KB owns
Buildings Czech Republic	424	118
Buildings Slovak Republic	2	0
Total	426	118

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

Supporting team play

To support as many sportspeople as possible, we extended our activities beyond rugby and since 2012 we have been supporting floorball, the most popular amateur sport in the Czech Republic. We also now support the development of firefighting sport.

Comments on the IFRS Consolidated Financial Results

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

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

Profit and Loss Statement

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

Standalone KB's share in the consolidated net interest income was 81.1%. The average net interest margin therefore slipped to 3.1% from 3.3% in the previous year.

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

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

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

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

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

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

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

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

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

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

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

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

Statement of Financial Position

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

Assets

Amounts Due from Banks

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

Financial Assets at Fair Value through Profit or Loss

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

Loans and Advances to Customers

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

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

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

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

Securities Available for Sale

The portfolio of available-for-sale securities expanded by 12.6% to CZK 141.8 billion. The book value of shares and participation securities in the available-for-sale portfolio is negligible since KB's second-quarter sale of its stake in CMZRB. From the CZK 141.6 billion total volume of debt securities, Czech government bonds represented CZK 96.9 billion and foreign government bonds CZK 24.3 billion.

See graph on page 43
Available-for-sale bonds and Foreign sovereign bonds

Investments Held to Maturity

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

See graph on page 43
Held-to-maturity bonds

Tangible and Intangible Fixed Assets

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

Goodwill

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

Liabilities

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

Amounts Due to Banks

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

Amounts Due to Customers

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

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

Securities Issued

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

Provisions

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

Shareholders' Equity

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

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

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

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

Trademarks, Licences and Sub-licences

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

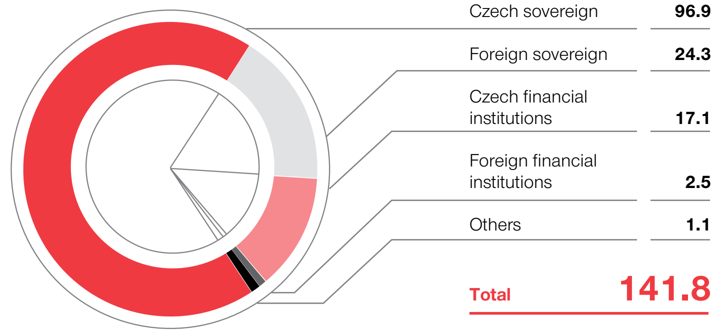
In 2012, Komerční banka, a.s. had registered a total of 174 trademarks with the Industrial Property Office in the Czech Republic. In the case of an additional 2 trademarks, a registration process has been initiated but has not yet been completed. In the Slovak Republic, 7 trademarks were registered with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

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

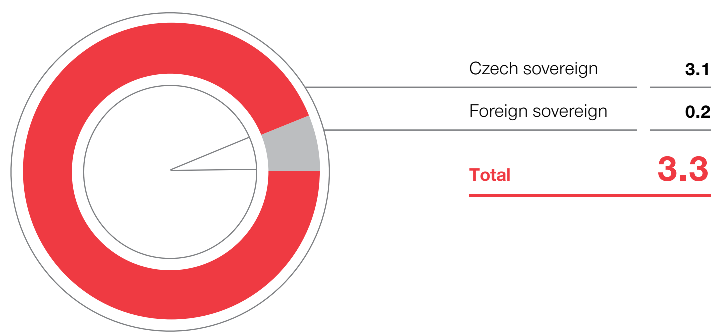
174 trademarks

HELD BY KB IN 2012

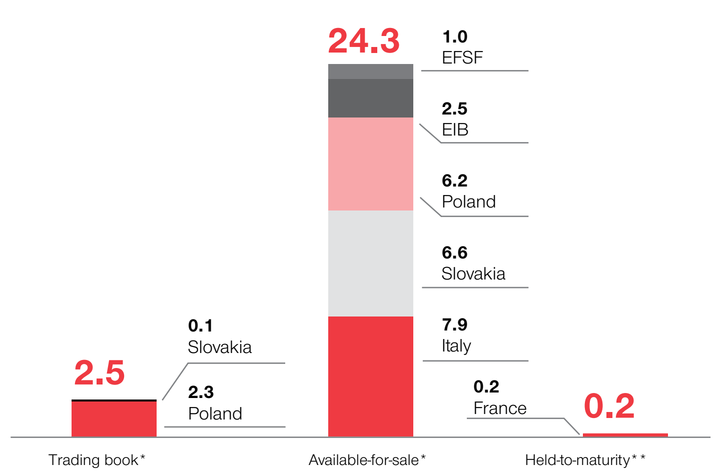
Available-for-sale bonds
(in CZK billion, consolidated)



Held-to-maturity bonds
(in CZK billion, consolidated)



Foreign sovereign bonds – holding by country
(in CZK billion, consolidated)



* Fair value ** Amortised cost

Statement of the Chairman of the Board of Directors
Major Events in 2012
Strategy and Results
Risk Management
Corporate Social Responsibility and Employment Policy
Corporate Governance

Financial and Non-financial investments

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

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

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

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

Note: * Net book value of investments. See also Notes to the Unconsolidated Financial Statements according to IFRS, notes no. 25 – Intangible fixed assets and 26 – Tangible fixed assets.

Main ongoing investments – excluding financial investments

In 2012, the Bank made non-financial investments in a total exceeding CZK 1.6 billion. Most of that amount was invested in the area of information technologies (over CZK 1 billion) for the acquisition and development of software and hardware. Significant amounts were also invested into the development and reconstruction of real estate owned by the Bank. In 2012, a new building in Prague – Stodůlky was finished and became the fourth building of the headquarters. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments

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

CZK

1.6 BILLION

NON-FINANCIAL INVESTMENTS MADE IN 2012

CZK

143 MILLION

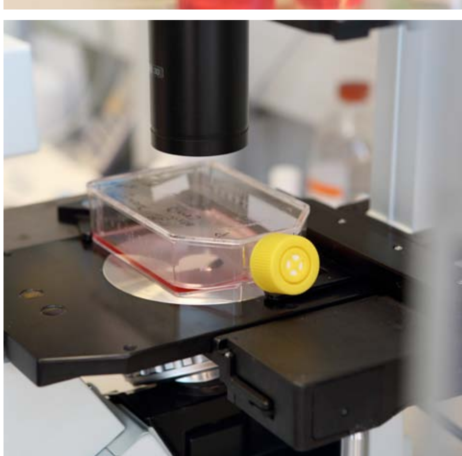
EXPENSES ON RESEARCH AND DEVELOPMENT IN 2012

Expenses on Research and Development

In 2012, Komerční banka had outlays through operating expenses of CZK 143 million for research and development. Most of these outlays were related to development studies and implementation of individual projects, particularly in the area of information technologies and systems, including development of internet applications.

KB Foundation

Over the course of 3 years, the Foundation has donated funds for establishing 20 baby boxes. In 2012, the Foundation funded the maintenance of these facilities, including regular preventive inspections and repairs. Another supported project involved stem cell research and has now reached the clinical trial phase. This gentle treatment method will help, for example, people suffering from burns as well as in other spheres of medicine.



Komerční banka Group

Structure of Komerční banka and Société Générale Financial Groups in the Czech Republic and Slovakia

Komerční banka Group

As of 31 December 2012, Komerční banka had eight subsidiaries and one associate, Komerční pojišťovna, a.s., where it held a 49% share. KB considers these companies as parts of the Group.

In addition to its ownership interests in the Group, KB holds a strategic interest in Czech Banking Credit Bureau, a.s., where it has ownership of 20%.

With the aim to maximise the use of all potential synergy effects, KB Group deepened in 2012 mutual business co-operation with other members of the Société Générale Group operating on the Czech market. Special emphasis is given to improving co-ordination in products development in business areas and in distribution. The result should be optimal and comprehensive satisfaction of clients' financial needs.

Changes in the Bank's Financial Group

In May 2012, the Bank decreased the shareholder's equity in Bastion European Investments S.A. 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. The decrease of shareholder's equity was planned.

Shareholder's equity of KB Real Estate, s.r.o. was increased by CZK 410 million in May 2012 due to the acquisition of a new office building in Prague – Stodůlky, which was completed 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 reach CZK 300 million. This was done in connection with the pension reform (a regulatory requirement for a future pension company).

Subsidiaries and associated companies in KB Financial Group

Company	Share capital	KB participation in the share capital – nominal	KB participation in the share capital – relative	Net book value	Nominal value of one share	Consolidation method
	CZK thousand	CZK thousand	%	CZK thousand	CZK	
Domestic participation						
ESSOX s.r.o.	2,288,086	1,165,387	50.93	1,165,387	-	Full
Factoring KB, a.s.	1,184,000	1,184,000	100	1,190,000	10,000 100,000 1,000,000	Full
KB Real Estate, s.r.o.	200	200	100	511,000	-	Full
Komerční pojišťovna, a.s.	1,175,398	575,916	49	482,140	72,735 145,470	Equity
Modrá pyramida stavební spořitelna, a.s.	562,500	562,500	100	4,872,282	100,000	Full
Penzijní fond Komerční banky, a.s.	300,000	300,000	100	230,000	100,000	Full
Protos, uzavřený investiční fond, a.s.	5,000,000	4,482,000 /5,000,000[1]	89.64 /100[1]	11,705,000 /13,000,000[1]	1,000,000	Full
SG Equipment Finance Czech Republic s.r.o.	145,810	73,051	50.1	1,299,000	-	Full
Foreign participation						
Bastion European Investment, S.A.	16,025[2]	16,022[2]	99.98	3,472,697[2]	1 EUR	Full

1) Direct share/Group share.
2) According to historical exchange rate.

Information on Komerční banka Group Companies

Modrá pyramida stavební spořitelna, a.s.

Shareholder structure:
Komerční banka 100%

Core business:
building savings deposits and loans

Market position:
Second position on the building savings market as measured by new loans to clients (market share 18% as measured by loans to clients)+

Main products:
state-subsidised savings accounts, bridging loans, building savings loans

Financial summary (CAS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**82,146,845**	80,172,286
Loans to clients	**49,359,889**	51,421,748
Shareholder's equity	**8,170,457**	6,591,054
Net banking income	**1,985,322**	1,933,112
Net profit	**1,122,737**	1,050,659

Contact
Modrá pyramida stavební spořitelna, a.s.
Bělehradská 222/128
120 21 Prague 2
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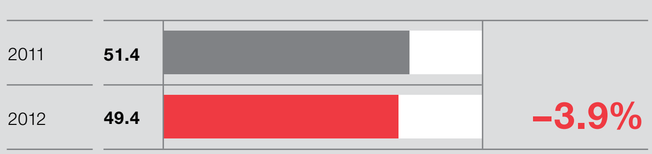
Email: info@modrapyramida.cz
Internet: www.mpss.cz
www.modrapyramida.cz

Modrá pyramida stavební spořitelna

Volume of loans (net, CZK billion)



Penzijní fond Komerční banky, a.s.

Penzijní fond Komerční banky, a.s. was transformed into KB Penzijní společnost, a.s. effective from 1 January 2013.

Shareholder structure:
Komerční banka 100%

Core business:
pension fund

Market position:
Penzijní fond Komerční banky, a.s. held onto its position on the pension fund market in 2012. Market share by number of participants is 11% and as measured by volume of assets under management is 13%+

Main products:
state-subsidised pension insurance

Financial summary (CAS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**34,882,637**	32,603,305
Total volume on client accounts	**31,902,495**	30,214,984
Shareholder's equity	**2,442,237**	1,793,426
Net operating income	**757,031**	814,042
Net profit	**575,382**	676,185

Contact
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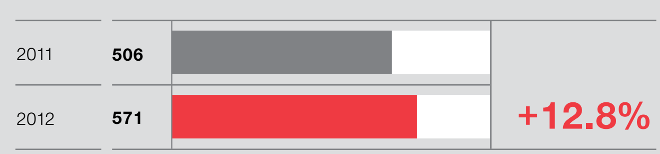
Email: kbps@kbps.cz
Internet: www.kbps.cz

KB Penzijní fond

Number of clients (thousand)



SG Equipment Finance Czech Republic s.r.o.

Ownership structure:
Komerční banka 50.1%; SG Equipment Finance Int. 49.9%

Core business:
leasing

Market position:
18% share of the leasing market in the Czech Republic as measured by volume results based on financed amount (not including personal cars and consumer credit companies)[+]

Main products:
financing of equipment, agricultural and forestry technology, vehicles for transportation of goods and passengers, high-tech, real estate and special projects

Financial summary (CAS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**25,354,269**	22,976,531
Assets financed	**20,351,304**	20,257,215
Shareholders' equity	**1,775,317**	1,466,105
Net operating income	**801,461**	293,396
Net profit	**407,161**	108,964

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SG Equipment Finance Czech Republic s.r.o.
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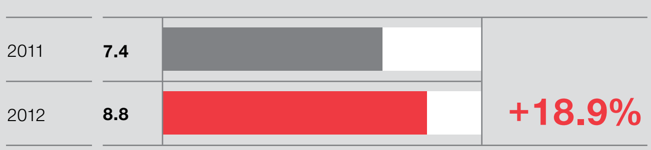
Internet: www.sgef.cz

SOCIETE GENERALE
Equipment Finance

Volume of new loans (CZK billion)[+]



ESSOX s.r.o.

Ownership structure:
Komerční banka 50.93%; SG Consumer Finance 49.07%

Core business:
providing consumer loans and financial leasing, activities of payment institutions within the scope of payment services under a licence from CNB

Market position:
11% market share in consumer lending provided by companies associated in the Czech Leasing and Finance Association[+]

Main products:
financing of consumer goods and automobiles, general-purpose loans, revolving credit (credit cards), automotive financing

Financial summary (CAS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**9,816,929**	10,290,008
Shareholders' equity	**3,206,052**	2,947,351
Loans to clients*	**6,574,359**	6,921,527
Net operating income	**1,313,980**	1,409,682
Net profit	**451,566**	279,290

* Amounts as of 31 December 2011 were restated in accordance with Decree No. 501/2002 Coll., under which the company charges from 1 January 2012 in connection with the activities of payment institutions performed on the basis of the authorisation granted by the Czech National Bank in March 2011.

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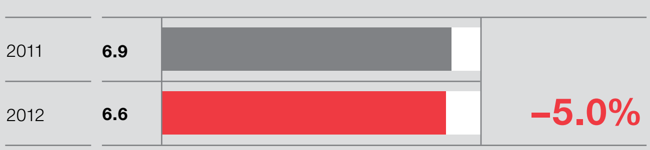
ESSOX

Volume of loans (net, CZK billion)[+]



Factoring KB, a.s.

Shareholder structure:
Komerční banka 100%

Core business:
factoring

Market position:
Fourth place on the factoring market, managing 15% of the factoring portfolio on the Czech market[+]

Main products:
domestic factoring, export factoring, import factoring, modified factoring, receivables management

Financial summary (CAS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**7,747,704**	7,150,303
Factoring turnover[+]	**19,531,141**	16,095,950
Shareholders' equity	**1,590,378**	1,489,896
Net operating income	**118,587**	160,415
Net profit	**16,714**	69,699

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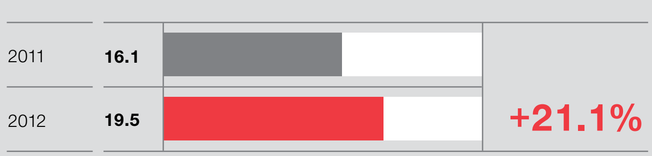
Internet: www.factoringkb.cz

Factoring turnover (CZK billion)[+]



Komerční pojišťovna, a.s.

Shareholder structure:
SOGECAP 51%; Komerční banka 49%

Core business:
insurance

Market position:
8% share on the life insurance market (measured by premiums written)[+]

Main products:
saving life insurance, risk life insurance, capital life insurance, investment life insurance, accident insurance, payment card insurance, travel insurance, travel insurance for payment cards, risk life insurance for credit cards, risk life insurance for consumer loans

Financial summary (CAS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**32,047,712**	26,257,298
Technical reserves[+]	**29,191,745**	24,506,866
Shareholders' equity	**2,389,057**	1,346,544
Gross premiums written	**6,148,770**	6,850,897
Net profit	**175,418**	251,046

Contact
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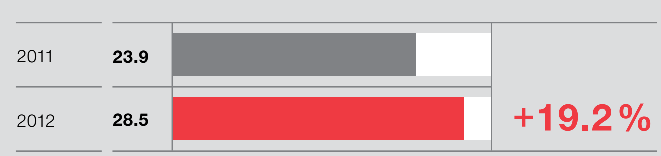
Internet: www.komercpoj.cz

Volume of technical reserves in life insurance (CZK billion)[+]



Bastion European Investments S.A.

Shareholder structure:
Komerční banka 99.98%; Société Générale 0.02%

Core business:
project finance

Main products:
special purpose Belgian company for a single long-term project finance transaction

Financial summary (IFRS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**6,329,321**	6,638,563
Shareholders' equity	**3,162,021**	3,322,936
Net interest income	**92,556**	105,642
Net profit	**91,980**	105,174

CZK/EUR exchange rate 25.800 as of 31 December 2011 (CNB), CZK/EUR average exchange rate 24.586 for the period from 1 January to 31 December 2011 (CNB)

CZK/EUR exchange rate 25.140 as of 31 December 2012 (CNB), CZK/EUR average exchange rate 25.143 for the period from 1 January to 31 December 2012 (CNB)

Contact
Bastion European Investments S.A.
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Fax: + 32 2 506 65 73

Protos, uzavřený investiční fond, a.s.

Shareholder structure:
Komerční banka 89.64%; Factoring Komerční banky 10.36%

Core business:
investment fund

Main products:
fund management

Financial summary (CAS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**14,041,037**	13,181,287
Shareholders' equity	**13,987,766**	13,170,988
Net operating income	**311,940**	(325,474)
Net profit	**296,292**	(309,256)

Contact
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Internet: www.iks-kb.cz

KB Real Estate, s.r.o.

Ownership structure:
Komerční banka 100%

Core business:
management and maintenance of properties and real estate

Main products:
rental of buildings

Financial summary (CAS, CZK thousand)	31 December 2012	31 December 2011
Total assets	**1,178,978**	102,566
Shareholder's equity	**494,735**	100,695
Net profit	**(15,960)**	(305)

Contact
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Fax: +420 955 536 620

Risk Management

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies.

Komerční banka's corporate governance standards assure that the risk management function is independent of commercial and operational functions.

KB Group Risk Management Strategy

Through its risk management strategy, KB Group continues to pursue a prudent and balanced approach to all types of risks assumed, i.e. credit, market and liquidity risks, as well as regulatory, legal, operational and environmental risks. At the same time, it aims to support development of the Group's business activities, including sustainably to grow its lending activities, while reinforcing the Group's market positions.

The objective is to ensure profitable credit and market activities across the business cycle and, at the same time, to preserve a sound balance sheet with strong capital and liquidity ratios. To this end, advanced risk management tools, including statistical ones, are continuously enhanced and analytical and risk management skills are maintained at high levels for both risk management and business staff.

In support of KB's strategic objectives, risk departments contribute to initiatives and projects that include optimising credit processes, increasing the effectiveness of risk management tools, and developing new financial products.

The level of the Group's appetite for risk fully reflects the risk management strategy. It is based on actively managing credit granting criteria to reflect the market and macroeconomic environments in combination with strong and focused monitoring of both individual counterparties and particular portfolios.

A dedicated credit risk audit team is responsible for independently assessing the quality of credit risk management. The team is functionally integrated into the Bank's Internal Audit in line with Société Générale Group principles for internal control processes.

Credit Risk Management

Credit Risk Assessment and Monitoring

Credit risk management is based on comprehensive assessment of clients' risk profiles from financial and qualitative points of view, supported by advanced scoring and rating tools plus individual approval by a competent risk or business manager. The system of approval authorities is set up to reflect the risk profiles of the counterparties and the levels of competencies required for their assessment.

No credit exposure can be originated until a credit limit has been firstly duly established. Credit limits management and monitoring is at the core of the Group's credit risk management and is also used for managing concentration risk.

All KB scoring, rating, LGD and EAD models were back-tested biannually, their quality was carefully monitored, and any deterioration triggered corrective measures.

Credit Fraud Prevention

The Bank uses an automated system for detecting individual credit frauds in retail segments and also for co-ordinating reactions to credit fraud attacks in all client segments. The system is fully integrated into the credit risk assessment process and the Bank's main applications.

Provisioning

The Bank classifies all its assets arising from financing activities into five categories according to Czech National Bank Decree No. 123/2007 Coll., taking into account both quantitative criteria (payment discipline, financial statements) and qualitative criteria (in-depth client knowledge, client's behaviour and history). Since 2008, and in compliance with Basel II rules, the contagion principle has been implemented in classifying co-applicants and guarantors in relation to defaulted receivables.

All significant impaired exposures are assessed individually, and at least every quarter, by the Provisioning Committee or by recovery specialists. Provisions are established according to the present value of estimated future cash flows and after considering all available information, including the estimated value of collateral and the expected duration of the recovery process. The remaining receivables (especially from the retail segments) are provisioned based on statistical models that reflect the specifics of given receivables (e.g. client segment, product type and risk classification). These models were developed in accordance with the Basel II requirements, were implemented in 2007, and are regularly updated based on the latest loss observations and new risk drivers reflecting the phase of the business cycle.

The Bank also implemented regular back-testing of provisioning models to carefully monitor their quality and to identify their potential deterioration in time.

Real Estate Valuation

In compliance with Czech regulations and Basel II rules, the valuation and monitoring of real estate collateral accepted by the Bank as security for corporate and retail loan exposures is delegated to a dedicated unit. This unit of internal specialists is part of the Bank's risk management arm and co-operates with a broad group of external valuation experts.

The Bank continuously monitors the residential real estate market in order to identify developments on the market and implement commensurate measures. Commercial real estates are evaluated in accordance with Basel II rules as an integral part of the regular monitoring activity.

Recovery Activities

In 2012, the Bank's recovery activities were influenced by the still weak economic development and worsened financial situations of some clients. This puts the recovery performance under pressure as recovery periods were extended due to the increasing use of judicial proceedings and increasing complexity in recovering real estate collaterals.

Given the increased portfolio volume in recovery, the Bank continued in optimising its recovery capacity and performance by using external capacities as well as regular auction sales of unsecured retail receivables portfolios to selected investors.

KB Group Credit Risk Management Synergies

A general target of KB's risk management is to harmonise risk management processes and tools throughout the Group. The Bank enables shared access to selected tools within the credit risk system for selected subsidiaries (SGEF, Essox and Factoring KB) to provide a unified credit risk view and harmonise the credit risk approach vis-à-vis common clients who have provided the Group with their specific consents.

The Bank also co-operates on optimising granting processes (Modrá pyramida, SGEF, Essox and Factoring KB) with the aim of supporting business synergies.

KB acts as functional supervisor of Société Générale's International Retail Banking entities in the Czech Republic.

Principal activities in 2012 focused upon:

- redesigning the approval authorities system to emphasise empowerment of the sales force, including to enhance associated risk reporting and intensify targeted communication regarding risk with the distribution network;
- optimising credit processes and supporting the Group's business activities within the context of the Ambition 2015 programme;
- strengthening credit risk monitoring to reflect experience acquired during the previous declining phase of the business cycle;
- updating key risk models to reflect the latest observations as to portfolio development while maintaining sufficient margins across the business cycle, including to optimise rules-based models evaluating information from credit bureaus and the internal register of risky entities;
- creating a so-called "risk academy" to ensure continuous education in the field of risk management among the Bank's employees (not only sales forces, but also risk management employees); and
- participating in SG projects dedicated to SG group synergies.

Capital Markets Risks Management

The Capital Markets Risks department is responsible for managing market risk and counterparty risk in KB Group's capital markets activities. In order to ensure proper segregation and independence of its activities, this department reports directly to the Bank's Chief Risk Officer and co-ordinates its activities within the framework of Société Générale Group's Market Risk division. Market risks within the Bank are managed in accordance with the following principles, which were established by KB's Board of Directors:

- All risks are systematically and regularly monitored, and they are reported independently from business units.
- Methods for measuring risks and control procedures are defined and approved by KB management and Société Générale Group's Market Risk division.
- Limit applications are processed based on requests from business units and are approved by members of the Board of Directors with delegated authority or by the Board of Directors as a whole.
- All regulatory requirements are meticulously controlled.

Market Risk Management Methods for the Trading Portfolio

Assessment of market risks in the Bank's trading portfolio is based on four main types of indicators that are used to quantify limits and measure related exposures:

- The Value-at-Risk (VaR) historical simulation method, calculated with a 99% confidence level and on a 1-day time horizon. All open positions of the trading portfolio are subject to VaR computation. Accuracy of the VaR model is back-tested on a regular basis.
- Measurement using crisis scenarios (stress testing) takes into account low-probability events not covered by VaR. The Bank performs several types of stress tests for underlying asset exposures in the foreign exchange, interest rates, equity and commodity areas. Stress-test scenarios are calibrated based on historical studies or hypothetical analyses and are regularly updated.
- Sensitivity indicators are used to measure interest rate and credit spread positions.
- Volume indicators are used to measure FX positions as well as equity, liquidity and concentration risks.

Counterparty Risk on Capital Markets Activities

In the area of counterparty risk from capital markets activities, there is a governing rule that a market transaction may be concluded with a counterparty only if the product to be used is authorised and if the given counterparty's limits allow conclusion of this transaction. Limits for financial and capital markets operations are monitored on the Bank's structural and market books. They are also monitored for all KB Group subsidiaries, namely the structural book transactions of Modrá pyramida and Penzijní fond KB. Dealers are provided with up-to-date information about available limits for clients on a daily basis. Any breach of limit is immediately reported to the relevant level of management within the Bank. The Board of Directors is regularly informed of all limit breaches.

The measurement of counterparty risk arising from derivative products sold to the Bank's clients is based on the Credit Value at Risk (CVAR) indicator. This indicator is calculated using Monte-Carlo simulation, and it quantifies the potential future replacement costs associated with a client of the Bank in case of client's default. CVAR level is influenced by such transaction parameters as the type of derivative product, time to maturity, nominal amount of the transaction, and volatility of the underlying asset. With a confidence level of 99%, CVAR measures the Bank's maximum risk arising from its derivative deals concluded with a specific client. CVAR thereby quantifies the Bank's exposure to the counterparty in cases of adverse market scenarios.

All KB contracts with important counterparties include a close-out netting clause, allowing to offset market values of different derivative transactions with a given counterparty should a credit event occur. With preference given to the interbank market, the Bank negotiates contracts implementing margin calls to substantially mitigate the credit risk arising from movements in the market values of derivative contracts.

Asset and Liability Management (Liquidity and Other Financial Risks)

KB Group's Financial Risks Management Strategy

In addition to credit risk and non-financial risks, the Group is exposed to risks related to changes in interest and exchange rates, availability of financing sources, and liquidity of assets (financial risks). The process of managing financial risks aims to hold risks undertaken to a minimum while also facilitating the Group's organic development. The methods for identifying, measuring and managing risks in the area of foreign exchange and interest rates are typically based on the requirement to minimise the impact on earnings. Liquidity risk is managed to maintain a very high probability of being able to cover potential future outflows of funds from the Bank.

From an organisational viewpoint, Komerční banka's Asset and Liability Management department (ALM) is in charge of designing measurement methods and managing interest rate, liquidity and foreign exchange risks of the Bank itself, and, indirectly, also those of the Group, as KB ALM methodically oversees the processes for asset and liability management within all the individual entities of KB Group. In line with the strategy, ALM aims to achieve stability in the financial results by minimising the impacts from changes in interest and exchange rates while ensuring at all times the sufficient availability of liquid funds. The transactions pursuing this optimisation of KB Group's financial performance are subject to approval by the Assets and Liabilities Committee (ALCO).

ALCO, whose members include, among others, members of the Bank's senior management and, as observers, SG Group representatives, approves rules and methods used in managing the aforementioned risks. ALCO oversees the levels of risk taken on and the proposed hedging transactions that the Bank executes in order to reduce risk.

All ALM activities fully comply with the rules of the Czech regulatory authorities and with relevant international banking regulations.

Liquidity Risk

KB Group's strong liquidity position is founded upon the various types of customer deposits that it holds and the fact that the Group does not substantially use secondary financing. Thanks to the stability of its large deposit base, the Group had no need to modify the structure of its balance sheet in response to external economic developments by reducing certain types of exposures or seeking to obtain other types of funding. KB Group's strong creditworthiness is supported by stable financial results, as well as the achieved level of capital adequacy. As a result, it has an excellent loans-to-deposits ratio of 78% (or 82% if assets of clients in Penzijní fond KB are excluded).

Funding of KB Group

Client deposits in the volume of CZK 542.7 billion (not including assets of Penzijní fond KB clients and other payables to clients) comprise a crucial part (approximately 69%) of the Group's total liabilities and shareholders' equity. These include current and savings accounts, term deposits, loans from clients and depository notes. This percentage remained stable throughout 2012. Approximately 87% of client deposits were placed in the Bank (of which about 70% on current accounts), the share of Modrá pyramida reached 13% (building savings).

In addition to its broad and stable base of client deposits, KB Group has other possible funding sources, including debt securities issues and loans taken. Komerční banka continued to issue debt securities during 2012, when new issuance totalled CZK 5.1 billion in nominal value. As of the end of 2012, the total nominal amount of mortgage bonds and other debt securities reached CZK 36.6 billion, of which CZK 18.4 billion is placed outside KB Group.

In the first quarter of 2012, KB repaid a subordinated loan in the amount of CZK 6 billion with its interest rate tied to 1M PRIBOR. This had been taken at the end of 2006 to support the Bank's growth potential while optimising its capital structure. The repayment of subordinated debt in the first quarter of 2012 reduced the Bank's capital adequacy by 1.6% to a level KB regards as safe due to the building of a sufficient buffer ahead of that loan's repayment. At the same time, as a result of the repayment, interest expenses related to the subordinated debt have been reduced and the structure of the Group's regulatory capital has reached the highest possible quality, as it is wholly in the form of Core Tier 1 capital. In connection with the forthcoming Basel III regulation, the Group recognises the increased regulatory requirements as to the quality of capital and KB believes this step will further foster the positive perception of the Bank by the regulator and among clients.

KB Group's Liquidity – Monitoring and Management

Liquidity risk management focuses primarily on the ability of the Bank and entire Group to meet their payment obligations at all times. This includes maintaining adequate cash volumes as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily increasing the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management, which minimises the occurrence of unforeseen payment demands during a given period. This primary objective is achieved by managing a liquidity buffer covering the Bank's maximum anticipated cash-out with a confidence level of 99% over a sufficiently long future period (one year).

A liquidity snapshot broken down by currency (CZK, USD, EUR and sum of others) is monitored based on indicators measuring the incoming and outgoing cash flows within particular time horizons. Behaviour of the client deposit base is simulated on stress scenarios in order to maintain a very high certainty of covering possible outflows of funds. The Bank also simulates the utilisation of clients' funding volumes related to products whereby clients are able to determine the timing and magnitude of drawings. Sufficient liquidity is managed using a system of limits. To achieve these, KB uses on balance sheet instruments (e.g. bond issues, loans taken) and off balance sheet instruments (cross currency swaps, foreign exchange swaps). Using foreign exchange swaps, the Group obtains financing in foreign currencies (mainly EUR) from the interbank market. The Group is prudent in its strategy and uses medium- and long-term instruments that allow it to stabilise both volumes and associated costs while at the same time better reflecting changes in costs in setting the prices of newly provided products.

The Group maintains high liquidity at all times. It covered all its liabilities during 2012 from its internal sources without any problems, and the use of secondary funding (e.g. issuing securities) remained limited. At the same time, in early 2012, the Bank entered into repo operations with the European Central Bank (ECB) in the amount of EUR 100 million through its branch in Slovakia. The purpose of this operation was to raise euro-denominated funding to support its activities in the Slovak Republic, as a part of the euro zone, under specific conditions for long-term refinancing operations established by the ECB.

The Group's liquidity cushion is a combination of investments in government bonds and reverse repo operations with the CNB. In this context, a properly functioning bond market is an important prerequisite for a smoothly running financial sector. Therefore, KB Group greatly appreciates CNB's policy to provide repo operations, which the Bank sees as strengthening the bond market's liquidity and hence the banking sector.

With the introduction of Basel III regulation, two new measures are being implemented: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both these regulatory indicators are generally similar to simplified indicators used to measure KB Group's liquidity. Since the beginning of 2012, KB Group's LCR ratio has been consolidated into SG group reporting and simultaneously it is reported to the Czech National Bank, the local regulator.

The strong level of liquidity is clearly demonstrated by the Bank's ability to cover an outflow of approximately 30% of all client liabilities during the course of one year without great problems.

KB Group's Structural Interest Rate Risk – Monitoring and Management

Interest rate risk constitutes the risk of possible changes in the Group's net interest income due to movements in market interest rates.

KB Group has divided its business activities according to their nature into the Structural Book and Market Book. Transactions executed with clients through the branch network typically fall within the Structural Book while operations on the interbank market belong in the Market Book. Interest rate risk is measured and managed separately for the Structural and Market books. Structural interest rate risk is defined as the risk to the Group of potential loss due to changes in market rates.

With regard to structural interest rate risk, the parent company (i.e. Komerční banka) and Modrá pyramida are the most significant members of the Group. The Group manages its structural interest rate risk using standard methods (gap analysis, interest rate sensitivity analysis) and a more sophisticated method called Earnings at Risk, which is based on a stochastic evaluation of the volatility of future interest income. The aim of the Group is to minimise structural risk and not at all to speculate on interest rate changes. To this end, the Group has established prudent limits which must not be exceeded. The reasons for existence of limits are only technologically related and ensue, for example, from the time needed for processing large volumes of data. The Group did not exceed this limit in 2012, and thus it can be considered that structural interest rate risk was minimised.

The Bank uses such standard market instruments for hedging against interest rate risk as interest rate swaps (IRS) and forward rate agreements (FRA), as well as investing into securities. All hedging and investment transactions are immediately entered into the Bank's front office system, where they are recorded and priced.

Securities are for the most part held by the Group in the available-for-sale (AFS) portfolio, even though the Group does not acquire these with the intention to sell them before maturity. The reason for this choice of portfolio lies in the fact that the held-to-maturity (HTM) portfolio, which would be the more appropriate choice in accounting terms (as a bond is maintained at amortised cost, and mark-to-market valuation does not occur), has strong restrictions with potential negative impacts of a fundamental nature. Therefore, it is the strategy of the entire SG Group to minimise use of the HTM portfolio. Nevertheless it remained applicable in 2012 that the Group used a slightly different concept in the portfolio of Penzijní Fond KB. An amendment to the law on pension schemes effective in 2009 allowed the use of HTM securities portfolios in pension funds. The Group has taken advantage of this opportunity and introduced the HTM portfolio treatment at Penzijní fond KB, because, in the Group's opinion, the use of HTM and the corresponding accounting better reflected the long-term nature of investing the pension participants' funds.

As the aim of ALM is to ensure stable interest income into the future, hedging transactions are established mainly in relation to liabilities with stable interest rates. KB purposely uses the term "stable" rather than "fixed" interest rates, because the rates of some deposit products are neither floating nor fixed in the true sense of the word, but they do correlate with market rates in some way. The Bank's aim, moreover, is to assemble assets such that they correlate with market rates in a similar manner.

From an accounting viewpoint, bonds in the AFS portfolio and the majority of hedging derivatives for cash flow hedging are revalued by marking to market only in the statement of financial position (directly to the shareholders' equity accounts) and thus without impact on the income statement. Only in a case of selling these instruments or terminating a hedging relationship (for derivatives) would such an impact occur. As a result of the accounting treatment for bonds in the AFS portfolio and for hedging derivatives, the shareholders' equity account will be affected by the impact of revaluing both types of instruments to market value. The special nature of the shareholders' equity account for the revaluation of these instruments, however, is such that it does not represent relevant information as to the influence on the value of the Bank, as only selected types of instruments are revalued and not all of them as a whole. That is given by the fact that only a selected group of instruments (a group for which there exists general agreement on how to measure their market values, such as securities or derivatives) is represented in this account; the majority of balance sheet components is exempt from revaluation on the principle of marking to market and continues to be recorded according to the accrual principle. Because only one side of the interest rate position is revalued and the other remains based on the accrual principle, with increasing rates in the market the value of this capital account will decline and may even acquire negative values.

Interest rate derivatives (derivatives for hedging risk in the Structural Book) are accounted for in accordance with the valid accounting regulations (including IAS 39) in order to achieve the most accurate accounting presentation. KB has worked out a detailed strategy of interest rate risk management that includes descriptions of which derivatives are allowed, how these may be used, and the procedures for their accounting valuations.

A forthcoming Basel III regulation calls for strict treatment of the valuation differences ensuing from revaluation of the AFS portfolio to fair value, whose differences are recognised on the capital accounts. Regulators suggest to include future revaluation also into regulatory capital. Due to the nature of revaluation of the AFS portfolio, this would mean the volume of regulatory capital could be unexpectedly affected not only due to deteriorating creditworthiness of bond issuers but also due to movements in interest rates. Therefore, the Bank is preparing and considering to adjust its hedging strategies in order to minimise the risk of regulatory capital volatility.

KB Group's Structural Foreign Exchange Risk – Monitoring and Management

Structural foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis, and its position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk in the Structural Book, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in KB itself. The maximum open foreign exchange position of the Structural Book in 2012 was less than 0.11%+ of the Bank's capital, and thus was essentially negligible.

Part of foreign exchange risk management also involves the Bank's ability to respond quickly to market developments so as to prevent the conclusion of economically disadvantageous transactions. The Bank uses an automatic system for continuously monitoring the development of market rates, and it changes those rates used in client transactions once the market movement reaches a predetermined threshold.

Price Setting

The process of product price setting is organised on two levels. The first involves the economic principle of determining a proper benchmark in terms of current market conditions and at the level of the Bank's portfolio (by ALCO). The second is to determine the price for the customer in view of a combination of marketing objectives and product parameters from the client perspective (by the Commercial Committee). ALM provides or proposes external interest rates for deposit products, and it determines KB's base lending rates from which loan rates are derived.

ALM also supports the Bank's business network in the valuation of significant transactions. A dedicated intranet application allows direct access for individual traders to ALM experts, who make accurate valuations of the deals so that the added value of a transaction is well established and, at the same time, hedged.

The price-setting strategy is to offer clients products bearing competitive interest rates while always taking into account those costs connected with the price of liquidity and hedging against interest rate risk and so that margins and financial stability are preserved even despite possible changes in market conditions.

Also related to the foreign exchange business, the ALM department proposes exchange rate spreads to the Commercial Committee for approval and provides for continuous issuance of KB's exchange rates list.

Capital Management

The Group manages capital adequacy to ensure its sufficient level while allowing for organic business growth and for potentially adverse macroeconomic development across the economic cycle. Under the Basel II regulation of capital adequacy currently in force, in addition to the usual reporting of the capital adequacy ratio (Pillar 1) this role includes fulfilling requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Group has selected a method close to the regulatory procedures applied for Pillar 1. That has resulted in very similar levels of necessary economic and regulatory capital.

Since the introduction of Basel II regulation, KB Group has regularly simulated future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications due to their deteriorating the risk profile of the Bank's portfolio.

This process is in a way iterative, because the results of stress testing are taken into account when determining the possible dividend strategies. Conversely, the expected dividend strategy is a prerequisite for simulating future levels of capital adequacy. For the Group, dividend payment strategy is the main tool for managing capital adequacy. Secondary tools comprise purchasing the Bank's own shares into treasury and managing the volume of subordinated debt. KB did not acquire any of its own shares during 2012. In January 2012, the Bank fully repaid its subordinated debt in the total amount of CZK 6 billion (for more information please see chapter Funding of KB Group).

Influence of the Financial Crisis and Recession on KB Group's Market Risk and Outlook for the Future

KB Group is governed in the long term by a conservative investment policy, due to which it had not invested into so-called "toxic assets" arising from the first phase of the financial crisis that began in 2008. The Bank has preferred investing into assets bearing low risk. Government bonds have heretofore always been regarded as such. Deterioration in the credit profiles of several European countries should be seen as one of the secondary impacts of the financial crisis, caused by a combination of those states' high indebtedness and limited economic competitiveness. The Bank's exposure to more endangered sovereigns in the euro zone is limited due to diversification limits that had been set in order not to imperil the Bank's stability from possible default in connection with government debt instruments.

KB Group participated in February and March 2012 in the exchange programme involving Greek government bonds organised by the Greek government. Given that the economic and fiscal developments in Greece after the bonds exchange appeared still to be complicated and with significant risks for the future, the Group decided to sell all exposures to Greece in May 2012. Also in May 2012, having evaluated the evolution of the situation in Portugal, KB sold its remaining Portuguese government bonds. KB also has been closely following the evolution of the economic situation in Italy, as it had holdings of bonds issued by Italy.

Market interest rates decreased in 2012 to extremely low levels. In early November, the CNB's repo rate fell to as low as 0.05%, while Czech government bond yields dropped to their historic lows. The interbank market remained relatively little functional and the trading was limited to short maturities due to persistent aversion to counterparty risk between banks.

From the Bank's perspective, the economic environment is not favourable to sustaining the interest margin, particularly in the area of deposits, which is under pressure of low market rates. In the competitive market environment, it is still common to offer clients relatively attractive interest rates for deposits, but, at the same time, the possibility to reinvest the bank deposits and obtain a reasonable yield is limited. The Bank recognises that the basis for maintaining the interest margin lies primarily in expanding client lending while matching that to an appropriate portfolio of customer deposits.

The Bank continues to remain independent of secondary funding resources because of the strong client deposit base which provides it resistance to market shocks and stability while supporting the sustainability of its balance sheet and growth. Proper risk management and a rational product pricing that correctly take into account the market situation remain prerequisites for sustaining long-term financial performance in the given economic situation.

The Bank continues to remain independent of secondary funding resources because of the strong client deposit base which provides it resistance to market shocks and stability while supporting the sustainability of its balance sheet and growth.

Information Disclosed pursuant to Sec. 213 of Decree No. 123/2007 Coll.

a) Aggregate information about the conditions and main characteristics of capital and its components
The Bank's share capital is fully subscribed and paid, it amounts to CZK 19,005 million and consists of 38,009,852 ordinary shares with nominal value of CZK 500 each. The shares are dematerialised and are publicly traded on public markets.

The Bank calculates capital both on a stand-alone and consolidated bases.

	Information about consolidated capital (CZK million)	31 December 2012
b)	Total original capital (Tier 1)	56,295
	of which: paid up share capital entered in the commercial register	19,005
	own shares	-726
	share premium	248
	obligatory reserve funds	3,854
	other funds from distribution of profit	793
	retained earnings	38,291
	goodwill from consolidation	-3,606
	final exchange rate differences from consolidation	0
	minority interests	2,494
	goodwill other than from consolidation	-146
	other intangible asset (besides goodwill)	-3,913
	negative difference from revaluation of AFS capital market instruments	0
c)	Total additional capital (Tier 2)	0
d)	Total capital designated to cover market risks (Tier 3)	0
e)	Total deductible items from original and additional capital	2,611
	of which: deductible items due to an insufficient coverage of expected credit losses	1,639
f)	Total capital after the consideration of deductible items from original and additional capital and stipulated limits applicable to items of capital	53,684

	Information about consolidated capital requirements (CZK million)	31 December 2012
	Total capital requirements	29,297
a)	relating to credit risk	24,701
	relating to credit risk pursuant to the Standardised Approach in IRB, to total exposures	5,285
	of which: to exposures to central governments and banks	1
	to exposures to institutions	102
	to corporate exposures	2,598
	to retail exposures	2,540
	to other exposures	44
	relating to credit risk pursuant to the IRB Approach	19,416
	of which: to exposures to central governments and banks	1,112
	to exposures to institutions	1,685
	to corporate exposures	10,698
	to retail exposures	4,997
	to equity exposures (simplified method of risk weight)	1
	of which: to exposures quoted on regulated markets	0
	to other equity exposures	1
	to securitised exposures	17
	to other exposures	906
b)	relating to settlement risk	0
c)	relating to position, foreign exchange and commodity risks	954
d)	relating to the operational risk	3,641

The Bank discloses no other capital requirement.

Ratios – Komerční banka, a.s standalone	31 December 2012
Capital adequacy	15.32%
Return on average assets (ROAA)	1.71%
Return on average equity (ROAE)	24.18%
Assets per employee (CZK thousand)	87,328
Operating costs per employee (CZK thousand)	1,303
Profit/Loss after tax per employee (CZK thousand)	1,551

Evolution of Basel II Capital Adequacy and Risk Weighting (RW) in 2012

KB Group uses two advanced approaches under the Basel II framework for calculating risk-related capital requirements: the "Advanced Internal Ratings-Based" (AIRB) approach for credit risk and the "Advanced Measurement Approach" (AMA) for operational risk.

Both regulatory capital and Tier 1 capital for KB Group as calculated in accordance with the regulations of the Czech National Bank under the Basel II framework well exceed the regulatory required minimum of 8%. KB Group's capital adequacy as of 31 December 2012 stood at 14.7%.

Capital adequacy (as of 31 December 2012 in CZK billion)

	Capital ratio	Tier 1 ratio	Total capital requirement	Credit risk capital requirement	Market risk capital requirement	Operational risk capital requirement
KB Group	14.7%	14.7%	29.3	24.7	1.0	3.6
Standalone KB	15.3%	15.3%	25.6	21.7	1.0	3.0

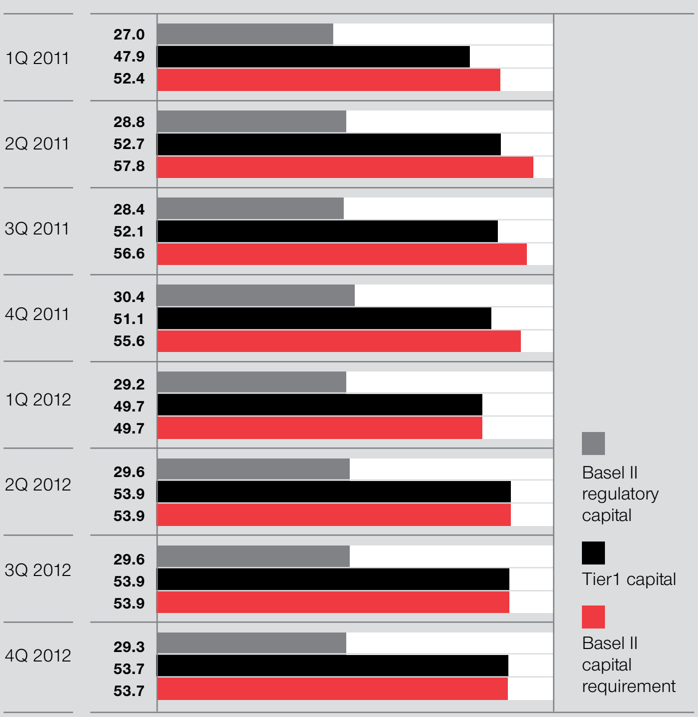
The Group continues in regular stress testing of its positions as an integral part of its risk management. Stress-testing results in 2012 confirmed that KB would meet the regulatory requirements for capital adequacy even in the case of an unexpected negative development in the Czech economy.

Regulatory capital diminished during 2012 due to the repayment of subordinated debt in January 2012. The decrease was partially compensated, however, by the allocation of undistributed profit to the Group's regulatory capital in April 2012. Given that Tier 2 capital had been comprised solely of the subordinated debt, since January 2012 the regulatory capital has consisted only of Tier 1 capital.

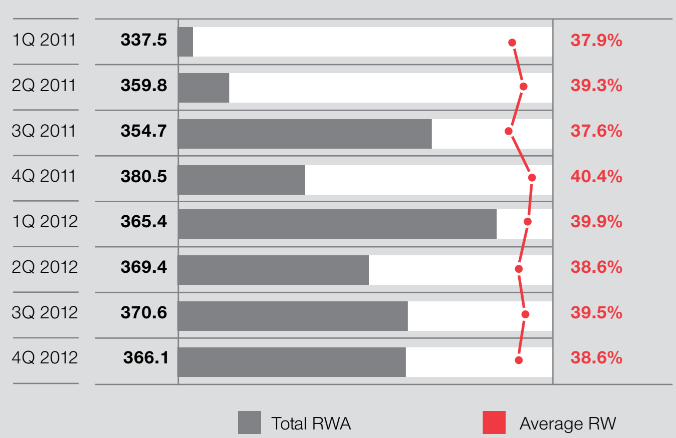
KB Group's risk-weighted assets (RWA) decreased at the beginning of 2012 due to an improvement in the risk parameters of a few important clients. It subsequently remained rather stable for the rest of the year due to a decrease in average risk weight (from 40.4% to 38.6%) which compensated for credit portfolio growth.

- The corporate portfolio was characterised by decreasing average risk weight as a result of improving quality of the non-default portfolio and gradual increase of provision coverage for defaulted exposures.
- The retail portfolio was also characterised by diminishing average risk weight, mainly owing to improving quality of the entire portfolio and supported by better provision coverage for the defaulted portfolio (particularly mortgages and consumer loans).

KB Group Basel II regulatory capital evolution+
(in CZK billion)



Evolution of average RW and total RWA of KB Group+



Preparation for Implementing the Basel III Framework

In large measure, strengthened regulatory requirements in the banking industry are among the outcomes that can be attributed to the financial crisis. The new regulatory concept known as Basel III focuses primarily on improving capital quality, boosting banks' capital adequacy, introducing a minimum liquidity standard, and implementing new leverage ratios.

According to the Bank's current knowledge, the proposed regulatory amendments within the Basel III concept will have no substantial negative consequences for Komerční banka and the regulation's effects will not become a limiting factor for its business development.

Since the structure of KB's capital is not complicated and effectively consists only of the high quality Core Tier 1 capital, it is expected that any diminishment due to the new rules for calculating regulatory capital will be limited and mainly ensue from deducting that part of capital attributed to minorities in fully consolidated subsidiaries, from increased volatility of the regulatory capital as a result of including unrealised losses and gains on the AFS portfolio and, in the area of risk-weighted assets, from inclusion of credit value adjustments to certain OTC derivatives and increased correlation coefficients on certain exposures to large financial institutions and to unregulated financial entities.

KB also meets the newly defined minimum capital levels, as its current level of capital adequacy is well above the increased regulatory requirement. This means that KB can continue its long-term strategy of managing its capital base via an appropriate dividend policy while maintaining capacity to take advantage of the emerging business opportunities. At the same time, of course, such approach must strike a balance between the market growth potential, level of risk appetite and investors' expectations.

Komerční banka has conducted a preliminary assessment of its liquidity in view of the newly defined Liquidity Coverage Ratio and Net Stable Funding Ratio. Required levels for both ratios would be safely met, as the Bank's overall liquidity is solid. At the turn of 2012/2013, regulators announced a less strict approach to be used for the Liquidity Coverage Ratio that expands those securities eligible for the liquidity buffer and decreases the stress levels related to the stability of some types of client deposits. KB welcomes this development as some of the original regulatory requirements practically disqualified certain client deposit categories from being considered for a possible business model. On the other hand, the changes to the proposals for new regulatory requirements may increase inefficiencies in the financial system because banks already had to take into account their effects and had commenced preparations for their implementation.

KB would also meet the currently anticipated target level for the leverage ratio. As of the beginning of 2013, a 3% requirement had been indicated. The Bank's healthy position is confirmed by this indicator as well, thus providing KB significant room for further growing its business.

Compliance Risk

Breaching of regulatory rules, including standards of ethical conduct to which the Bank has made a specific commitment, could have such potentially negative consequences as litigation with regulatory institutions and clients, direct financial losses (fines or compensation for damage), and harm to Komerční banka's reputation. Responsibility for managing this type of risk lies not only with the Compliance Department as the central unit for directing compliance, but it is also the duty of all managers and employees to whom the legal regulations and ethical standards apply.

The Compliance Department defines principles and processes for the compliance function, for preventing risks of money laundering and financing of terrorism, and ensuring that legal regulations are upheld in relation to financial markets, banking law, consumer protection, and client data protection, as well as rules for advertising and fair competition. It also is responsible for fashioning the rules on ethical behaviour for all employees. Moreover, the Bank provides consultancy to its subsidiaries in these areas and oversees that compliance risk is effectively managed.

During 2012, Komerční banka amended internal procedures in relation to the pension reform and to the sale of policies in the second and third pillar of the pension system, and it conducted training in the business network. Within this reform, Komerční banka acquired accreditation to organise professional competence testing for distributors of pension products. Komerční banka, as an issuer of publicly traded securities, also acquired a licence to sell pension products via its business network.

In addition, Komerční banka closely monitored regulatory developments and prepared for implementation. This refers in particular to the new EU requirements for capital management and credit exposure, regulation of OTC derivatives, central counterparties and trade repositories, and the new Civil Code.

Along with implementing the aforementioned regulations, it is expected that in 2013, among other measures, there will be adopted a new law on investment companies and investment funds, and, at EU level, new regulation on personal data protection, deposit insurance, consumer protection in the areas of providing mortgages and transparency of fees, as well as rules on providing investment services, originally planned for 2012.

Governing Law

As an issuer of publicly traded securities, the Bank is governed in its activities particularly by the following laws:

- Act No. 21/1992 Coll., the Banking Act;
- Act No. 256/2004 Coll., on Capital Market Undertakings;
- Act No. 145/2010 Coll., on Consumer Credit;
- Act No. 284/2009 Coll., the Payment Systems Act;
- Act No. 38/2004 Coll., on Insurance Intermediaries and Loss Adjusters;
- Act No. 253/2008 Coll., on Certain Measures against the Legalization of Proceeds from Criminal Activity and the Financing of Terrorism;
- Act No. 513/1991 Coll., the Commercial Code;
- Act No. 563/1991 Coll., on Accounting;
- Act No. 101/2000 Coll., on Personal Data Protection;
- Act No. 143/2001 Coll., on Protection of Economic Competition; and
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins.

In 2012, a new Civil Code was adopted to be in force from 1 January 2014. The new Civil Code will influence the activity of banks, and in particular in the area of their contractual documents. Furthermore, EU regulation on OTC derivatives, central counterparties and trade repositories was adopted and will be implemented in 2013. For KB Group, enactment of the laws reforming the Czech Republic's pension system was very important as well.

Operational Risk

The overall strategy for operational risk management is determined by the Operational Risk Committee which also adopts appropriate steps in case of any negative development in the operational risk area and approves principal changes in the insurance programme utilised for mitigating impacts of operational risk events.

In managing operational risks and calculating the capital requirement for this type of risk, the Bank uses tools such as monitoring, assessment and operational risk control. KB has been applying the Advanced Measurement Approach (AMA) for this purpose since 2008.

Besides the standard tools utilised within the AMA approach, such as collecting data on actual operational risk losses, risk control self-assessment, key risk indicators and scenario analysis, KB also has implemented a system of permanent supervision composed of daily and formalised controls. In 2012, the process of risk self-assessment was closely linked to the risk mapping performed by Internal Audit. Moreover, Komerční banka boosted efficiency in collecting information on internal operational risk events while also enhancing the detail of information gathered for each such event.

During 2012, Komerční banka Group recorded 1,093 operational risk losses in a total gross amount of CZK 162 million, which in a year-on-year comparison corresponds to the level of losses observed in 2011.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. With the integration of SGEF into KB Group, the AMA approach has been used in three Group companies. These are in two cases non-banking entities (SGEF and ESSOX), which situation is unique in the Czech Republic. At the end of 2012, the Czech National Bank initiated the pre-validation of the AMA approach at Modrá pyramida. The validation itself will take place in the first half of 2013.

Business Continuity

Business continuity management comprises methodologies and procedures to ensure that specified business and support functions can be continued or recovered on a timely basis in case of their disruption. The aim is to minimise the operational, financial, legal, reputation and other consequences of such disruption. KB has elaborated documentation for business continuity which includes an analysis of business impacts, a recovery strategy, as well as crisis management and business continuity plans for all main business and supporting activities. In 2012, Komerční banka carried out 86 functional tests of the established business continuity plans.

Information Security

In 2012, with the support of KB management the information security function was reorganised, thus laying a foundation for mitigating the main identified risks and security threats. These efforts will be extended and strengthened during 2013 in the most important areas (i.e. leakage of sensitive information, management of access control, electronic banking) to provide KB with appropriate solutions for facing the information security issues of today and the future.

Legal Risk

Legal risk management consists in minimising the uncertainty associated with enforcement and interpretation of legal acts, agreements, regulations and laws. The role of the Legal Department in this area is to provide co-ordination and expertise while working together with the individual units of KB to monitor legal risks. The Legal Department provides legal support when concluding and executing trades and contracts, introducing new products and processes, and preparing the Bank's standard forms for contracts. It provides information on relevant legislation and court decisions and, as appropriate, it also directs co-operation within the Group. The lawyers of the Legal Department also represent KB before the courts, financial arbiter and law enforcement authorities.

The main tasks of KB's lawyers during 2012 consisted in preparing for implementation of the new Civil Code and the new Act on Business Corporations, in the form of commenting on draft legislation through the Czech Banking Association (CBA), as well as by co-operating in the review of contract documentation used in the Bank.

The Legal Department also participated in preparation of a standard contract for syndicated financing (through CBA) and an amendment to the Act on Public Procurement. Preparation for the pension reform involved transformation of Penzijní fond KB into the new pension company KB Penzijní společnost and the drafting of client documentation.

Go to box on page 34
Pension Reform

Significant Legal Disputes

With respect to its overall financial situation, the Bank considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million.

As of 31 December 2012, the Bank was a party to legal proceedings as a plaintiff in 6 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 464.9 million. The Bank was a bankruptcy creditor with a claim exceeding CZK 50 million in 34 bankruptcy proceedings. The total amount of claims filed in relation to these proceedings was CZK 13.4 billion.

As of 31 December 2012, the Bank was a party to legal proceedings as a defendant in 8 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 3.1 billion.

Information concerning the provisions created for litigations in which the Bank is a defendant is stated in the Notes to the Separate Financial Statements according to IFRS, Note 37 – Commitments and contingent liabilities.

At the beginning of 2013, Komerční banka noticed reports that a large number of persons might submit requests with the intention to seek recovery or return of loan administration fees they had paid and which they consider the Bank was not legally entitled to charge. The Bank is ready to utilise all its procedural rights to prove that the fee complies with the contract and applicable law. As of the closing date of this annual report, only an immaterial number and total monetary volume of such appeals for return of loan management fees had been received by the Bank in various forms.

Internal Audit

Internal Audit constitutes an integral part of the comprehensive risk management system within the Group, and its task is to systematically and methodologically assess the functionality and effectiveness of risk management, management and control processes, and corporate governance, as well as contribute to their improvement.

In 2012, Internal Audit functioned as part of the global division of Internal Audit (DCPE) within the framework of the SG Group. In addition to conducting audits at KB, it also provided coverage for KB Group subsidiaries and SG Group entities in the Central European region.

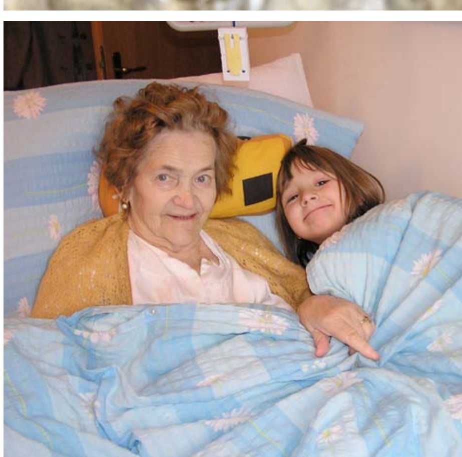
The strategic goals of Internal Audit are primarily focused on covering major risks and the most significant activities of the Group regarding the fulfilment of all regulatory requirements. In 2012, audits were carried out according to the approved plan while also responding to the immediate needs of the Bank. In total, 104 audits (including 17 special investigations) were carried out, 20 of which audits were performed in KB Group subsidiaries. These audits covered both the distribution network and head office units, as well as selected companies providing KB with important services (outsourcing). Its centralised organisation enabled Internal Audit to carry out several transverse audits whereby the selected risks were verified across KB Group companies (e.g. the design of First Level Controls or the effectiveness of travel compensation drawdown and the costs of marketing events). A total 687 corrective actions following from audit engagements were implemented within KB Group during 2012, of which 58 were given high priority.

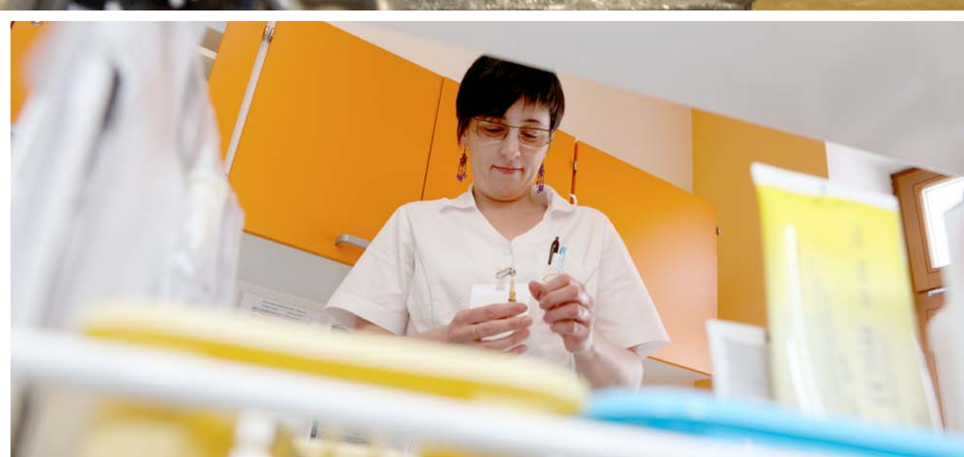
In its regular report to KB's Board of Directors, Audit Committee and Supervisory Board, Internal Audit evaluated the Bank's internal control system to be functional and efficient. Nevertheless, there still exist opportunities for further improvements. For the first time, Internal Audit carried out a review of the remuneration system in KB, including the fulfilment of CRD III requirements.

The plan for 2013 drew upon the outcomes from risk mapping that was performed using a methodology uniform across the whole SG Group. In 2013, an extension of responsibilities to another two countries (Slovenia and Croatia) is planned, as well as implementation of the new centralised KART system for monitoring corrective actions.

Helping

Especially through Komerční banka's Jistota Foundation, we are helping senior citizens, children, and people with disabilities and sicknesses. We contribute to specific projects that are saving lives or improve living conditions for those who face very challenging situations.





Corporate Social Responsibility

Corporate social responsibility stands among Komerční banka's fundamental values, and, as a condition for long-term success, it is a part of the Bank's business strategy. At Komerční banka, value is created through corporate social responsibility in the economic, environmental and social areas.

In the economic area, the Bank embraces the values of social responsibility, for example, through its transparent dealings with clients and suppliers, as well as its responsible risk management. The environmentally friendly approach is reflected, for instance, by support to commercial projects directed to energy production from renewable sources, by purchasing Green Energy and through a number of other activities. Also with an eye to social responsibility, employees, their working conditions and opportunities for development take first priority, followed closely by activities focused on support of culture, education, health care and to those disadvantaged socially or due to health reasons.

Corporate Governance and Organisation, Internal Control

The first premise of doing business responsibly is a clear and transparent governance structure, fortified with strong and independent control functions. It is upon this foundation that Komerční banka's governance structure is built, the definition of which is included in the company's Articles of Association. The Board of Directors is responsible for the business direction of the company, with its six members and presided over by a chairperson. Control functions at the highest level are conducted by the Supervisory Board and the Audit Committee, which are reinforced within the Bank by Internal Audit and a comprehensive, formalised system of so-called first-level controls.

Global Responsibility

Komerční banka applies a global strategy and principles of social responsibility in accordance with the strategy of the Société Générale Group while taking into account the conditions and specifics of the Czech Republic.

A particular example of applying this strategy is seen in the so-called Ethical Sourcing Program. In its supplier relations, the Bank maintains proven procedures considering the environment as well as social and human rights. The upholding of these procedures and principles is monitored, and the Bank co-operates in enhancing these among its suppliers.

In planning and subsequent implementation of social responsibility tools to make these as effective as possible, the Bank also conducts regular annual monitoring of a whole range of factors affecting these areas. It uses for this purpose so-called Planethic Reporting, a Société Générale tool that consists in monitoring of areas such as waste separation, measuring the carbon footprint, charity activities and employee volunteer work. All employees also have access to a global communication tool (the portal Planethic) where they can find essential information concerning these topics, including Group activities.

Ethics

Komerční banka realises that only by taking an ethical and transparent approach to how it does business and provides banking services can it hope to maintain and improve its position on the banking market over the long term. Integral to this approach are the requirements of professional conduct and behaviour for all KB Group employees. The Group has for a number of years been enforcing corporate rules of conduct and principles of ethical behaviour in relation to its employees. A basic overview of KB's ethical rules is publicly available on the Bank's website.

http://www.kb.cz/en/about-the-bank/about-us/ethics-in-komercni-banka.shtml

Komerční banka's detailed Code of Ethics elaborates upon rules of conduct compulsory for all its employees. While springing from the Code of Conduct of the SG Group, it has at the same time been a source of inspiration for other companies within the Group. Komerční banka has also established an Anti-Corruption Policy in accordance with the rules of SG in this area.

Measures against Money Laundering and Financing of Terrorism

In its approach, Komerční banka seeks maximally to obstruct its being misused for purposes of money laundering or financing of terrorism. For this purpose, there are applied rules, methods and controls in accordance with legal regulations and international standards, as are the rules of the Société Générale financial group. These rules and methods are continuously validated and updated, and the knowledge of the employees is both regularly developed in training as well as tested.

When entering into business relationships with clients, Komerční banka rigorously applies the "know your client" method. It declines to work with any person or entity refusing to co-operate in verifying identification or conducting in-depth control. Nor does it work with untrustworthy persons or those whose transactions do not meet standards of transparency or bear high reputation risk.

Responsible Approach to Human Resource Management

The Bank supports diversity and talents among its employees, develops their skills through training and internal mobility, and promotes

Training

Training at Komerční banka utilises so-called schooling branches where training for current and new employees is conducted. There are currently four schooling branches, three in Prague and one in Brno. Their names are certainly noteworthy – in Prague, they are called Harvard, Oxford and Sorbonne, and in Brno the participants study at Bologna.

At first glance, the schooling branches are not very different from real branches – there is a bank lobby with working places for bank advisors and tellers and a client self-service zone. Thus the seminar participants can train on model situations in a safe environment, learning what they can expect in real branches. Three basic seminars are prepared for new employees: the positions of bank advisor, teller and branch manager. Among existing employees, we reinforce their sales skills through a number of follow-up courses.

social dialogue and social security. Komerční banka aims in the human resources area to create long-term professional relationships with its employees and to promote diversity in all areas of human resource management. More on this topic can be found in the Employees chapter.

Ombudsman

In 2004, Komerční banka became the first financial institution to establish a position of independent ombudsman. KB's clients thus can address their complaints to the ombudsman in case they are not satisfied with their resolution by a branch or the Complaint Management Department. JUDr. Joseph Franciscus Vedlich, LLM has been in this position since 2009. As its jurisdiction was expanded in 2012, the institution of the independent ombudsman can be utilised by clients across a total of seven companies within KB Group.

JUDr. Joseph Franciscus Vedlich, LLM, ombudsman KB

In 2012, the ombudsman was contacted by 119 clients of Komerční banka Group. Mr Vedlich resolved 21 cases that fell within his competence.

Debt Advisory Centre

The Debt Advisory Centre is a public benefit organisation focused on providing no-cost and independent debt counselling to individuals. The Advisory Centre's main aim is to support its clients in their efforts to resolve their financial problems or insolvency. A component of the Advisory Centre's activities also includes preventing overindebtedness.

Komerční banka has been a partner of the Debt Advisory Centre since its establishment in 2008. In 2012, the Bank supported the Advisory Centre with a donation of CZK 1,716,833. These funds were used for providing non-financial advisory and ensuring the Advisory Centre's operation.

Environment

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

With the objective of achieving a neutral carbon footprint, several dozen environmental indicators are monitored, such as paper and energy consumption, waste production and number of kilometres flown. On the basis of these values, the Bank then monitors and evaluates the volume of CO_2 emissions produced and the influence on the environment. Employees also may use an internal application to calculate the carbon footprint that they themselves create and determine how they can improve this result.

Komerční banka has joined the "Zelená firma" ("Green Company") project, aiming to protect the environment by efficient recycling of electric devices containing not only recyclable materials but also such dangerous substances as mercury, lead and cadmium. The project includes collection of electronic waste (including bulk company electronic waste) from the Group operations as well as from the employees' private activities, its transportation and environmentally friendly liquidation. Employees can also separate recyclable and hazardous wastes. In the Bank's individual buildings, there are waste disposal information cards with detailed information about the methods for sorting waste at the given branch.

To save energy, KB prefers environmentally friendly appliances and other technologies. Wherever possible, it uses LED light bulbs and motion detectors to control lighting. Since 2011, Komerční banka has been purchasing all its electricity in the form of Green Energy.

Volunteering

Blood Donations
Having begun in 2008, participation in blood donation has become a tradition among KB and Group employees. In events organised by KB, 859 employees have donated in total 386 litres of blood. A total of 70 litres of blood were donated by 154 colleagues during 2012.

Auction of Employees' Photographs
Another annual project in which the employees participate is an auction of photographs by employees, the proceeds from which are dedicated to charitable purposes via Nadace Komerční banky, a.s. - Jistota (hereinafter "KB Jistota Foundation"). In 2012, for the first time, the employees could vote where they wanted these funds to go. The total proceeds of CZK 67,200 thus went to the Children's Haematology and Oncology Clinic in Prague – Motol.

Cycling to Work

KB Group employees again actively participated during 2012 in the green spring kilometres competition announced by the Auto*Mat movement as part of the Cycling to Work campaign. Five teams participated this time around and pedalled a total of 6,654 km in May. Thanks to this environmentally friendly mode of transport they avoided more than a half ton of CO_2 emissions. KB provides its employees bicycle parking places at the headquarters in the centre of Prague, as well as at the new building in Prague – Stodůlky.

Reintroduction of Wild Horses – One Year Later

In June 2011, KB had participated in a project with Prague Zoo entitled "Reintroduction of Wild Horses to Nature", aiming to reinforce and revitalise the population of Przewalski's Horse in Mongolia. With the contribution from Komerční banka, four Przewalski's horses were reintroduced to a reserve in the Mongolian steppes from Czech–Slovak breeding. Three of the horses were females. The entire herd acclimated very quickly, and, thanks to the reintroduced females, it grew by three foals in 2012. In July, the Prague Zoo transported four more mares into Mongolia, this time to the Gobi B National Park.

Food Bank
In June, a food collection drive was organised for the employees of Komerční banka Group to benefit food banks. The employees of Komerční banka and subsidiary companies could donate non-perishable foods at 15 collection points throughout the country, or they could support the collection by donating money to the account of KB Jistota Foundation. In addition to a considerable amount of food, CZK 48,921 was collected.

Sponsoring
Main areas of Komerční banka's sponsoring are projects relating to culture, amateur sport, society and education.

Komerční banka presented its sponsorship activities to the public through a set of photographs by the renowned photographer Antonín Kratochvíl placed in all branches of the Bank. The photographs from behind the scenes of the National Theatre, from the Prague Zoo, and showing firefighting sport, floorball and hospice care express how partnership is the common theme of KB Group's sponsorship activities.

KB's largest sponsorship project is its all-around support for the artistic activities of the National Theatre. In 2012, this partnership was again renewed, bringing to 11 years the time during which the Bank has been connected with this symbol of Czech identity and cultural history. In the cultural area, support was continued also for the French Film Festival, which is traditionally among the most important film festivals in the Czech Republic.

Sponsoring of amateur sport is focused especially on supporting projects that bring joy and entertainment to the largest number of participants. Therefore, KB became the main partner of the Czech Floorball Union and thus supports floorball in general. As measured by the size of its membership base, this sport is already the second most popular in the Czech Republic. Firefighting sport is a distinctive Czech phenomenon. It is a physically demanding sport that appeals to spectators, thus corresponding perfectly to the "Partnership Matters" idea. Therefore, the Bank began its support to the Czech Championship in firefighting sport during 2012.

Support to the Prague Zoo continues. Komerční Banka is assisting this unique institution in its efforts to save endangered animal species and to develop its modern grounds, which stand among the Czech Republic's main tourist attractions.

KB Jistota Foundation

KB Jistota Foundation has been helping out for 18 years now. Each year the Foundation supports dozens of projects, thanks mainly to financial support from the Bank, but also due to the employees' initiative. Not only do the employees contribute money donations, they also constitute the Foundation's management and supervisory boards. During 2012, the Foundation provided donations totalling CZK 7.7 million in value.

The main areas where the KB Jistota is helping include social and medical services with a focus on senior citizens and children. A large part of the donations provide aid to hospices. In 2012, assistance of CZK 900,000 went to hospices through a bed renewal programme. For example, there was a gift of CZK 430,000 to acquire special beds with accessories for the Hospice of St. Agnes of Bohemia in Červený Kostelec, which was the first hospice to be founded in the Czech Republic.

The Foundation made possible the establishment of 21 baby boxes, and it continues to support their maintenance with CZK 200,000 per year. An interesting project centring on children with mental and physical disabilities is the Garden of Senses in the special elementary school and kindergarten at Nový Jičín, for the establishment of which the Foundation contributed CZK 100,000.

In 2012, money from the Foundation also went in support of sport for people with disabilities. One example was to assist the KB Czech Cup competition, organised by the civic association Wheelchair Athletics.

The Foundation established a new initiative during 2012 with the objective to support students with physical disabilities, who are provided with scholarships for the 2012/2013 school year. The initiative also includes an offer of an internship within Komerční banka and consultations with the Bank's managers in relation to diploma thesis work.

CZK
7.7 million

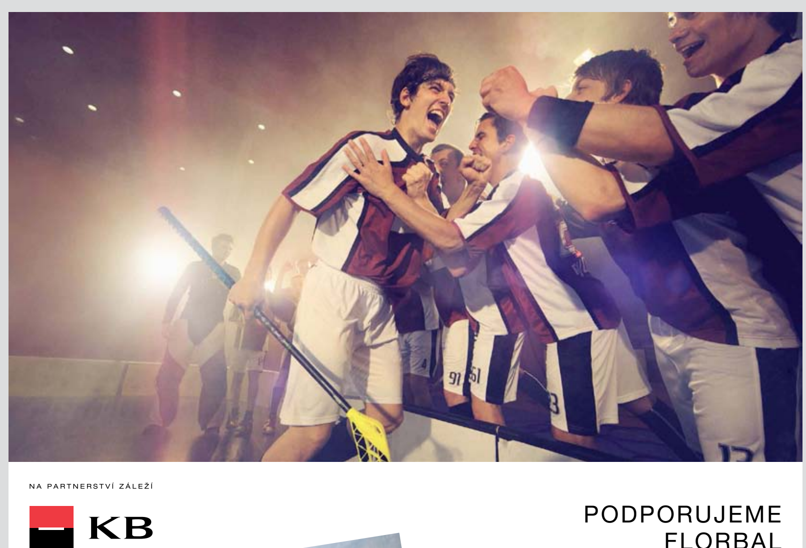
DONATED BY KB JISTOTA FOUNDATION IN 2012 TO DOZENS OF PROJECTS.

Partnership matters

This is a slogan the public has been associating with Komerční banka since the summer of 2012. Visuals with the new slogan and accompanied by a new design have appeared in television spots, print, on-line and outdoor advertising, as well as on promotional items for clients. The new communication concept also includes photography of sponsorship activities in Komerční banka branches. The pictures were made in institutions that KB supports through its corporate responsibility activities, and thus express appreciation for the commendable work of these institutions.

The world renowned photographer Antonín Kratochvíl is the artist behind the photographs that liven up Komerční banka's branches. He had unique opportunity to capture the everyday lives and work of those who create culture and art and help others. Komerční banka's people could watch the photos being made at, for example, the dress rehearsal of the Sleeping Beauty ballet in the Czech National Theatre, at a training exercise of the Czech Republic's largest fire station, in Ostrava, at a practice of young floorball players who were promoted to the country's top league, and at the Prague Zoo, where after a long and anxious wait one of the giraffes finally "kissed" its favourite caretaker.

The "Partnership Matters" communication concept was part of the worldwide efforts by Société Générale to emphasise the importance of partnership between the Bank and client. For Komerční banka, co-operation and partnership with its clients are traditional values given further support and development through the new slogan.



Employees

KB's strategic vision in the human resources area is to create a long-term partnership with its employees, a prerequisite for which is a professional relationship based on trust, respect, mutual communication, equal opportunity, and the offer of interesting professional and career development.

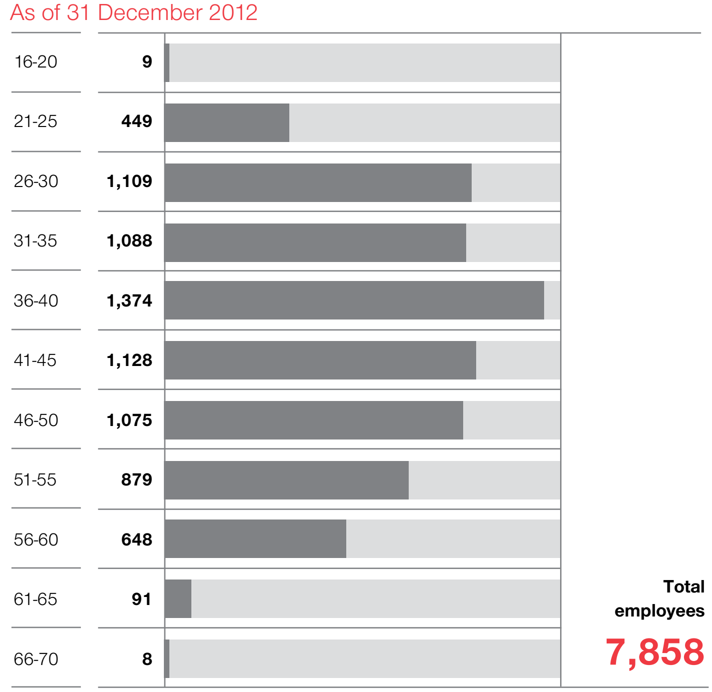
Zaměstnavatel roku® 2012

The situation on the Czech labour market gradually deteriorated over the course of 2012 due to the recession. The economy failed to create enough jobs, and thus unemployment steadily increased even though this development and the unemployed rate were better than the EU average. In line with the difficult situation on the labour market, but also due to KB's excellent reputation as an employer, most job positions at Komerční banka were in high demand. Nevertheless, it was sometimes difficult to fill certain positions requiring specific knowledge, skills and experience. In October 2012, KB was awarded the prestigious title "Most Desired Employer 2002–2012, as a special prize for the 10th anniversary of Sodexo's Employer of the Year competition, thus acknowledging its long-term success in this category denoting the most respected and desired employers in the eyes of Czech students.

KB Group's average number of employees (FTE) was 8,758 (−0.2% year on year) during 2012, of which 7,845 (−0.1%) were within the Bank itself. The average number of employees (FTE) in KB subsidiaries was 913 (−0.7% year on year) in 2012.

As of 31 December 2012, Komerční banka had in total 7,895 employees, of which 7,858 were in the Czech Republic and 37 in Slovakia. At headquarters, there were 3,681 employees (47%) and in the distribution network 4,177 employees (53%). Of these, 763 were in the Prague region, 870 in South-west Bohemia, 809 in Hradec Králové, 817 in Ostrava and 918 in Brno. In comparison with the end of 2011 (7,979), the total number of the Bank's employees in 2012 (7,895) decreased by 84 (−1.1%).

Age structure of employees in KB (Bank in the Czech Republic)
As of 31 December 2012



Diversity

Komerční banka views diversity among its employees as an important positive value which improves the performance of each team member. Diversity in the teams brings mutual enrichment, but also higher-quality collective results. The Bank has taken a systematic approach to diversity since 2008, when it created a programme for the career management, development and support of specific populations. KB not only selects colleagues on the basis of their qualifications, but it also offers opportunities to a broad range of talents.

Employees on Maternal and Parental Leave

Approximately 800 colleagues (some 10% of employees) are on maternal and parental leave. Komerční banka's priority is to maintain contact with these people during their maternal and parental leaves, and, upon their return, to make their reintroduction to working life as easy as possible. Facebook and a monthly information newsletter serve as new communication tools for this purpose.

Employees with Disabilities

In 2012, the Bank itself had on staff 63 employees with disabilities. KB has prepared training for human resources specialists to support the employment of people with disabilities, and the same topic is part of the managerial training that focuses on team diversity. The new barrier-free headquarters building in Prague – Stodůlky is universally accessible, thereby extending the offer of job opportunities. Employees with disabilities are entitled to an additional work day of leave per calendar quarter.

Gender Diversity

The basis for KB's efforts to have a more balanced ratio of men and women in leading positions is in raising the awareness of and educating its employees. Female managers working in key positions are a testament to these efforts. KB supports the development of female employees through the presentation of positive examples and experiences by means of mentoring and networking. The Bank also participates in an international networking programme organised by Société Générale called Club Féminine. Komerční banka is not a proponent of quotas. When a position opens up, human resource specialists proactively inform female candidates with potential for the given position. The most suitable candidate, male or female, is then selected for that position.

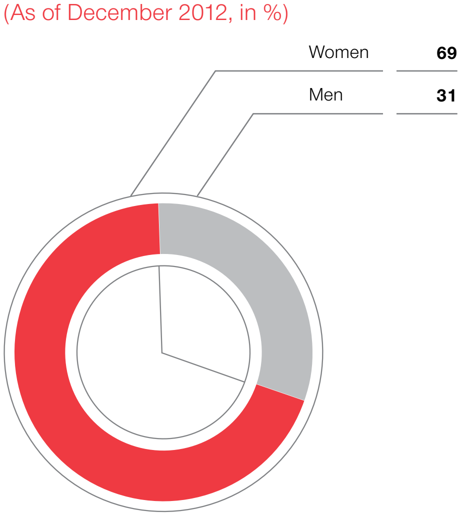
Work–Life Balance

Flexibility in work scheduling significantly affects the balance between one's professional and private lives, which is an important aspect for all but especially for parents with children. KB allows several forms of alternative working hours, including home office. Approval of any adjusted working hours and time off without pay is always fully within the competence of the employee's respective supervisor. He or she evaluates each request individually, taking into account the type of business operation, character of the work performed, and the necessary competencies.

Co-operation with Students

In 2012, Komerční banka continued to deepen its co-operation with universities and student organisations (e.g. AIESEC and CEMS). Among new projects, for example, the Bank commenced collaboration with the Czech Technical University in Prague on the ECONTECH programme, under which students work on specific projects from the banking area. Our long-time activities were rewarded with the title "Most Desired Employer 2002–2012" from the perspective of university and college students.

Proportion of men and women in KB (Bank)
(As of December 2012, in %)



Cafeteria at new administrative building in Prague – Stodůlky

Statement of the Chairman of the Board of Directors
Major Events in 2012
Strategy and Results
Risk Management
Corporate Social Responsibility and Employment Policy
Corporate Governance

Employees' Education and Development

KB Group creates a broad offer of educational programmes and courses for its employees. In 2012, the Bank focused especially on developing employees having direct contact with clients within the branch network, as well as managers and participants in the Talent Management programme.

The Bank opened a managerial academy known as M'Academy. It focuses on long-term personalised skills development in the areas of managing and developing people, effective co-operation, team-building, strategic thinking, change implementation, flexibility and innovation.

Komerční banka continued to develop the Group's key and talented employees through the KB Group Talent Management programme, with more than 400 participating personnel. The programme now includes a mentoring aspect, with 94 mentors and mentees successfully participating. Approximately 200 more internships organised across the Group further supported co-operation and the acquisition of new experience and knowledge.

As always, additional integration and developmental programmes were dedicated to new employees (StartinG), fresh university graduates (ConnectinG and ConnectinG+), and future managers (ChallenginG).

Remuneration and Employee Benefits

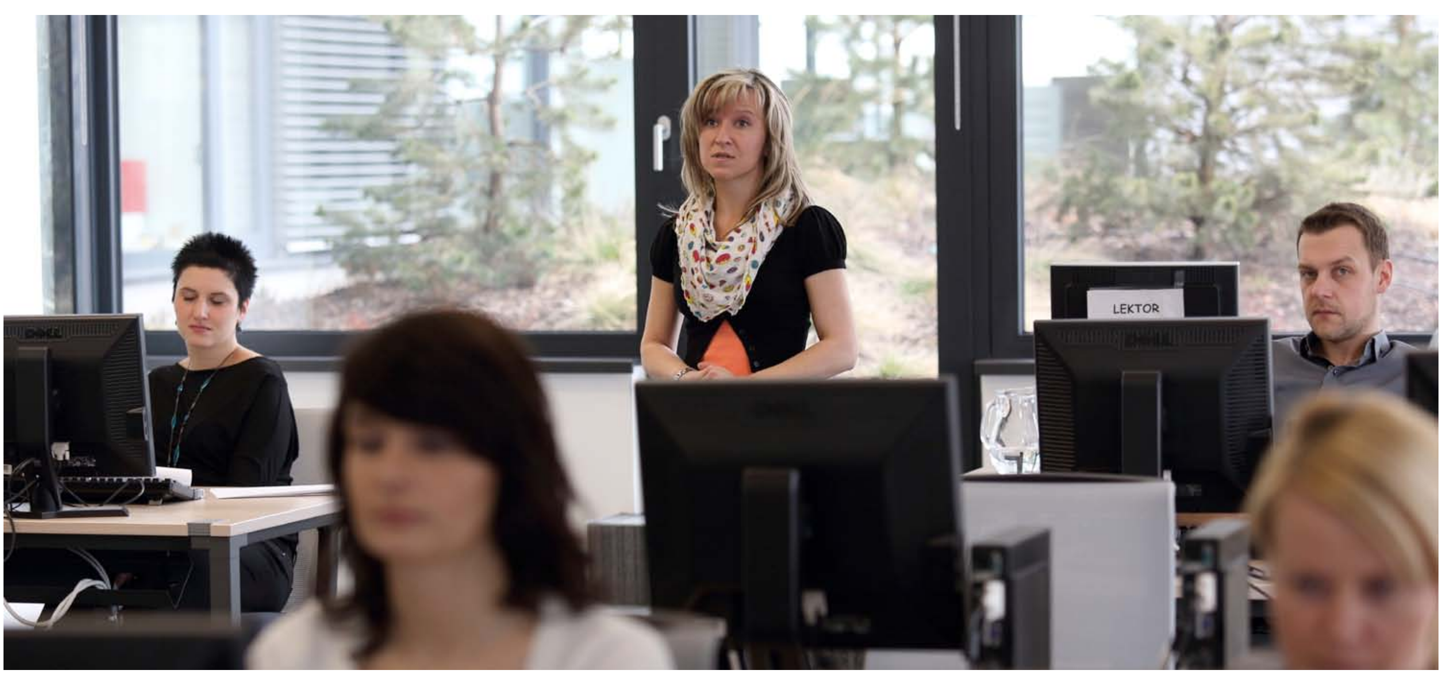
Komerční banka fulfilled its commitments to employees in relation to basic wages and provision of employment benefits ensuing from the Collective Agreement and its amendments valid for 2012.

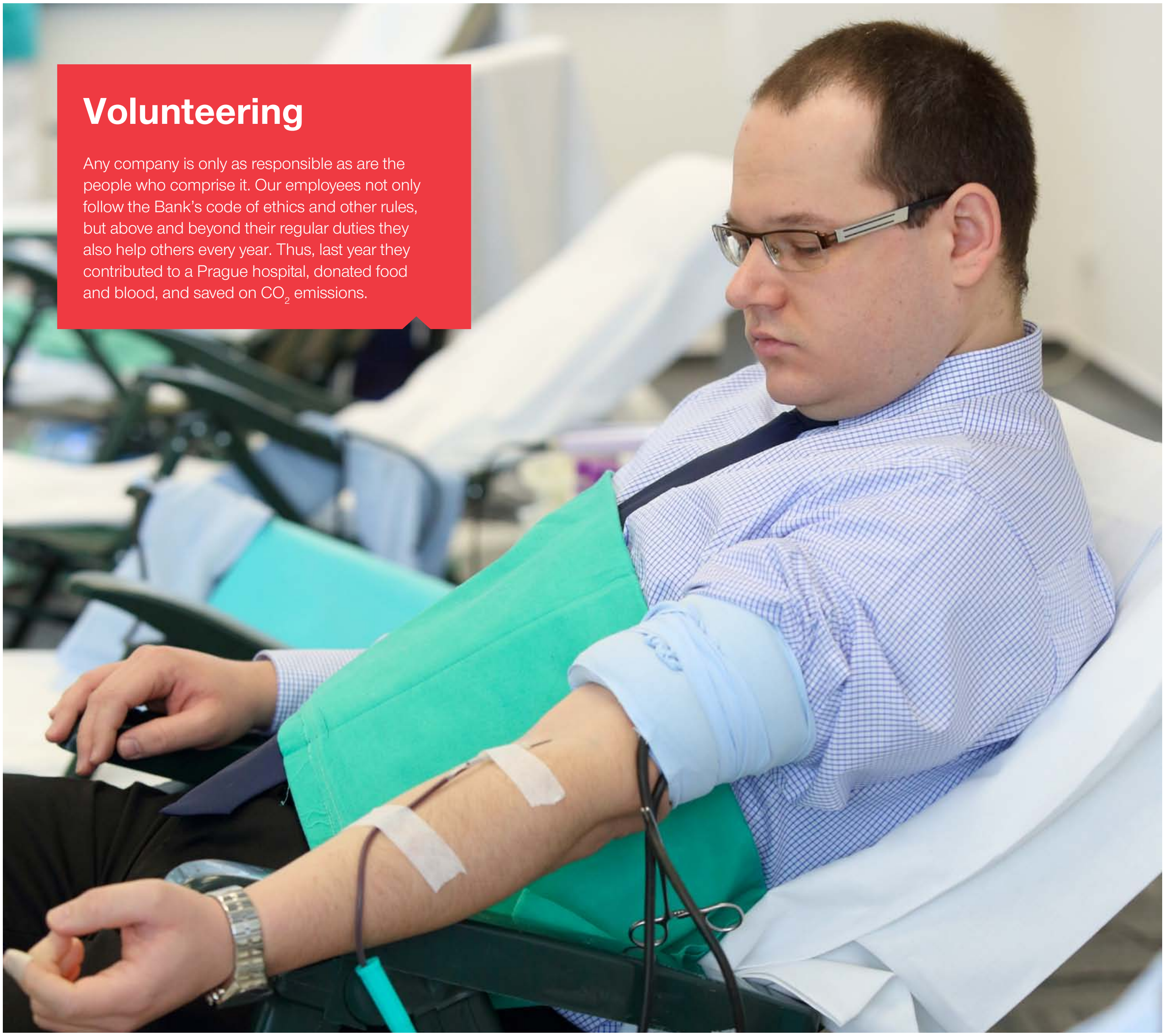
During 2012, the Supervisory Board approved new employee remuneration rules which reinforce the relationship between remuneration and KB Group's long-term results. The new rules affect all positions which may significantly influence Komerční banka's risk profile, including all members of the Bank's Board of Directors.

To improve employee stability and motivation, the Bank provided an above-standard offer of employee benefits. KB developed benefits during 2012 in the area of financial support in case of long-term inability to work, work leave with pay, and risk life insurance. KB Group employees again had the opportunity to subscribe for shares under the Worldwide Shares Programme for SG Employees.

In the health care area, the Bank continued its established co-operation with the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry in the form of an extended offer of preventive medical care that goes above and beyond the medical care covered by public health insurance.

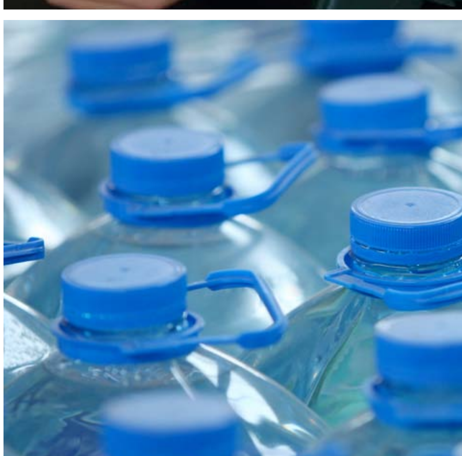
The Bank opened a managerial academy known as M'Academy. It focuses on long-term personalised skills development in the areas of managing and developing people, effective co-operation, team-building, strategic thinking, change implementation, flexibility and innovation.

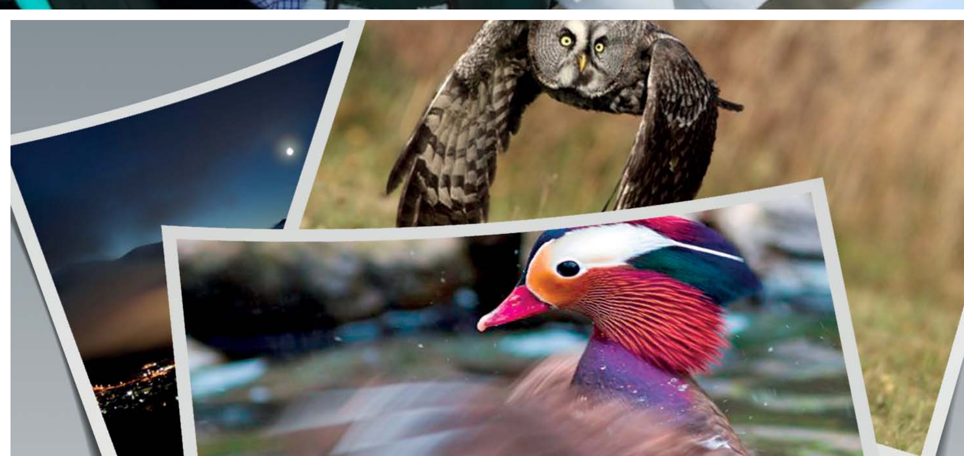




Volunteering

Any company is only as responsible as are the people who comprise it. Our employees not only follow the Bank's code of ethics and other rules, but above and beyond their regular duties they also help others every year. Thus, last year they contributed to a Prague hospital, donated food and blood, and saved on CO_2 emissions.





Corporate Governance

(A separate part of the annual report pursuant to Section 118 (4) (b), (c), (e) and (j) and (5) (a)–(k) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended)

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

In 2012, there occurred no fundamental changes that would adversely affect the aforementioned governance standards of the Bank, and Komerční banka continued to improve the Bank's corporate governance performance.

Shareholders and the General Meeting

The share capital of KB totals CZK 19,004,926,000 and is divided into 38,009,852 ordinary listed shares admitted to trading on the European regulated market, each with a nominal value of CZK 500. All the Bank's shares carry the same rights.

Major shareholders of Komerční banka owning more than 3% of the share capital as of 31 December 2012 (per the extract from the issuers' register taken from the Central Securities Depository)

Shareholder	Proportion of share capital (%)
Société Générale S.A.	60.35
Chase Nominees Limited	6.15
Nortrust Nominees Limited	3.41

Shareholder structure of Komerční banka (according to the extract from the issuers' register taken from the Central Securities Depository as of 31 December 2012)

	Number of shareholders	Proportion in number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	**43,674**	**100.00**	**100.00**
of which: legal entities	535	1.22	97.45
private individuals	43,139	98.78	2.55
Legal entities	**535**	**100.00**	**97.45**
of which: from the Czech Republic	115	21.50	1.17
from other countries	420	78.50	96.28
Private individuals	**43,139**	**100.00**	**2.55**
of which: from the Czech Republic	38,659	89.61	2.40
from other countries	4,480	10.39	0.15

The General Meeting shall be the supreme body of the Bank. The Regular General Meeting is held at least once per year, and in no case later than four months from the last day of each accounting period.

The General Meeting shall constitute a quorum if the attending shareholders hold shares whose total nominal value exceeds 30% of the registered capital of the Bank, provided that voting rights are attached thereto in accordance with generally binding legal regulations. The quorum is checked at the time of convening the General Meeting and always before each vote. The General Meeting shall approve resolutions by a majority of votes of the attending shareholders unless legal regulations require a qualified majority of votes. The General Meeting's order of business is governed by the agenda stated in the published notice calling the General Meeting. Issues that were not included in the proposed agenda for the General Meeting are decided only with the attendance and consent of all the Bank's shareholders. The General Meeting shall be opened by a member of the Board of Directors authorised for this purpose by the Board (usually the Chairman of the Board of Directors). This member of the Board of Directors also shall conduct the General Meeting until a Chairman of the General Meeting is elected.

All persons registered in the list of attending shareholders and present at the General Meeting at the time of calling a vote are entitled to vote, unless the law stipulates otherwise. The sequence of voting corresponds to the order on the General Meeting's agenda. The casting of votes shall be carried out by means of ballots. Each CZK 500 of the nominal share value represents one vote. Any proposal presented by the Board of Directors shall be voted on first. Should such proposal of the Board of Directors be accepted by the required majority, other proposals or counter-proposals to this point shall not be voted upon. Other proposals or counter-proposals shall be voted on in the sequence in which they have been presented. Should such proposal or counter-proposal be accepted in a vote by the General Meeting, other proposals or counter-proposals shall not be voted upon.

The General Meeting has within its powers to:

a) decide upon amendments to and changes in the Articles of Association, with the exception of a change in consequence of an increase in the registered capital by the Board of Directors or on the basis of other legal circumstances as established by law;
b) decide upon increase in the registered capital, with the exception of the procedure specified under Section 31 of the Articles of Association, or upon setting off a monetary claim towards the Bank against a claim to be used for payment of the issue price;
c) elect and remove members of the Supervisory Board, with the exception of the election and removal of members elected by the Bank's employees under Section 13 of the Articles of Association;
d) approve the Board of Directors' reports regarding the Bank's business activities and the Bank's assets, at least once per accounting period;
e) decide upon a decrease in the registered capital provided that a prior consent of the Czech National Bank has been given, unless this concerns a decrease to cover a loss;
f) decide upon a change in the class or type of the shares;
g) decide upon issuing bonds of the Bank if the law so requires;
h) decide upon modifying the rights attached to individual classes of the shares;
i) approve the Annual Financial Statements, Extraordinary Financial Statements, Consolidated Financial Statements and Interim Financial Statements when required by law;
j) decide upon distribution of the profit or other shareholders' funds or coverage of a loss, and to determine directors' fees;
k) decide upon the compensation of members of the Board of Directors, Supervisory Board and Audit Committee, and approve the service contracts with the members of the Supervisory Board and of the Audit Committee;
l) decide upon merger or division of the Bank or on transfer of assets to the Bank as a member in cases required by law provided that a prior consent of the Czech National Bank has been given;
m) decide upon winding up the Bank with the prior consent of the Czech National Bank;
n) approve proposed distribution of the liquidation balance of the Bank's assets;
o) decide upon quoting participation securities of the Bank in accordance with a special legal regulation and upon terminating the registration thereof;
p) approve contracts serving as a basis for a transfer of the business or a part thereof, contracts for the lease of the business or a part thereof, contracts for the pledge of the business or a part thereof;
q) charge the Board of Directors to decide upon an increase in the registered capital under the conditions specified in the Commercial Code and the Articles of Association (Section 31);
r) decide upon acquiring the Bank's own shares in accordance with the relevant provisions of the Commercial Code;
s) decide upon eliminating or restricting the pre-emptive right to acquire convertible or priority bonds, elimination or restriction of the pre-emptive right to subscribe for new shares in accordance with the Commercial Code;
t) approve contracts of control, profit transfer contracts and silent partnership contracts, and changes thereof;
u) approve the acquisition or disposal of assets, when the law so requires;
v) decide upon other matters which, according to the generally binding legal regulations or the Articles of Association, are part of the powers of the General Meeting;
w) decide upon appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
x) decide upon the appointment and removal of members of the Audit Committee;
y) decide upon the approval of rules for the provision of discretionary compensation to Audit Committee members.

The results and information from the General Meeting are available on Komerční banka's website.

Description of the Rights and Obligations Vested in the Komerční banka Shares

The shares of Komerční banka are ordinary bearer shares quoted on the European regulated market and can be transferred freely. All shares are dematerialised. The nominal value of each share is CZK 500. The shareholders' rights are stated in the Commercial Code (in particular Section 180) and in the Articles of Association (Section 5). All the Bank's shares carry the same rights. There are no restrictions on the voting rights attached to Komerční banka's shares. A voting right can be suspended only for reasons specified by law. Komerční banka cannot exercise voting rights attached to its shares held in treasury.

Shareholders exercise their right to participate in the Bank's management especially at the General Meeting where in particular they exercise their voting right. Each CZK 500 of nominal share value is equivalent to one vote. Any shareholder at the General Meeting also is entitled to request an explanation, either orally at the call of the Chairman of the General Meeting or in writing through the information centre. The Chairman of the General Meeting shall be obliged to ensure that all requests for explanation presented in accordance with the Rules of Procedure and Voting Rules will be satisfied. The information contained in the explanation must be clear and must provide a sufficient picture of reality. Information may be omitted in whole or in part only in those cases stipulated by the Commercial Code (Section 180 (4)). Shareholders also can submit proposals and counter-proposals to the issues on the General Meeting's agenda. The General Meeting always is informed of these proposals and counter-proposals by its Chairman before voting on each resolution. In accordance with the Articles of Association, any proposal of the Board of Directors shall be voted on first. Shareholders also shall be entitled to request that the minutes clerk of the General Meeting include any protest concerning a resolution of the General Meeting in the minutes of the General Meeting. Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting and, furthermore, have the right to call for the General Meeting to consider the proposed issues and review the operations of the Board of Directors as stipulated in Sections 181 and 182 of the Commercial Code and in Section 5 (8) of the Articles of Association. Pursuant to the provisions of Section 183 in relation to the provisions of Section 131 of the Commercial Code, a shareholder may request, under the stated circumstances, a court to find a resolution of the General Meeting to be invalid. Any shareholder shall be entitled to ask the Bank to produce a copy of the minutes of any General Meeting or a part thereof throughout the Bank's existence. The copy of the minutes or part thereof shall be made at the Bank's expense. A shareholder is entitled to request a court of justice to appoint an expert in order to examine the report on the relationships between related entities, under the terms and conditions stipulated in Section 66a (13) of the Commercial Code.

Principle Resolutions of Komerční banka's General Meeting Held in 2012

At the General Meeting held on 26 April 2012, 243 shareholders holding shares with nominal value representing 79.28% of the Bank's share capital were present in person or through their representatives. The General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its assets and liabilities for the year 2011 as well as the annual financial statements of Komerční banka for the year 2011, decided to distribute profit for 2011 in the total amount of CZK 7,950,518,546.72, and decided to pay out dividends in the amount of CZK 160 per share.

The Annual General Meeting also:

- approved the consolidated financial statements for the year 2011;
- re-elected Mr Bořivoj Kačena as a Member of the Supervisory Board;
- decided on compensation of the Chairman of the Audit Committee and approved his service contract;
- consented to acquisition of the Bank's ordinary shares into treasury under specified conditions; and
- appointed the company Ernst & Young Audit, s.r.o. as the Bank's external auditor for 2012.

Board of Directors

The Board of Directors is an authorised body which manages the Bank's activities and acts in its name. The Board of Directors shall ensure business management, including proper keeping of the Bank's accounting records. The Board of Directors shall further ensure the creation and evaluation of the management and control system, be responsible for its continuous functioning and effectiveness, and create conditions for the independent and objective performance of compliance-related operations and of internal audit.

The Board of Directors shall decide upon all matters concerning the Bank, unless assigned to the competence of the General Meeting, the Supervisory Board or the Audit Committee by law or by the Articles of Association.

The Board of Directors consists of six members, natural persons, who meet the conditions provided in legal regulations for becoming a member of the Bank's Board of Directors and who are elected by an absolute majority of all Supervisory Board members at the recommendation of the Remuneration and Personnel Committee for a four-year term. The professional qualifications, credibility and experience of the members of the Bank's Board of Directors are assessed by the Czech National Bank.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations or other sanctions have been filed against them. No bankruptcy, receivership or liquidation was declared in relation to the stated persons in the past 5 years.

Composition of the Board of Directors

Henri Bonnet
Chairman of the Board of Directors (since 10 September 2009)

Pavel Čejka
Member of the Board of Directors (since 1 August 2012)

Vladimír Jeřábek
Member of the Board of Directors (since 1 June 2008, re-elected on 2 June 2012)

Jan Juchelka
Member of the Board of Directors (since 1 July 2006, re-elected on 2 July 2010, membership terminated as of 31 July 2012)

Karel Vašák
Member of the Board of Directors (since 1 August 2012)

Peter Palečka
Member of the Board of Directors (since 13 October 1999, re-elected on 5 October 2011 and on 7 October 2009)

Patrice Taillandier-Thomas
Member of the Board of Directors (since 1 February 2008, re-elected on 2 May 2012, membership terminated as of 31 July 2012)

Aurélien Viry
Member of the Board of Directors (since 1 January 2011)

Henri Bonnet
Graduated from the University of Poitiers with a law degree. He has worked in the Société Générale Group since 1967, having first been employed in French branches of SG in Chateauroux and Limoges and later in the Internal Audit and Leasing departments. From November 1978, he worked temporarily as the head of the Leasing Department in the Korean–French banking group in Seoul and then from 1981 as the Executive Vice President of Banco Sogeral SA in Sao Paulo, Brazil. In July 1987, he became Head of Credit, Leasing and International Finance at SG Elsässische Bank in Frankfurt, Germany. Between 1995 and 1997, he worked as Head of Corporate Relations in SG's Investment Banking Department. From December 1997 to June 2001, he served as Regional Director for Germany and served as Director of SG Frankfurt, and from July 2001 he held the position of Deputy Head of Specialised Financial Services within SG. Mr Bonnet was elected by KB's Board of Directors as the Chairman of the Board of Directors and CEO of Komerční banka with effect from 10 September 2009. Mr Bonnet is also a member of Société Générale's Group Management Committee. Furthermore, Mr Bonnet is a member of the supervisory boards of Komerční pojišťovna and SG Equipment Finance Czech Republic, and he is Chairman of the supervisory boards of Modrá pyramida and ESSOX.

Pavel Čejka
Graduate of the Czech Technical University in Prague with a focus on Management and Finance, and of the University of Chicago Graduate School of Business, where he obtained his MBA. He is a member of the British Association of Chartered Certified Accountants. He started his professional career in 1994 at Arthur Andersen, where he specialised mainly on advisory and auditing for financial institutions in the central European region. In 2000, he joined ČSOB as Executive Director of Financial Management. Mr Čejka joined Komerční banka in July 2003 as Deputy Financial Director, and from February 2006 to July 2012 he served as Executive Director of Strategy and Finance. With effect from 1 August 2012, he was elected by the Supervisory Board as a Member of the Board of Directors of Komerční banka in charge of Strategy and Finance, Operations, Information Technology, Project Organisation and Management, Support Services and Investment Banking – Operations. Mr Čejka is also a member of the supervisory boards of the companies Modrá pyramida, ESSOX and Komerční pojišťovna. Moreover, he is chairman of the supervisory board of Penzijní fond KB (from 1 January 2013 KB Penzijní společnost) and a member of the statutory body of Bastion European Investments, S.A.

Vladimír Jeřábek
Graduated from VUT Technical University in Brno, Czech Republic, and from Nottingham Trent University. He has held the positions of economic director and member of the board of directors in several banking institutions and at Zetor, a.s., a producer of agriculture tractors. Upon his arrival to Komerční banka in 1998, Mr Jeřábek was the regional manager responsible for the Brno region and later was in charge of Komerční bank's distribution channels. In February 2007, he was appointed Executive Director of the Distribution Network. He is responsible for the Bank's distribution network serving the Retail and Corporate segments and also for the alternative distribution channels such as internet banking and non-banking channels. The Supervisory Board elected Mr Jeřábek as a Member of the Board of Directors in charge of Distribution with effect from 1 June 2008. Moreover, Mr Jeřábek is a member of the supervisory board of Penzijní fond KB (from 1 January 2013 KB Penzijní společnost).

Charles Karel Vasak (Karel Vašák)
Graduate of Lyon Business School (EM Lyon). Mr Vašák started his professional career in 1982, when he joined Société Générale Group. Until 1990, he worked within the distribution network of SG in France, and then during 1990 to 2001 in its international distribution network at a London branch, where he was responsible for French corporate clients. Subsequently, he assumed the position of Vice-Director of Société Générale in New York. During 2001 to 2006, he was Executive Director for Human Resources in Komerční banka. Subsequently, until May 2012, he was at Société Générale in France, where he was responsible for the North Lorraine Region, with the retail and corporate segments under his management. With effect from 1 August 2012, he was elected by the Supervisory Board as a Member of the Board of Directors of Komerční banka in charge of the Top Corporations segment (including the division in Slovakia) and also charged with overseeing Investment Banking.

Peter Palečka
Graduate of the University of Economics, Bratislava. From 1982 to 1988, Mr Palečka worked in foreign trade enterprises. Between 1989 and 1992, he worked at the Federal Ministry of Foreign Trade of the Czech and Slovak Federative Republic. From 1992 to 1994, he was the Permanent Representative of the Czech and Slovak Federative Republic and then of the Czech Republic to GATT, and from 1995 to 1998 he was the Permanent Representative of the Czech Republic to the World Trade Organization. He joined Komerční banka in 1998 as the Director for Strategy. In October 1999, he was elected a Member and in April 2000 Vice-Chairman of Komerční banka's Board of Directors. On 5 October 2001, he was re-elected as a Member and Vice-Chairman of the Board of Directors. At present, he is a Member of the Board of Directors and Corporate Secretary. Mr Palečka is also a member of the supervisory board and the chairman of the audit committee of Modrá pyramida.

Aurélien Viry
Graduated in Finance and Accounting from ESCP Paris and holds a degree in reporting and finance from DECF. His career at Société Générale began in 1990, when he started work in the inspection department of SG. In July 1996, he became deputy manager of the Société Générale branch in Seoul. He moved on to the SG Securities division in April 1999, working first as the Seoul branch manager and then, from December 1999, as co-chief operating officer in charge of North Asia based in Hong Kong. In October 2001, he became chief operating officer of SG Securities Asia Limited for the region of Asia. In April 2003, having returned to France, he started to serve as head of global equity derivatives middle offices at SG headquarters. From November 2005, Mr Viry was the CEO of GENEFIM, an SG subsidiary working in real estate finance. He was appointed by the Supervisory Board as a new Member of the Board of Directors of Komerční banka in charge of risk management with effect from 1 January 2011. Mr Aurélien Viry is a member of the supervisory board of SG Equipment Finance Czech Republic.

Activity Report of the Board of Directors

The Board of Directors shall convene at its regular, periodic meetings, usually once every two weeks. Meetings shall be convened and presided over by the Chairman of the Board of Directors or, in his or her absence, by a member of the Board of Directors authorised to do so by the Board of Directors. Should it not be possible to hold a Board of Directors' meeting, a decision may be adopted by voting remotely in accordance with the Articles of Association.

The Board of Directors met at 19 regular and 2 extraordinary (unscheduled) meetings in 2012 and held eleven remote votes in accordance with the Bank's Articles of Association. The average meeting length was 2 hours and 17 minutes and with an average participation of 94%.

The Board of Directors shall constitute a quorum if an absolute majority of the Board members is present. Resolutions of the Board of Directors shall be adopted by an absolute majority of members of the Board of Directors present, except for the election of the Chairman of the Board of Directors, who shall be elected by an absolute majority of all members of the Board of Directors. If the votes are equal, the chairperson shall cast the deciding vote.

In 2012, the Board of Directors discussed the annual financial results of KB Group for the year 2011, as well as KB's consolidated financial statements, separate financial statements, and their footnotes as of 31 December 2011 and prepared under International Financial Reporting Standards (IFRS). The Board of Directors submitted these statements to the Supervisory Board for review and then to the General Meeting for approval. At the same time, it submitted to the Supervisory Board for review the proposed profit distribution for 2011, which was subsequently approved by the General Meeting.

The Board of Directors also discussed additional proposals for the General Meeting, in particular the Report of the Board of Directors on the Bank's Business Activities, the Report on Relations among Related Entities, draft amendments to the Articles of Association, the conditions for acquiring the Bank's own shares and other matters falling within the competence of the General Meeting. It approved the Bank's Annual Report for 2011 and its Half-yearly report for 2012 as well.

The Board of Directors regularly reviewed the quarterly financial results of KB Group and measures taken in relation to the bond portfolio held by the Bank. It continuously evaluated the Bank's capital adequacy and also approved the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the Czech National Bank on the basis of Decree No. 123/2007 Coll. stipulating the prudential rules for banks. It also discussed reports on the financial results of the competition and the development of structural risks for each quarter of the year, as well as the KB Group budget for 2012. Furthermore, it approved terms of issue for the bonds issued by the Bank.

As part of its activities, the Board of Directors regularly assessed the Bank's risks. In the field of risk management, it discussed the reports on the development of market and capital risks and the development of lending on capital markets. At the same time, it monitored sector analyses, discussed the limits of market risks, and, within its competence, it approved loans to economically connected groups above a specified limit. It also approved the strategy for dealing with clients assigned to the administration of the Asset Valuation and Recovery Department.

As regards operational risks, the Board of Directors discussed the regular reports for this area submitted on a quarterly basis. In the context of operational risk, reports on the results of the first level controls and overview of all permanent controls within the Bank were also discussed.

Compliance risks were evaluated both in the Annual Report for 2011 and the quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2011 annual evaluation report on KB's system against money laundering and the financing of terrorism. Furthermore, it addressed measures adopted by KB related to compliance matters, and in particular the results of inspection by the Czech National Bank and the measures taken in this context. It adopted measures against corruption and bribery and their implementation in the internal regulations. It also provided that the effectiveness of these measures will be evaluated on a yearly basis. Furthermore, it discussed the report on the survey on acknowledged standards and their implementation within the Bank.

Regarding Internal Audit, the Board of Directors discussed a number of documents. It approved reports on the status of corrective measures as of the end of each quarter of 2012 and was informed of all actions carried out by Internal Audit in each period. Moreover, it evaluated the summary of these actions and their results for 2011. Management of corrective measures and their proper implementation were fully addressed, with emphasis on fulfilling all steps of the action plan in order to improve the area of information security. The Board of Directors approved IT strategy for the period 2012–2016. The Board also discussed the results of risk mapping, based upon which the annual internal audit plan for 2013 and a strategic plan for the period 2013–2017 were established and approved by the Board of Directors. It discussed, too, measures taken in accordance with the findings presented in the Management Letter which had been prepared and presented to the Board of Directors by the external auditor Ernst & Young Audit, s.r.o. The Board of Directors also evaluated the external auditor's activities.

The Board of Directors evaluated the overall functioning and efficiency of the Bank's management and control system, which is functional and effective. Furthermore, the Board of Directors addressed reports on the handling of complaints and claims (including complaints sent to the Bank's Ombudsman), which are processed on a quarterly basis and in a full-year summary. It dealt with the issue of complaints concerning account maintenance fees. The Board of Directors also discussed the Bank's strategic direction for the next year.

The Board of Directors discussed all issues falling within its competence as the sole shareholder in performing duties of the General Meeting in KB Group's subsidiaries, such as approving financial statements, election and remuneration of members of company bodies, amendments to the articles of association, appointment of auditors and other matters. In 2012, it decided to sell Komerční banka's stake in the Czech–Moravian Guarantee and Development Bank and to increase the share capital in Penzijní fond KB. It made decisions on amendments to the articles of association of Penzijní fond KB involving its transformation into KB Penzijní společnost.

As part of its activities, the Board of Directors decided on many other issues related to organisational structure, approving directives within various arms or granting powers of attorney. It approved the strategy and principles for remunerating KB's employees in the year 2013 and discussed the results of a survey as to their satisfaction and education. It also decided to implement the resolutions of the General Meeting regarding the acquisition of Komerční banka's own shares under specific conditions. Moreover, it made decisions related to constructing KB's new headquarters building. The Board of Directors decided on the Bank's deferred bonus scheme based on recommendations of the Czech

National Bank and Internal Audit. According to the results of their revision it also amended the approved remuneration principles. The planned relocation of selected units to the Bank's new headquarters building was completed.

The Board of Directors, as the founder, also discussed the orientation of Komerční banka's Jistota Foundation, and it approved amendments to the contract concluded with the European Investment Bank.

Great attention was further devoted to Corporate Governance issues in the context of new developments in Czech legislation and at the parent company Société Générale. The board was informed about regulatory changes and their impacts in connection with the prepared re-codification of the Civil Code, the new companies law, and the law on criminal liability of legal entities. The Board of Directors evaluated its own activities in 2011 and submitted its report on those activities for this period to the Supervisory Board. The Board of Directors decided to adapt the Bank's Articles of Association to the new legislation as a whole with effect from 1 January 2014.

The Board of Directors establishes specialised committees to which it delegates authority for making decisions in various activity areas assigned to them. The Board of Directors approves the statutes of these committees, while their members are appointed by the CEO. These committees include the following:

Directors' Committee (DIRCOM)

The Directors' Committee is a body for communication and exchange of views regarding strategies and issues of KB's general interest. The Directors' Committee has two forms: the Directors' Committee and the Enlarged Directors' Committee in which representatives of Komerční banka's subsidiaries and affiliates are also present.

Project Management Committee (PMC)

The Project Management Committee makes and proposes decisions regarding KB's development activities and their prioritisation (KB's Project Plan), including to initiate, change or terminate important projects, as well as to measure and evaluate projects' contributions. It considers the material content of important projects and their links as well as their use of financial and non-financial resources.

Watch Provision List Committee (WPLC)

On 30 October 2012, the Board of Directors decided at its meeting to change the name of Provision Committee to Watch Provision List Committee while also modifying the roles of selected participants and changing approval authorities of particular WPLC levels.
The committee decides mainly on basic credit strategy applied towards the clients, on the clients' ratings and on appropriate provisioning of client exposures.

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee makes and proposes decisions regarding assets and liabilities management in KB.

Group Communication Committee (Group CoCom)

The Communication Committee makes and proposes decisions regarding internal and external communication within KB Group, and it approves strategy in the sponsorship area within the Group.

Commercial Committee (CC)

The Commercial Committee makes and proposes decisions in the area of business offers, business strategy and tactics, rates, prices and conditions. It also provides its opinions on selected new products.

Credit Risk Management Committee (CRMC)

The Credit Risk Management Committee makes and proposes decisions regarding credit risk management principles and their implementation.

Investment Banking New Product Committee (IB NPC)

The Investment Banking New Product Committee makes and proposes decisions on new investment banking products. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products, and monitoring that these conditions are met.

Corporate and Retail Banking New Product Committee (CRB NPC)

The Corporate and Retail Banking New Product Committee makes and proposes decisions on new products other than investment banking products. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products, and monitoring that these conditions are met.

Operational Risk Committee (ORC)

The Operational Risk Committee makes and proposes decisions regarding operational risks and safety.

Compliance Committee (COC)

The Compliance Committee provides consultancy in the area of compliance risk management, and it provides a platform for exchange of views regarding risk compliance management, development of regulations, investigations by regulatory institutions, and serious compliance failures.

Security Committee (SecCom)

The Security Committee approves the strategy for security of KB's information systems, approves the Group's security management, and proposes a portfolio of priority security projects relating to information security, physical security, personnel security and information technology security.

Credit Committee (CrCo)

The Credit Committee monitors and assesses both past and expected developments in KB's credit portfolio based on the analysis of risk indicators, including to monitor credit risk in the subsidiaries and affiliates.

Business Management Committee (BusCom)

The Committee was established on 26 June 2012 at the decision of the Board of Directors in order to manage businesses other than retail banking. It was created to ensure that business profitability is enhanced while effectively allocating resources to these business activities and safeguarding the Bank's robust liquidity.

During 2012, no Committee established by the Board of Directors was abolished.

Information about Special Rules for the Election and Recall of Members of the Board of Directors

Members of the Board of Directors of Komerční banka are elected by the Supervisory Board upon nomination by its Remuneration and Personnel Committee. A nominee must receive an absolute majority of votes of all Supervisory Board members. Members of the Board of Directors are elected to terms of four years. Only persons fulfilling the conditions for serving as a Board of Directors member as specified by the Commercial Code and by the Banking Act may become members of the Board of Directors. The professional qualifications, trustworthiness and experience of the members of the Board of Directors are assessed by the Czech National Bank.

The Supervisory Board has the right to decide at any time to recall a member of the Board of Directors. The decision is carried if approved by an absolute majority of its members. The Supervisory Board's decision is based on a proposal of the Supervisory Board's Remuneration and Personnel Committee.

Information about Special Powers of the Members of the Board of Directors, Especially about Authorisations under Sections 161a and 210 of the Commercial Code

The Board of Directors of Komerční banka is the statutory body that decides upon all matters concerning the Bank with the exception of those matters falling within the powers of the General Meeting or of the Supervisory Board. It is within the Board of Directors' exclusive powers to:

a) convene the General Meeting and implement its resolutions;
b) submit to the General Meeting for its approval the ordinary, extraordinary and consolidated financial statements and the interim financial statements along with a proposal for distribution of the profit or covering of losses (the same must be available to the shareholders for inspection at least 30 days prior to the date of the General Meeting);
c) submit to the General Meeting proposals for amendments and changes to the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
d) submit to the General Meeting a report on the Bank's business activities and the state of the Bank's property and to do so at least once for each accounting period;
e) decide to confer and revoke power of procuration;
f) decide upon the appointment, removal and remuneration of selected managers of the Bank;
g) approve acts in connection with the realisation of security instruments for claims of the Bank whose value exceeded CZK 100,000,000 as of the date of the claim's origin and whose presumed realisation value is lower than 50% of the value of the securitising instrument as ascertained upon the conclusion of the loan agreement;
h) submit to the Supervisory Board for information quarterly and half-yearly financial statements;
i) decide upon acts which are outside the scope of the Bank's usual business relations;
j) define and regularly evaluate the Bank's overall strategy, including to establish the principles and targets for its fulfilment and to ensure the continuous and effective operation of the internal control system;
k) approve the Bank's annual plans and budgets as well as the strategic and annual plans of legal entities controlled by the Bank under the Banking Act;
l) conclude the contract with the auditor for performance of the statutory audit or, as the case may be, for provision of other services;
m) inform the Supervisory Board as to the day of the General Meeting no later than within the period specified by the Commercial Code for the convening of the General Meeting;
n) decide upon issuance of the Bank's bonds, with the exception of decisions on the issue of bonds for which the decision of the General Meeting is required by law;
o) decide upon an increase in the share capital if so authorised by the General Meeting;
p) enter into a collective agreement;
q) decide upon providing loans or guarantees to persons with a special relationship to the Bank pursuant to the Banking Act;
r) approve the rules and the strategic and periodic plans for the activities of the Internal Audit;
s) approve the annual reports of the Bank;
t) approve and regularly evaluate the security principles of the Bank, including the security principles for information systems;
u) decide upon establishing other funds (in the balance sheet) and on the rules governing their creation and usage;
v) approve the Report on Relations among Related Entities in accordance with the Commercial Code;
w) approve and regularly evaluate the Bank's organisational structure;
x) approve the principles of the personnel and remuneration policy;
y) evaluate the overall functioning and effectiveness of the management and control system at least yearly;
z) approve and regularly evaluate the risk management strategy, the strategy relating to the capital and to capital adequacy, as well as the information systems development strategy;
za) approve and regularly evaluate the principles of the internal control system, including the principles aiming to prevent any possible conflict of interests and the compliance principles; and
zb) discuss the audit report with the auditor.

In addition to the aforementioned, the Board of Directors shall in particular:

a) manage the activities of the Bank and conduct its business affairs;
b) ensure the proper maintenance of the Bank's accounting, including the proper administrative and accounting processes;
c) exercise employer's rights;
d) exercise rights in respect of the Bank's property interests arising from the Bank's ownership holdings;
e) approve the acquisition or disposal of the Bank's fixed assets exceeding CZK 30,000,000 as a single case or as a total for related cases; and
f) approve the business continuity plan and the fire protection plan.

The General Meeting did not authorise the Board of Directors to make a decision on increasing the registered capital. Based on the consent of the General Meeting held on 26 April 2012, Komerční banka was authorised to acquire its ordinary shares into treasury. The conditions and information on the acquisition of its own shares are provided in the Report of the Board of Directors on the Bank's Business Activities and the State of Its Property, which is part of this annual report.

Organisational Chart (as of 31 December 2012)

Komerční banka a.s.

CHAIRMAN OF THE BOARD AND CEO
Henri Bonnet

- **Human Resources**
- **Internal Audit**
- **Marketing, Communication and Business Development**

BOARD MEMBER AND SENIOR EXECUTIVE DIRECTOR
Aurélien Viry
- **Risk Management**

BOARD MEMBER AND SENIOR EXECUTIVE DIRECTOR
Karel Vašák
- **Investment Banking**
- **Top Corporations**

BOARD MEMBER AND SENIOR EXECUTIVE DIRECTOR
Peter Palečka
- **Corporate Secretariat**

BOARD MEMBER AND SENIOR EXECUTIVE DIRECTOR
Pavel Čejka
- **Operations**
- **Information Technology**
- **Project Organisation and Management**
- **Support Services**
- **Investment Banking – Operations**
- **Strategy and Finance**

BOARD MEMBER AND SENIOR EXECUTIVE DIRECTOR
Vladimír Jeřábek
- **Distribution**

Supervisory Board

The Supervisory Board is the supervisory authority of the Bank. It supervises the exercise of the Board of Directors' powers, the conduct of the Bank's business activities, and the effectiveness and efficiency of the Bank's management and control system as a whole.

The Supervisory Board consists of nine members, who are individuals meeting the statutory requirements for becoming a member of the Bank's Supervisory Board. Two-thirds of them are elected by the General Meeting and one-third by the Bank's employees to terms of four years.

Composition of the Supervisory Board

Didier Alix, Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009)

Jean-Louis Mattei, Vice-Chairman of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009)

Bernardo Sanchez Incera, Member of the Supervisory Board (elected as a substitute member of the Supervisory Board from 1 October 2010 until 21 April 2011 and thereafter elected by the General Meeting as from 22 April 2011)

Bořivoj Kačena, Independent Member of the Supervisory Board (since 29 April 2008, re-elected on 30 April 2012)

Pavel Krejčí, Member of the Supervisory Board elected by KB's employees (since 26 May 1997, re-elected on 27 May 2001, on 28 May 2005 and on 29 May 2009)

Petr Laube, Independent Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009)

Dana Neubauerová, Member of the Supervisory Board elected by KB's employees (since 29 May 2009)

Jean-Luc Parer, Member of the Supervisory Board (elected as a substitute member from 27 September 2012 until the date of the General Meeting)

Christian Achille Frederic Poirier, Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005 and 30 April 2009, membership terminated as of 26 September 2012)

Karel Přibil, Member of the Supervisory Board elected by KB's employees (since 29 May 2009)

Didier Alix

Graduate in three year studies of economics, and graduate of the Paris Institute of Political Studies. In 1971, he started to work for Société Générale, where he has held a number of positions. From 1972 to 1979, he worked at the Group General Inspection. In 1980, he started to work at the General Directorate as head of Central Risk Control. In 1984, he was appointed director of the Levallois Branch and in 1987 as director of the Paris Opera Branch. From 1991 to 1993, he worked as chief executive officer of the SG subsidiary FRANFINANCE, appointed within the activities of a specialised financial division. From 1993, he worked as deputy director and later as director of the French business network within the Retail Banking Division. In 1998, he was appointed chief executive officer of Retail Banking. In 2006, he became one of the SG chief executive officers and since January 2010 he has been an advisor to the Société Générale Chairman of the Board of Directors and Chief Executive Director. Since 2001, he has been a Member and Chairman of the Supervisory Board of Komerční banka.

Jean-Louis Mattei

Graduate in three year studies and in advanced studies of private law, and graduate of the Institute of Political Studies and of the Centre of Advanced Banking Studies. In 1973, he started to work for Société Générale, where he has held a number of positions. He has worked, inter alia, at SG's branch in Bordeaux, at the Human Resources Management Department, and later as the head of cost analyses and as the head of the management audit of the Organisation and of the Information Technologies departments. Subsequently, he worked as head of the Organisation Unit. In 1988, he became a member of the board of directors and chief executive officer of Société Générale de Banques in Côte d'Ivoire. Between 1992 and 1998, he was deputy director and later director for the zone of Africa Overseas and for the zone of Africa, Near and Middle East, Overseas. Since 1998, he has been head of International Retail Banking. Since 2001, he has been a Member and Vice-Chairman of the Supervisory Board of Komerční banka.

Bořivoj Kačena

Graduate of the Czech Technical University in Prague (Faculty of Civil Engineering). In 1966, he started to work for Stavby silnic a železnic, n.p. (SSŽ), where he held various positions. From 1978, he worked in SSŽ as director of its branch office 4, and from 1983 as director of the organisation "Investor of Transport Construction" for metro and urban road construction within the Prague Public Transit Company. He became director of the state enterprise SSŽ in November 1988 and chief executive officer and Chairman of the Board of Directors of SSŽ, a.s. (now EUROVIA CS, a.s.) in 1992. From 2007 to April 2008, he was the Chairman of the Board of Directors of SSŽ, a.s.. Since 2008, he has been a Member of the Supervisory Board of Komerční banka.

Pavel Krejčí

Graduate of the Brno University of Technology, Faculty of Electrical Engineering, and of the Palacký University Olomouc, Philosophical Faculty. In 1987, he started to work at the Czechoslovak National Bank. In 1990, he joined Komerční banka. From 1992 to 2005, he was elected chairman of KB's Trade Union Committee. Since 1997, he has served as vice-chairman of the Federation of Trade Unions of Employees of Financial and Insurance Companies of the Czech Republic. In Komerční banka, he currently works in the Information Technologies Department as an IT analyst/systems engineer and is also the vice-chairman of KB's Trade Union Committee and a member of the team for collective bargaining and social dialogue. Since 1997, he has been a Member of the Supervisory Board of Komerční banka, elected by KB's employees, and since 2004 he has been a member of the European Council of Employees of Société Générale Financial Group in Paris.

Petr Laube

Graduate of the University of Economics, Prague, specialised in foreign trade. From 1974 to 1991, he worked in Polytechna, a foreign trade company for technical co-operation. From 1991 to 1992, he was at Deutsche Bank AG in Nuremberg. Between 1992 and 1993, he worked for Lafarge Coppée, Paris, and since 1993 he has been chief executive officer and chairman of the Board of Directors of Lafarge Cement, a.s., Prague. From 2005, he served as director of the segment of electricity, gas, liquid fuels at Lafarge, S.A. Paris. From January

2007, he was chief executive officer of Lafarge Cement, a.s., in Ukraine. He has been retired since December 2009. Since 2001, he has been a Member of the Supervisory Board of Komerční banka.

Dana Neubauerová
Graduate of the Secondary School of Economics in Havlíčkův Brod. She has been working in Komerční banka (formerly State Bank of Czechoslovakia) since 1984. She gradually passed through a number of positions from data acquisition to liquidation worker, and then from 1991 to 1998 she worked as head of the Services Department. From June 1998 to 2002, she worked in a position relating to transactions with entrepreneurs and until 2006 as the bank advisers team leader. From 1 March 2006, she was appointed Director of the Havlíčkův Brod branch, and then was Director of the Level 2 Havlíčkův Brod branch from 1 October 2008. She has been the Director of the Level 2 Jihlava branch since 1 July 2009. She has been a union member since joining Komerční banka, and she served as chairwoman of the Trade Union in Havlíčkův Brod from 1990 to June 2008. Since 2009, she has been a Member of the Supervisory Board of Komerční banka.

Jean-Luc Parer
Graduate of the University of Commerce HEC and a Master's Graduate of Law. He began working at Société Générale in 1981 in the Inspection Department. During 1991 to 2001, he was head of structured financing within the Investment Banking Department. From 2001 to 2003, he participated in the development of debt financing, and during 2003 to 2005 he was responsible for supervising activities of SG on debt capital markets. In 2005, he became Deputy Director of Global Debt Financing, and in 2008 he was named Director of Capital Markets and Finance. In 2009, he became Director of Global Finance and Corporate and Investment Banking. Since 2012, he is Director of International Retail Banking and a Member of the Supervisory Board of Komerční banka.

Karel Přibil
Graduated from the Faculty of Education at Charles University in Prague, where in 1986 he defended his thesis. Since joining Komerční banka in 1993, he has worked in various positions at headquarters – first as a specialist officer, then in 1995 in internal services, and from 2003 as an asset management specialist. From 1 March 2006 to date, he has held the office of Chairman of the Trade Union Committee and been a member of other union bodies. He has been a union member since joining Komerční banka and Chairman of the CKB Trade Union and a member of KB's Trade Union Committee since the mid-1990s. He also participates in collective bargaining. He has been a Member of the Supervisory Board of Komerční banka since 2009 and a member of the Supervisory Board of the Occupational Health Insurance Company since 2011.

Bernardo Sanchez Incera
Graduate in economic studies at the Institute of Political Studies in Paris and holder of an MBA degree from INSEAD in Fontainebleau. During 1984 to 1994, he worked first as manager of customer relations and deputy director for corporate clients of Credit Lyonnais La Défense and subsequently as Deputy to the CEO of Crédit Lyonnais Belgium. During 1994 to 1996, he served as CEO at Banca Jover in Spain and during 1996 to 1999 as CEO of Zara France. From 1999 to 2001, he was a member of the Board of Directors of Inditex. In the years 2001 to 2003, he was President for Europe of LVMH & Maroquinerie Mode within the LVMH Fashion Group, and in the years 2003 to 2004 he served as CEO of Vivarte. During 2004 to 2009, he served as CEO for the Monoprix supermarket chains. In 2009, he joined Société Générale, and since January 2010 he has been one of its chief executive officers responsible for international retail banking and specialised financial services. Since 2010, he has been a Member of the Supervisory Board of Komerční banka.

Activity Report of the Supervisory Board

Regular meetings of the Supervisory Board shall be held once per calendar quarter with the possibility of remote voting. The Supervisory Board shall constitute a quorum if at least five members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of all members of the Supervisory Board.

In 2012, the Supervisory Board held four regular meetings. The average meeting length was 1 hour and 35 minutes.

The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2011 prepared under International Financial Reporting Standards (IFRS). The report of the external auditor, Ernst & Young Audit, s.r.o., was unqualified, and the Supervisory Board recommended that the General Meeting approve both financial statements as proposed by the Bank's Board of Directors.

The Supervisory Board also examined the Board of Directors' proposal for distribution of net profit for the 2011 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities in 2011 drawn up pursuant to Section 66a (9) of the Commercial Code and stated that based on the presented documents Komerční banka did not incur during the accounting period from 1 January 2011 to 31 December 2011 any damages resulting from the contracts and agreements made with related entities.

The Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses in 2012. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's management and control systems; concluded that the management and control systems are functional and effective. Moreover, it examined the 2011 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism and the annual compliance management report. KB Group's budget for 2012 was presented to the Supervisory Board.

The Supervisory Board discussed the remuneration of the members of the Board of Directors and decided on the amounts of bonuses. Further, it determined wages and other benefits provided to new managers who are members of the Board of Directors. The Supervisory Board also discussed developments in the areas of employee turnover, sickness rate and overtime, training, the development and reward scheme for KB employees, and the results of an employee satisfaction survey. It discussed the Bank's deferred bonus scheme that is based on the recommendation of the Czech National Bank and Internal Audit, and upon its basis and the results of its revision the Supervisory Board amended the approved principles of remuneration. The Supervisory Board also discussed issues related to the new headquarters building in Stodůlky, as well as the annual analysis as to the handling of all complaints sent to KB and its Ombudsman. The Activity Report of the Board of Directors for 2011 also was presented to the Supervisory Board.

The Supervisory Board regularly discussed the Bank's quarterly financial results, its position on the market with regard to development of the macroeconomic environment, and measures taken in the area of the Bank's bond portfolio. Furthermore, it discussed the proceedings of Internal Audit and their results in individual periods of the year, and, at the same time, the Supervisory Board expressed its consent to the annual internal audit plan for 2013 and the strategic plan for 2013–2017. It duly investigated two complaints addressed to it and concurred in the conclusions drawn and measures taken by the Bank's Board of Directors.

In the course of its activities, the Supervisory Board continued to rely on the opinion of its Remuneration and Personnel Committee and was informed of the issues discussed by the Audit Committee.

The Supervisory Board's Remuneration and Personnel Committee

The Remuneration and Personnel Committee is an advisory and recommending body of the Supervisory Board and has three members, one of whom is independent. The committee usually meets once per quarter and constitutes a quorum if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by an absolute majority of all its members.

The committee held four regular meetings in 2012. The average length of the sessions was 1.5 hours.

The committee discussed issues of the Bank's personnel policy, the deferred bonus scheme and remuneration of its employees. It provided recommendations to the Supervisory Board within the scope of its powers. Moreover, it discussed and provided its recommendations on the remuneration of KB managers who are also members of the Board of Directors, and the principles of remuneration, which were discussed first by the committee and subsequently by the Supervisory Board. The committee was also informed on the progress and results of collective bargaining.

Audit Committee

The Audit Committee is a body of the Bank established by the General Meeting in accordance with Act No. 93/2009 Coll., on Auditors, from 29 April 2009, and its powers are stipulated by that Act and the Bank's Articles of Association.

The Audit Committee consists of three members, individuals, who meet the requirements for the performance of duties of a member of the Audit Committee set forth by legal regulations and by the Articles of Association. Audit Committee members shall be appointed by the General Meeting from the members of the Supervisory Board for the term of four years. One Audit Committee member shall be an independent member.

Composition of the Audit Committee

Petr Laube, independent member of the Audit Committee (since 29 April 2009) and Chairman of the Audit Committee (since 30 September 2010)

Christian Poirier, member of the Audit Committee (since 29 April 2009) and Vice-Chairman of the Audit Committee (since 9 September 2009, membership terminated as of 26 September 2012)

Jean-Louis Mattei, member of the Audit Committee (elected as a substitute member of the Audit Committee from 1 October 2010 until 21 April 2011 and thereafter elected by the General Meeting as from 22 April 2011)

Jean-Luc Parer, member of the Audit Committee (elected as a substitute member of the Audit Committee from 27 September 2012 until the date of the General Meeting)

Activity Report of the Audit Committee

The Audit Committee meets as a rule once per quarter, but at least four times in a calendar year. The Audit Committee shall constitute a quorum if a simple majority of all Audit Committee members attend the meeting. Decisions on all matters discussed by the Audit Committee must receive an absolute majority of votes to be carried. If the votes are equal, the chairperson shall cast the deciding vote. The person in question shall not vote in the proceedings with respect to the election and removal of Chairman and Vice-Chairman of the Audit Committee.

The Audit Committee held seven regular meetings in 2012. The average meeting length was 1 hour and 36 minutes.

The committee performed an important role in its monitoring activities and worked closely within the Bank, especially with the Internal Audit, Strategy and Finance, Risk Management, and Compliance departments, but also with the external auditor, who kept it informed about the ongoing audit of the Bank.

The committee discussed KB Group's annual financial results for 2011, the consolidated and separate financial statements and notes thereto as of 31 December 2011 prepared under International Financial Reporting Standards (IFRS), and the proposal for distribution of net profit for 2011. It recommended that the Board of Directors submit to the General Meeting for approval a proposal to appoint Ernst & Young Audit, s.r.o. as the Bank's external auditor for 2012. KB Group's budget for 2012 was presented to the committee for discussion. The committee also regularly discussed Internal Audit's report on the status of corrective measures and was continuously informed about all of Internal Audit's investigations conducted in individual periods. The committee addressed an assessment of the compliance risk in the 2011 annual report and also discussed the 2011 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism. The committee discussed the so-called Management Letter prepared by the external auditor, Ernst & Young Audit, s.r.o., and a document concerning the evaluation activities of the external auditor. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2013, and the strategic plan for 2013–2017.

The Audit Committee always discussed at its meetings the Group's financial results for each quarter. Competition reports and information on the development of the Bank's market shares in particular segments were also submitted to the Audit Committee. Other subjects of detailed discussion included the portfolio of bonds held by the Bank and the steps taken in connection thereto. Attention was also devoted to the capital adequacy of the Bank and the entire Financial Group. In this context, the committee discussed the capital adequacy stress scenario and the document of the Internal Capital Adequacy Assessment Process (ICAAP), which is submitted to the Czech National Bank on a yearly basis. It also dealt with information concerning the impact of Basel III regulation on the KB Group.

The committee was regularly informed about the Bank's functioning in the internal control area and the development of all associated risks. It was regularly apprised, too, on the progress of corrective actions taken in the area of information security.

In relation to his or her work in the Bank, no person with executive power has any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Chairman of the Board of Directors Henri Bonnet and members of the Board of Directors Aurélien Viry and Karel Vašák have employment contracts signed with Société Générale S.A. and they are delegated to serve as the Bank's directors.

Emoluments and Benefits to the Board of Directors and Supervisory Board

Principles of Remuneration for Members of the Board of Directors

The remuneration of the members of the Board of Directors consists of fixed and variable parts.

The fixed remuneration is paid monthly and is the same for all members of the Board of Directors, except for the Chairman.

The variable part of the remuneration (annual bonus) is approved by the Supervisory Board on the proposal of the Remuneration Committee and the Personnel Committee of the Supervisory Board. In 2012, Komerční banka completed the implementation of CNB Decree No. 123/2007 Coll. that is based on the revised EU directive 2006/48/EC. A requirement of that decree is for a specific pattern to be followed in payment of the variable component. This scheme includes postponing the part that is the variable component and paying a portion of the variable component in non-cash instruments for selected employees who have a significant impact on the risk profile of KB.

In March 2012, the Supervisory Board decided that the payment of the bonus for Mr Bonnet and Mr Jeřábek will be postponed. In the case of Mr Bonnet, from the total EUR 300,000 in bonus approved by the Supervisory Board, EUR 90,000 was paid out in April 2012 and another EUR 90,000 was paid based on the development of the share price of Société Générale in October 2012. The remaining amount of EUR 120,000 is to be paid in three instalments of EUR 40,000 each in March 2013, October 2014 and October 2015, those payments being dependent upon the results of SG group and the development of SG's share price. In the case of Mr Jeřábek, the bonus was divided into two parts. The first part of CZK 2,485,000 was paid in April 2012 and the second part of CZK 1,065,000 was postponed. The postponed part is to be divided into three instalments of CZK 355,000 each. The instalments will be paid out in 2013, 2014 and 2015, while the exact amounts will depend on the results of SG Group and the development of the SG share price.

In November 2012, the Supervisory Board adopted a change in the variable remuneration scheme, which means that the deferral of the variable (bonus) portion and use of payment-in-kind instruments newly derived from KB shares applies to all members of the Board of Directors. The new scheme means that 60% of the bonus will be paid after the approval of the Supervisory Board, unless the bonus exceeds 150% of the annual fixed remuneration, in which case only 40% will be paid at that time. The second part of the remuneration will be deferred and the payment will be implemented with 3-year postponement in three successive instalments. The deferred and immediately payable parts of the bonus will be divided into cash and non-cash portions, and at least 50% of the remuneration will be paid in the non-cash form. The amount of the non-cash part will be calculated based on the development of KB's share price during the period. All non-cash remuneration will be subject to a nine-month retention period. The new scheme will first be applied to the remuneration relating to the year 2012.

The amount of the remuneration for members of the Board of Directors is closely linked with the results of the Bank, taking into account the Bank's strategy, objectives and values, as well as what is an acceptable level of risk and long-term interests. The Supervisory Board decides upon the amounts of remuneration while considering all relevant financial, risk and business indicators, including the development of net profit, net banking income, costs and market shares.

Under the Banking Act, the members of the Board of Directors also act as executive directors in charge of specific arms of the Bank on the basis of a management contract in accordance with the Labour Code. This contract entitles them to a basic salary and other compensation in lieu of salary. No additional remuneration is provided under the management contract. The aforementioned compensation paid to members of the Board of Directors for carrying out their managerial responsibilities is subject to approval by the Supervisory Board.

Members of the Board of Directors who fulfil the established terms and conditions are entitled:

- based upon the employment relationship with KB, and with the exception of KB employees temporarily delegated to the Czech Republic, to contributions from the employer to retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan;
- based upon the management function at KB, and under the same conditions as other KB managers, including KB employees temporarily delegated to the Czech Republic, to the following additional benefits: company car (including for private use) and a contribution to fuel costs for private use of the car; and
- based upon temporary delegation to the Czech Republic from other companies of the Société Générale Group, under standard and global conditions for foreign delegation of the SG Group, to additional benefits relating to long-term stay abroad.

Information on all monetary and in-kind payments to the members of the Board of Directors is given in the section of Information on Monetary and In-kind Income to Members of the Board of Directors and Supervisory Board.

Principles of Remuneration for Members of the Supervisory Board

The remuneration to the members of the Supervisory Board consists of a fixed monthly part and a part dependent on the members' attendance at meetings. The amount of remuneration is set by decision of the General Meeting. In accordance with a resolution of the annual General Meeting held on 17 June 2004, remuneration for the members' attendance at Supervisory Board meetings is limited to the maximum of six meetings per year.

Moreover, members of the Supervisory Board elected by employees are entitled to a basic monthly salary and other compensation in lieu of salary according to their employment contract in accordance with the Labour Code as employees of the Bank.

Members of the Supervisory Board that fulfil the established terms and conditions are entitled:

- under the contract for employment, and under the same conditions as other KB employees, to contributions from the employer to retirement pension insurance, capital life insurance, cultural and sporting activities ("cafeteria" plan), work-time meals, and purchase of shares under the SG Global Employee Share Ownership Plan.

Information on all monetary and in-kind payments to the members of the Supervisory Board is given in the following section.

Information on Monetary and In-kind Income to Members of the Board of Directors and Supervisory Board

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, and in conformity with the European Commission Recommendation of 14 December 2004 (2004/913/EC), Komerční banka releases information on all monetary and in-kind income received during the 2012 financial reporting period by members of the Board of Directors and Supervisory Board from the issuer and from entities controlled by the issuer. This information is specified for each director and member individually.

The data are published in the structure described in Section III, point 5.3 of the Commission Recommendation, in the following order:

(A) the total amount of remuneration paid or due to be paid for the services performed in the relevant financial year, including where appropriate the attendance fees fixed by the annual general shareholders meeting;
(B) remuneration and benefits received from any undertaking belonging to the same group (Note: KB Financial Group);
(C) remuneration paid in the form of profit sharing and/or bonus payments for 2011 (Note: not applicable);
(D) any significant remuneration paid for special services outside the scope of the usual functions (Note: This item covers salary and remuneration paid for job performance under the management contract, as described above.);
(E) remuneration paid to former members of the Board of Directors or Supervisory Board in connection with the termination of their activities during that financial year; and
(F) the total estimated value of in-kind incomes considered as remuneration not included in the items covered in points (A) to (E).

The following tables present all the emoluments paid to members of Komerční banka's Board of Directors and Supervisory Board in the structure described above. If no value is shown under a category, that means that no such payment was made to such member by Komerční banka or by entities controlled by it.

Board of Directors 2012

	(A)	(B)	(D)	(F)	Total
Peter Palečka	4,560,000	427,904	2,038,130	250,312	**7,276,346**
Vladimír Jeřábek	4,945,000	446,559	1,740,822	244,382	**7,376,763**
Jan Juchelka	3,785,000	316,416	806,561	142,189	**5,050,166**
Karel Vašák	1,025,000	13,600	1,690,331	870,946	**3,599,877**
Pavel Čejka	1,025,000	190,835	5,972,493	225,457	**7,413,785**
Patrice Taillandier-Thomas	2,252,141	12,495	1,248,422	1,188,062	**4,701,120**
Henri Bonnet	5,526,922	21,420	2,269,555	1,785,523	**9,603,420**
Aurelien Viry	3,833,265	19,550	1,231,331	1,766,121	**6,850,267**
	26,952,328	**1,448,778**	**16,997,645**	**6,472,992**	**51,871,743**

Supervisory Board 2012

	(A)	(B)	(D)	(F)	Total
Dana Neubauerová*	330,000	53,732	854,082	35,952	**1,273,766**
Pavel Krejčí*	330,000	39,895	252,219	0	**622,114**
Karel Přibil*	330,000	39,350	307,772	0	**677,122**
Petr Laube	330,000	0	0	0	**330,000**
Didier Alix	825,000	0	0	0	**825,000**
Jean-louis Mattei	297,000	0	0	0	**297,000**
Christian Poirier	247,500	0	0	0	**247,500**
Bořivoj Kačena	330,000	0	0	0	**330,000**
Bernardo Sanchez Incera	297,000	0	0	0	**297,000**
Jean-Luc Parer	104,500	0	0	0	**104,500**
	3,421,000	**132,977**	**1,414,073**	**35,952**	**5,004,002**

* Elected by KB employees, total emoluments include regular salaries. Emoluments paid to these persons are given for the period in which the function was held.

Information on Shares and Share Options Held by Members of the Board of Directors and Supervisory Board and by Related Persons

The following table provides information on the numbers of shares issued by Komerční banka that were held as of 31 December 2012 by members of the Board of Directors and Supervisory Board as well as information on options and similar investment instruments whose values are connected to KB shares and which were concluded by or on behalf of the listed persons.

31 December 2012	Shares	Options
Board of Directors		
Henri Bonnet, Chairman	0	0
Karel Vašák	0	0
Vladimír Jeřábek	0	0
Pavel Čejka	0	0
Peter Palečka	4,000	0
Aurélien Viry	0	0
Supervisory Board		
Didier Alix, Chairman	0	0
Jean-Louis Mattei, Vice-Chairman	0	0
Bernardo Sanchez Incera	0	0
Bořivoj Kačena	0	0
Pavel Krejčí	0	0
Petr Laube	1,949	0
Dana Neubauerová	0	0
Jean-Luc Parer	0	0
Karel Přibil	0	0
Close persons (total)	0	0

No members of the Board of Directors or members of the Supervisory Board were contractual parties, directly or indirectly, for any option or similar contract concerning comparable investment instruments whose values are connected to KB shares.

Additional Information in Accordance with Section 118 (5) (f), (i), (j) and (k) of the Act on Capital Market Undertakings

Komerční banka is aware of no contracts made between its shareholders as a result of which the transferability of the shares or of voting rights would become more complicated. Komerční banka has entered into no significant contracts which take effect, are altered or terminate if the person or entity in control of Komerční banka changes as a consequence of a takeover bid. Komerční banka has entered into no contract with a member of its Board of Directors or any employee stipulating an obligation for Komerční banka to perform in the event that such person would cease to serve as a member of the Board of Directors or cease to be employed in connection with a takeover bid. Komerční banka has established no programmes enabling the members of the Board of Directors and employees of the Bank to acquire the Bank's securities, options on these securities or other rights under preferential conditions.

Information about Special Rules on the Revision of the Bank's Articles of Association

If a revision of the Articles of Association of Komerční banka is to be on the agenda of the General Meeting, then the notice calling the General Meeting must at least generally describe the proposed changes and these proposed changes to the Articles of Association must be available for shareholders' inspection at the Bank's headquarters and on its website for the period established for convening of a General Meeting. Shareholders have a right to request a copy of the proposed Articles of Association at their own cost and risk. These rights are notified to the shareholders in the notice calling the General Meeting.

If a shareholder wishes to raise counterproposals to the proposed changes to the Articles of Association at the General Meeting, the shareholder is obligated to deliver the written wording of such proposal or counterproposal to the Bank no later than five business days prior to the General Meeting. The Board of Directors is obligated to publish a proposal so delivered along with its viewpoint with regard to it in the manner specified for the convening of the General Meeting, if possible, at least three days prior to the announced date of the General Meeting.

Decisions on changes to the Articles of Association are made by the General Meeting and carried by two-thirds of those votes of the attending shareholders upon a proposal of the Board of Directors, of the Supervisory Board, or of one or more shareholders in accordance with the Commercial Code and with the Articles of Association. Decisions on changes to the Articles of Association must be recorded by notarial deed. Komerční banka is obligated to report to the Czech National Bank its intention to make changes to the Articles of Association relating to the facts that must be stated in the Articles of Association based on a requirement set forth by the Commercial Code or by the Banking Act.

Information on Internal Control and Approach to Risks in the Accounting Reporting Process

To ensure true and accurate presentation of the facts in accounting and proper compilation of the financial statements, the Bank uses a number of tools in several areas, beginning with tools used for proper recording of individual transactions through controls and finally in the area of preparing the statements and their control.

The tools used for proper recording of transactions, events, trades, and the like in accounting include, in particular, the selection of appropriate systems (applications) for their recording and processing, thorough testing during their implementation, maximum automation of all repetitive processes, as well as setting and maintaining access rights to individual systems. Setting up systems, processes and controls is always formally governed by the Bank's internal regulations.

Compliance of the accounting methods used with IFRS in particular is ensured by an independent department that regularly monitors development in these standards and other regulatory rules, analyses effects ensuing therefrom, and implements the standards in co-operation with the relevant departments. For more information on the rules used, see the Notes to the Financial Statements, note 3 "Principal accounting policies" and note 43 "Risk management and financial instruments".

The Bank utilises a system of defining responsibilities for individual ledger accounts, the so-called control system, under which a particular employee authorised to transact with and an employee responsible for account analysis are assigned to each account of the general ledger. The control over account analysis includes, in particular, the duty to specify at any time the account balance, monitor its balance and movements, as well as responsibility for attending to the related documents. The control over account analysis also involves reconciliation of data in supporting systems relating to the data in the general ledger at specified regular intervals.

The area of control tools may be divided into two parts: control as to the accuracy of input data and follow-up control over the consistency and integrity of the functioning and accounting of the individual systems.

Input data accuracy control is performed especially in the Distribution and Operations sections within the first level of the control system, which constitutes the basis of the Bank's internal control system. The first level of the control system establishes the control activities of the management employees so that there occurs oversight over operational risks arising from the activities of the relevant departments; monitoring of the quality, effectiveness and reliability of the established work procedures; verification of the employees' compliance with the applicable regulations and procedures; and determination of corrective measures in cases when deficiencies are identified.

Follow-up control is carried out in particular by an independent department of the Accounting and Reporting Division which especially checks the data in the accounting using analytical procedures. The main analytical procedures may be classified as control over data consistency as of the current date with the development in the past, consistency between financial and non-financial data (numbers of transactions, trades, etc.), and consistency between the changes in the balance sheet and income statement. The changes in the development of individual items of the financial statements or directly in the general ledger accounts are regularly analysed, and these changes are subsequently reconciled to the changes in trades, prices for services provided, and market data, or to changes attributable to one-off items.

An automated system is used to process most financial statements. In most cases, detailed data from source systems is used for their creation and this data is reconciled with the general ledger while at the same time the accuracy of the data in the general ledger is checked.

The effectiveness of internal controls is regularly evaluated by both internal and external audits.

Information on Remuneration to Auditors

Remuneration to the auditors of KB and KB Group for services performed during 2012:

Type of service – CZK thousand, excl. VAT	KB	KB Group
Statutory audit	15,428	21,772
Audit related services	89	200
Legal and tax related services	275	275
Other	54	54
Total	**15,846**	**22,301**

Report by the Supervisory Board

Throughout 2012, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s., ascertained the effectiveness of the management and control system and made its regular assessments.

Having checked the Bank's regular and consolidated financial statements for the period from 1 January 2012 to 31 December 2012, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts were maintained in a transparent manner and in accordance with generally binding regulations providing for banks' book-keeping. The accounts show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements worked out on their basis present a full and accurate picture of the Bank's accounting and financial situation.

The Bank's auditor, company Ernst & Young Audit, s.r.o., performed an audit of the Bank's consolidated and unconsolidated financial statements worked out under the International Financial Reporting Standards (IFRS). The report was unqualified.

The Supervisory Board recommends that the general meeting approve the regular and consolidated financial statements and the distribution of profit for the year 2012 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on relations among related entities in 2012 drawn up under S. 66a (9) of the Commercial Code, and states on the basis of the presented documents that, during the accounting period from 1 January 2012 to 31 December 2012, Komerční banka, a.s., did not suffer any harm resulting from the contracts and agreements made with the related entities.

Prague, 13 March 2013

On behalf of the Supervisory Board of Komerční banka, a.s.:

Didier Alix
Chairman

Management Affidavit

To the best of our knowledge, we believe that this annual report gives a fair and true view of the Bank's and Group's financial position, business activities and results from the year 2012, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 4 April 2013

Signed on behalf of the Board of Directors:

Henri Bonnet
Chairman of the Board of Directors
and Chief Executive Officer

Peter Palečka
Member of the Board of Directors
and Senior Executive Director

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Independent Auditor's Report to the Shareholders of Komerční banka, a.s.

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

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

I. We have audited the consolidated financial statements of Komerční banka, a.s. and its subsidiaries ("the Company") as at 31 December 2012 presented in the annual report of the Company on pages 95 - 169, on which we have issued an audit report, dated 28 February 2013, which is presented on pages 93 - 94. We have also audited the separate financial statements of Komerční banka, a.s. ("the Company") as at 31 December 2012 presented in the annual report of the Company on pages 173 - 242, on which we have issued an audit report, dated 28 February 2013, which is presented on pages 171 - 172 (both referred to further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of Komerční banka, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2012. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of Komerční banka, a.s. for the year ended 31 December 2012 presented in the annual report of the Company on pages 243 - 255. The management of Komerční banka, a.s. is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related Czech standard No. 56 issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of Komerční banka, a.s. for the year ended 31 December 2012 is materially misstated.

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

D. Burnham
Douglas Burnham
Partner

Michaela Kubýová
Auditor, License No. 1810

4 April 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.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditor's Report as at 31 December 2012

ERNST & YOUNG

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of the Group, see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group 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

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

D. Burnham

Douglas Burnham
Partner

Michaela Kubýová

Michaela Kubýová
Auditor, License No. 1810

28 February 2013
Prague, Czech Republic

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2012

Consolidated Income Statement

(CZKm)	Note	2012	2011
Interest income and similar income	5	35,972	35,986
Interest expense and similar expense	5	(14,027)	(13,886)
Dividend income	5	2	90
Net interest income and similar income		**21,947**	**22,190**
Net fee and commission income	6	7,018	7,305
Net profit/(loss) on financial operations	7	3,598	3,158
Other income	8	126	111
Net operating income		**32,689**	**32,764**
Personnel expenses	9	(6,786)	(6,526)
General administrative expenses	10	(5,019)	(5,154)
Depreciation, impairment and disposal of assets	11	(1,706)	(1,809)
Total operating expenses		**(13,511)**	**(13,489)**
Profit before allowances/provision for loan and investment losses, other risk and income taxes		**19,178**	**19,275**
Allowances for loan losses	12	(1,846)	(1,988)
Allowances for impairment of securities	12	0	(5,355)
Provisions for other risk expenses	12	(25)	18
Cost of risk		**(1,871)**	**(7,325)**
Income from share of associated undertakings		121	81
Share of profit of pension scheme beneficiaries		(489)	(575)
Profit before income taxes		**16,939**	**11,456**
Income taxes	13	(2,708)	(1,738)
Net profit for the period	14	**14,231**	**9,718**
Profit attributable to the Non-controlling owners		278	243
Profit attributable to the Group's equity holders		13,953	9,475
Earnings per share/diluted earnings per share (in CZK)	15	**369.41**	**249.97**

Consolidated Statement of Comprehensive Income

(CZKm)	Note	2012	2011
Net profit for the period	14	**14,231**	**9,718**
Cash flow hedging	41		
- Net fair value gain/(loss), net of tax		6,513	7,450
- Transfer to net profit, net of tax		(2,002)	(1,602)
Foreign exchange gain/(loss) on hedge of a foreign net investment		1	1
Net value gain/(loss) on financial assets available for sale, net of tax	42	6,036	(125)
Net value gain/(loss) on financial assets available for sale, net of tax (associated undertakings)		83	11
Other comprehensive income for the period, net of tax		**10,631**	**5,735**
Comprehensive income for the period, net of tax		**24,862**	**15,453**
Comprehensive income attributable to the Non-controlling owners		278	239
Comprehensive income attributable to the Group's equity holders		24,584	15,214

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

(CZKm)	Note	31 Dec 2012	31 Dec 2011
Assets			
Cash and current balances with central banks	16	28,057	16,980
Financial assets at fair value through profit or loss	17	51,593	34,927
Positive fair value of hedging financial derivatives	43	26,068	18,802
Financial assets available for sale	18	141,791	125,975
Assets held for sale	19	86	138
Amounts due from banks	20	64,111	101,393
Loans and advances to customers	21	451,547	434,386
Financial assets held to maturity	22	3,322	3,359
Current tax assets		20	272
Deferred tax assets	34	34	20
Prepayments, accrued income and other assets	23	3,577	3,258
Investments in associates	24	971	766
Intangible assets	25	3,913	3,848
Tangible assets	26	7,994	6,934
Goodwill	27	3,752	3,752
Total assets		**786,836**	**754,810**
Liabilities and Shareholders' equity			
Amounts due to central banks		1	1
Financial liabilities at fair value through profit or loss	28	19,589	24,061
Negative fair value of hedging financial derivatives	43	11,246	9,545
Amounts due to banks	29	38,902	37,454
Amounts due to customers	30	579,067	560,701
Revaluation differences on portfolios hedge items		16	0
Securities issued	31	19,624	18,338
Current tax liabilities		622	46
Deferred tax liabilities	34	5,482	3,097
Accruals and other liabilities	32	10,742	12,648
Provisions	33	968	1,067
Subordinated debt	35	0	6,002
Total liabilities		**686,259**	**672,960**
Share capital	36	19,005	19,005
Share premium and reserves		78,803	60,212
Non-controlling equity		2,769	2,633
Total shareholders' equity		**100,577**	**81,850**
Total liabilities and shareholders' equity		**786,836**	**754,810**

The accompanying Notes are an integral component of this Consolidated 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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY YEAR ENDED 31 DECEMBER 2012

(CZKm)	Share capital	Capital and reserve funds and retained earnings*	Cash flow hedging	Hedge of a foreign net investment	Financial assets available for sale	Total	Noncontrolling interest	Total, including noncontrolling interest
Balance as at 31 December 2010	**19,005**	**49,658**	**3,908**	**1**	**2,207**	**74,779**	**1,299**	**76,078**
Non-controlling share due to acquisition	**0**	**0**	**0**	**0**	**0**	**0**	**1,593**	**1,593**
Treasury shares, other	0	(513)	0	0	0	(513)	1	(512)
Payment of dividends	0	(10,263)	0	0	0	(10,263)	(499)	(10,762)
Transactions with owners	**0**	**(10,776)**	**0**	**0**	**0**	**(10,776)**	**(498)**	**(11,274)**
Profit for the period	0	9,475	0	0	0	9,475	243	9,718
Other comprehensive income for the period, net of tax	0	11**	5,852	1	(125)	5,739	(4)	5,735
Comprehensive income for the period	**0**	**9,486**	**5,852**	**1**	**(125)**	**15,214**	**239**	**15,453**
Balance as at 31 December 2011	**19,005**	**48,368**	**9,760**	**2**	**2,082**	**79,217**	**2,633**	**81,850**
Treasury shares, other	0	89	0	0	0	89	1	90
Payment of dividends	0	(6,082)	0	0	0	(6,082)	(143)	(6,225)
Transactions with owners	**0**	**(5,993)**	**0**	**0**	**0**	**(5,993)**	**(142)**	**(6,135)**
Profit for the period	0	13,953	0	0	0	13,953	278	14,231
Other comprehensive income for the period, net of tax	0	83**	4,511	1	6,036	10,631	0	10,631
Comprehensive income for the period	**0**	**14,036**	**4,511**	**1**	**6,036**	**24,584**	**278**	**24,862**
Balance as at 31 December 2012	**19,005**	**56,411**	**14,271**	**3**	**8,118**	**97,808**	**2,769**	**100,577**

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 38,289 million (2011: CZK 34,507 million) and statutory reserve fund CZK 3,854 million (2011: CZK 4,119 million).

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

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

CONSOLIDATED CASH FLOW STATEMENT YEAR ENDED 31 DECEMBER 2012

(CZKm)	2012	2011
Cash flows from operating activities		
Interest receipts	31,288	31,246
Interest payments	(8,162)	(12,283)
Commission and fee receipts	8,861	9,461
Commission and fee payments	(1,803)	(1,996)
Net income from financial transactions	(1,282)	2,187
Other income receipts	164	175
Cash payments to employees and suppliers, and other payments	(11,299)	(11,324)
Operating cash flow before changes in operating assets and operating liabilities	**17,767**	**17,466**
Due from banks	43,108	11,386
Financial assets at fair value through profit or loss	(16,591)	(1,087)
Loans and advances to customers	(19,543)	(32,870)
Other assets	(348)	347
(Increase)/decrease in operating assets	**6,626**	**(22,224)**
Amounts due to banks	(3,367)	(8,218)
Financial liabilities at fair value through profit or loss	(4,524)	10,612
Amounts due to customers	17,935	23,079
Other liabilities	(2,320)	3,923
Increase/ (decrease) in operating liabilities	**7,724**	**29,396**
Net cash flow from operating activities before taxes	32,117	24,638
Income taxes paid	(1,907)	(2,011)
Net cash flows from operating activities	**30 210**	**22,627**
Cash flows from investing activities		
Dividends received	1	90
Purchase of investments held to maturity	0	(197)
Maturity of investments held to maturity*	159	324
Purchase of financial assets available for sale	(29,884)	(23,120)
Sale and maturity of financial assets available for sale*	26,401	20,180
Purchase of tangible and intangible assets	(2,846)	(1,889)
Sale of tangible and intangible assets	49	153
Purchase of investments in subsidiaries and associated undertakings	0	(1,800)
Net cash flow from investing activities	**(6,120)**	**(6,259)**
Cash flows from financing activities		
Paid dividends	(6,026)	(10,206)
Paid dividends (non- controlling interest)	(143)	(499)
Purchase of own shares	0	(575)
Securities issued	1,559	2,449
Securities redeemed*	(1,689)	(2,961)
Repayment of subordinated debt*	(6,002)	0
Net cash flow from financing activities	**(12,300)**	**(11,792)**
Net increase/(decrease) in cash and cash equivalents	**11,790**	**4,576**
Cash and cash equivalents at beginning of year	14,642	10,034
FX differences on Cash and cash equivalents at beginning of year	(41)	(14)
Cash flow of acquired company	0	46
Cash and cash equivalents at the end of year (refer to Note 37)	**26 391**	**14 642**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012

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1 Principal activities

The Financial Group of Komerční banka, a.s. (henceforth the 'Group') consists of Komerční banka, a.s. (the 'Bank') and ten subsidiaries and associated undertakings. The parent company of the Group is the Bank which is incorporated in the Czech Republic as a joint stock company. The principal activities of the Bank are as 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; and
VII. Investment banking.

The Bank generates a substantial proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its foreign branch Komerční banka Bratislava, a.s., pobočka zahraničnej banky and in Belgium through its subsidiary Bastion European Investments S. A.

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale is the Bank's majority shareholder, holding 60.35% (2011: 60.35%) of the Bank's issued share capital.

The main activities of subsidiary companies of the Bank as at 31 December 2012:

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Penzijní fond Komerční banky, a.s.	100.0	100.0	Pension fund	Prague
Modrá pyramida stavební spořitelna, a.s.	100.0	100.0	Building society	Prague
Protos uzavřený investiční fond, a.s.	89.64	100.0	Investments	Prague
Factoring KB, a.s.	100.0	100.0	Factoring	Prague
Bastion European Investments S. A.	99.98	99.98	Financial services	Brussels
KB Real Estate s.r.o.	100.0	100.0	Ancillary banking services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Leasing	Prague
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice

The main activities of associated undertakings of the Bank as at 31 December 2012::

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Komerční pojišťovna, a.s.	49.0	49.0	Insurance	Prague
Czech Banking Credit Bureau, a.s.	20.0	20.0	Data collection for credit risk assessments	Prague

2 Events for the year ended 31 December 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 and the remaining balance of the net profit was allocated to retained earnings. Farther the Group paid out CZK 143 million in dividends to non-controlling owners (ESSOX s.r.o.: CZK 94 million; SG Equipment Finance Czech Republic s.r.o.: CZK 49 million).

Repayment of the subordinated debt
In December 2011, the Group 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 Group, the subordinated debt was repaid on 27 January 2012. Subsequently, the Group 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 shareholder's 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 shareholder's 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 Group sold the equity investment in Českomoravská záruční a rozvojová banka, a.s. The net gain from the sale for the Group was CZK 830 million. The acquisition cost was CZK 60 million.

During the year ended 31 December 2012, the Group 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 Group 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 Group decided to participate in the exchange of the Greek Government Bonds ("GGB's"). Subsequently, the Group 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 Group 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 Group in the future. For information about the Group's exposure to these risks refer to Note 17, 18 and 22.

The presented Consolidated Financial Statements for the year ended 31 December 2012 are based on the current best estimates and the management of the Group believes that they present a true and fair view of the Group's financial results and financial position using all relevant and available information at the financial statements date.

3 Principal accounting policies

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

3.1 Statement of compliance with IFRS

The Consolidated Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards ('IFRS') as adopted by the European Union and effective for the annual period beginning on 1 January 2012.

The Consolidated Financial Statements include a Statement of Financial Position, a Statement of Comprehensive Income presented in two constituent statements (a Consolidated Income Statement and a 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 consolidated financial statements

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

3.2.3 Offsetting
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 Consolidated Financial Statements are presented in Czech crowns (hereafter only 'CZK'), which represent the Group's presentation currency. The figures shown are stated in CZK million unless indicated otherwise.

3.3.2 Historical cost
The Consolidated Financial Statements are prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and liabilities at fair value 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 Consolidated Financial Statements in line with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available at the financial statements date and they specifically relate to the determination of:
- fair values in the Statement of Financial Position of financial instruments 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 except Goodwill (refer to Note 3.5.8);
- the amount of impairment of assets (refer to Notes 3.5.4, 3.5.8, 3.5.9.);
- provisions recognised under liabilities (refer to Note 3.5.10);
- initial value of goodwill for each business combination (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 3.5.6.2).

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

3.3.4 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Bank and of its subsidiaries. A subsidiary is an entity over which the Bank has control, i.e. it directly or indirectly owns more than half of the voting power or it has the power to govern the entity in another way. Subsidiaries are consolidated using the full method of consolidation from the date when the Bank obtains control to the date when the Bank ceases to exercise control over such entity.

The financial statements of the consolidated subsidiaries used to prepare the Consolidated Financial Statements were prepared as at the Bank's financial statements' date, using consistent accounting policies. The assets and liabilities of foreign subsidiaries and branches are translated into the Bank's presentation currency at the rate of exchange as at the Bank's financial statements' date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. The consolidation principles are unchanged as against the previous year. All intragroup transactions, balances, income and expenses were eliminated in full.

Investments in associates are presented in the Consolidated Financial Statements using the equity method. An associate is an entity over which the Bank exercises significant influence, i.e. it directly or indirectly owns more than 20% but less than half of the voting power, but it does not exercise control. Equity accounting involves recognising in the Consolidated Income Statement and in Consolidated Statement of Comprehensive Income the Group's share of the associates' profit or loss for the period and comprehensive income for the period. The Group's interest in the associates is carried in the Consolidated Statement of Financial Position at an amount that reflects its share of net assets of the associates and includes goodwill on acquisition.

3.4 Adoption of new and revised IFRS

3.4.1 Standards and interpretations not yet adopted by the European Union

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

As at the issuance date of these 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 Group has decided not to early adopt.

Concurrently, the Group does not anticipate that their application will significantly impact the Group's financial position and financial performance for the reporting period, with the exception of IFRS 9 Financial Instruments which supersedes 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 Group will have to decide upon the first-time application of the standard whether it will remeasure these to profit or loss or whether it will use the possibility to recognise changes in their fair value in other comprehensive income.

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*
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*

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 12 Disclosure of Interests i n 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
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

Note: * 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 earlier and applied for the reporting period beginning 1 January 2012

The Group 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 Group’s functional currency (i.e. the currency of the primary economic environment in which the Group operates) is the Czech Crown.

The Group has a branch in the Slovak Republic and a subsidiary Bastion European Investment 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.

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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.

For consolidation purposes the results and financial position of entities whose functional currency is different from group presentation currency are translated into this currency using following procedures:

(i) assets and liabilities are translated using the closing rate (exchange rate announced by CNB at the end of the reporting period);
(ii) income and expenses presenting profit or loss are translated using the average rate for the period (average of exchange rates announced by CNB during period);
(iii) all resulting exchange differences are recognised in other comprehensive income and presented in the line *'Share premium and reserves'.*

3.5.2 Recognition of income and expenses

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). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late fee income is recognised at the date of its payment and presented in the line *'Interest income and similar income'.* 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 Group distinguishes the following three categories of fees:

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

Dividend income is recognised when the Group'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 Group 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 Group recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

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

3.5.4.2. Initial measurement of financial assets and financial liabilities

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

The 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 Group trades no financial instruments on an inactive market. On active markets the Group trades financial instruments only for the quoted price in the active market. For this reason there is no difference between the transaction price and the fair value 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 Group are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Group's intention as at the acquisition date, and pursuant to the Group's financial instrument investment strategy as follows:

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

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

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

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

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

Financial liabilities at fair value through profit or loss include liabilities from securities sold and 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 Group has the positive intent and ability to hold to maturity.

Held to maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that 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 Group recognises allowances in the Income Statement in the line *'Allowance for impairment of securities'*.

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

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are 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 Group recognises allowances in the Income Statement in the line 'Allowance for loan losses'.

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

(iv) Available for sale financial assets

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

3.5.4.5. Reclassification of financial assets
The Group does not reclassify any financial assets into the *'Financial assets at fair value through profit or loss portfolio after initial recognition'.* In rare circumstances, if non-derivative financial asset at fair value through profit or loss are 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 Group may also reclassify a non-derivative trading asset out of the *'Financial assets at fair value through profit or loss'* portfolio and into the *'Loans and receivables'* portfolio if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Group 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 Group 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 Group has received almost the whole principal of the financial asset or there was a unique and exceptional event that is out of the Group's control and the Group 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 Group 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 Group 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 Group uses other values that are observable, directly or indirectly, from the markets for its measurement, e.g.:
- quoted prices for similar assets or liabilities in active markets;
- 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.);
- inputs other than quoted prices, e.g. inputs based on interest rates, yield curves, etc.;
- inputs derived principally from or corroborated by observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset/liability, the Group uses for fair value measurement inputs that are available but not directly observable within a market and which in the Group's view reflect presumptions about assumptions that market participants take into account when pricing the financial instrument. The fair value of debt securities 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 Group 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 Group seeks to restructure loans rather than to realise the collateral. The renegotiation generally involves extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Group to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to 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 Group assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Group and proving the deterioration of a debtor's (issuer's) financial health, 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 Group management judgment. As indicators of possible significant or prolonged decline, the Group 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 Group considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

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

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

The Group assesses all significant impaired credit exposures on an individual basis. The remaining insignificant impaired exposures are assessed using statistical models based on a collective approach (refer to Note 43 (A)). Assets that are not identified for impairment on an individual basis are included in the collective assessment of impairment.

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

The future cash 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 Group cannot reverse any impairment loss recognised in the Income Statement for an equity instrument.

3.5.4.10. Repurchase agreements

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

Under repurchase transactions ("repos"), the Group only provides securities held in the portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* or in the *'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 Group is allowed to provide securities received in reverse repo transactions as collateral or sell them in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan received is included in *'Amounts due to banks'* or *'Amounts due to customers',* as appropriate. The Group has the obligation to return these securities to its counterparties.

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

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

3.5.4.11. 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 Group designates the derivative instrument as either held for trading or hedging.

Derivatives designated as held for trading are classified into a portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* based on whether the fair value is positive or negative (refer to 3.5.4.4.).

Hedging derivatives are derivatives that the Group uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:
– there is compliance with the Group's risk management objective and strategy in undertaking the hedge;
– at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
– the hedge is expected to be highly effective at inception and throughout the period;
– the effectiveness of the hedge can be reliably measured;
– 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 Group hedges the interest rate risk and currency risk of financial assets (loans with fixed interest rate and debt instruments classified as available for sale) and interest rate risk of selected portfolios of building savings. The effectiveness of the hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation, 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 Group 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 Group additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investments S.A. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 43.

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 Group expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Group expects that the sale of assets will be completed, the market situation permitting, within one year from the date of the 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 Group recognises an impairment loss on assets held for sale in the line *'Depreciation, impairment and disposal of assets'* if their selling price less estimated costs to sell is lower than their carrying value. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the asset classification as held for sale or before the reclassification into category *'Assets held for sale'* (i.e. during the period when the asset had been held for supplying the Group's services or for administrative purposes).

3.5.6 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 Group does not offset current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts or intends to settle them on a net basis, or, 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 Group expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

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

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

3.5.7 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.

The Group as lessor

Operating leases

The Group 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 Group 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 Group 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 Group 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 Group divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Income Statement as *'Interest 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 (except goodwill)

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

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

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

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

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

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

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

3.5.9 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 2010 it represents the excess of the acquisition cost (including acquisition related costs) for the interest acquired by the Bank over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired from 2010 it represents difference between the transferred consideration and amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary identifiable net assets on one side and the net of the identifiable assets and the liabilities assumed on other side. Acquisition related costs are recognised in profit or loss.

Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of possible impairment loss.

The Group tests goodwill for impairment on a regular annual basis at 30 September or more frequently if there is indication that the goodwill may be impaired. If the recoverable amount of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying value, the Group recognises an impairment of the cash-generating unit which is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or on a pro-rata basis).

For the purpose of calculating the recoverable amount the Group calculates value in use as the present value of the future cash flow to be generated by the cash-generation unit from its continuing use in the business. The Group estimates future cash flow on the basis of the middle term financial plan of the cash-generation unit that is approved by management. Cash flows represent income after tax of cash generating units available for distribution to owners. The discount rate used is the cost of capital calculated using the Capital Asset Pricing Model. This method is based on a risk free interest rate grossed up by a risk premium determined according to the underlying activities of the cash-generating unit. As all subsidiaries are located in the Czech Republic and their functional currency is the Czech crown, no other premium is added. For the period beyond the middle term financial plan the projected cash flow is extrapolated without taking into account any growth rate. Key assumptions used in the preparation of financial plan are consistent with market estimations (GDP, interest rate, inflation) and with past experience.

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

3.5.10 Provisions

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

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

Among others, the Group recognises provisions for credit related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit related commitments into which the Group enters in the normal course of its business and that are recorded off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit related commitments are created on the same basis as are allowances for loans portfolios (refer to Note 33).

3.5.11 Employee benefits

3.5.11.1 General

The Group provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or if they are entitled to receive a disability pension but only if they were employed within the Group for a minimum defined period. These provisions are presented in the line *'Provisions'*, it's creation, release and use are presented in the line *'Personnel 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 Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group's employees (expected reduction of the current staffing levels) and other estimates (the amount of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

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

The Group has following share plans and deferred compensation schemes:

3.5.11.2 Deferred bonus payment

The Group 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 the 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 the 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'.*

3.5.11.3 Free share plan

In November 2010, the Group awarded all its employees rights to forty free shares of Société Générale S.A. upon the achievement of two performance conditions and completing a specific period of service that is recognised as equity-settled share based payment. The rights are measured at their fair value calculated using the arbitrage'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, Group 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.

3.5.12 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 Group purchases the Group'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'.*

3.5.13 Contingent assets, contingent liabilities and off balance sheet items

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

A contingent asset/liability is defined as a possible asset/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 Group. 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).

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.

3.5.14 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented 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 Group.

The Group has the following operating segments:
- *Retail Banking:* includes the provision of products and services to individuals, i.e. predominantly current and savings accounts, term deposits, overdrafts, credit card loans, personal loans and mortgages;
- *Corporate Banking*: includes the provision of products and services to corporate entities, i.e. current accounts, term deposits, revolving loans, business loans, mortgages, leasing, foreign currency and derivative products, syndicated and export financing, and guarantee transactions;
- *Investment Banking:* 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 Group believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

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

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

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

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

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

3.5.15 Regulatory requirements

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

4 Segment reporting

(CZKm)	Retail banking 2012	2011	Corporate banking 2012	2011	Investment banking 2012	2011	Other 2012	2011	Total 2012	2011
Net interest and similar income	13,065	13,112	6,496	6,183	55	7	2,331	2,888	**21,947**	**22,190**
Net fee and commission income	4,847	4,762	2,303	2,380	(1)	7	(131)	156	**7,018**	**7,305**
Net profit on financial operations	1,286	1,051	975	1,115	947	976	390	16	**3,598**	**3,158**
Other income	94	124	(30)	(43)	133	111	(71)	(81)	**126**	**111**
Net banking income	**19,292**	**19,049**	**9,744**	**9,635**	**1,134**	**1,101**	**2,519**	**2,979**	**32,689**	**32,764**

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

5 Net interest income and similar income

Net interest and similar income comprises:

(CZKm)	2012	2011
Interest and similar income	35,972	35,986
Interest and similar expense	(14,027)	(13,886)
Dividend income	2	90
Net interest and similar income	**21,947**	**22,190**
Of which net interest income arising from		
- Loans and advances	21,087	22,420
- Securities held to maturity	180	341
- Securities available for sale	4,725	4,837
- Financial liabilities at amortised cost	(6,108)	(7,123)

'Interest and similar income' includes interest on substandard, doubtful and loss loans of CZK 566 million (2011: CZK 584 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 Group derecognised these securities. As at 31 December 2012, the Group does not register any receivables related to these securities.

'Interest and similar income' also includes accrued interest income from hedging financial derivatives of CZK 10,036 million (2011: CZK 9, 686 million) and *'Interest and similar expense'* also includes accrued interest expense from hedging financial derivatives of CZK 7,975 million (2011: CZK 8,061 million). *'Net interest and similar income'* from these derivatives amounts to CZK 2,061 million (2011: CZK 1, 625 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

6 Net fee and commission income

Net fee and commission income comprises:

(CZKm)	2012	2011
Fees and commission income from		
Transactions	4,311	4,375
Loans and deposits	3,099	3,648
Others	1,424	1,445
Total fees and commission income	**8,834**	**9,468**
Fees and commission expenses on		
Transactions	(990)	(968)
Loans and deposits	(267)	(738)
Others	(559)	(457)
Total fees and commissions expenses	**(1,816)**	**(2,163)**
Total net fee and commission income	**7,018**	**7,305**

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 custody services and from depository services in the amount CZK 67 million (2011: CZK 62 million) and fee expense in the amount of CZK 48 million (2011: CZK 35 million).

7 Net profit/(loss) on financial operations

Net profit on financial operations comprises:

(CZKm)	2012	2011
Net realised gains/(losses) on securities held for trading	146	(41)
Net unrealised gains/(losses) on securities held for trading	238	493
Net realised gains/(losses) on securities available for sale	908	184
Net realised and unrealised gains/(losses) on security derivatives	123	88
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	988	823
Net realised gains/(losses) on foreign exchange from payments	1,313	1,406
Total net profit/(loss) on financial operations	**3,598**	**3,158**

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 the 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: a loss of 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.

A loss of CZK 0 million (2011: a loss of CZK 1 million) on the fair value of cross currency swaps for foreign currency risk hedging is included in '*Net realised and unrealised gains on foreign exchange from trading'*. This amount matches the loss arising from the retranslation of hedged foreign currency assets reported in the same line.

8 Other income

The Group reports *'Other income'* in the amount of CZK 126 million (2011: CZK 111 million). In both years 2012 and 2011, *'Other income'* was predominantly composed of income from the property rental income and intermediation.

9 Personnel expenses

Personnel expenses comprise:

(CZKm)	2012	2011
Wages, salaries and bonuses	4,884	4,637
Social costs	1,902	1,889
Total personnel expenses	**6,786**	**6,526**
Physical number of employees at the period-end	8,820	8,918
Average recalculated number of employees during the period	8,758	8,774
Average cost per employee (CZK)	**774,875**	**743,866**

'Social costs' include costs of CZK 88 million (2011: CZK 86 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 45 million (2011: CZK 45 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include the charge of the restructuring provision 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 project of the change in the legal status of Komerční banka Bratislava a.s. to a foreign branch of the Bank (refer to Note 33).

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 Group. 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 shares 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 share for both periods is 320,320 pieces (2011: 332,960 pieces). In 2012 the total amount relating to the free shares program recognised in *'Personnel expenses'* is CZK 51 million (2011: CZK 46 million) and from the start of the grant the cumulative amount of CZK 103 million (2011: CZK 51 million) is recognised as *'Share premium'* in equity.

10 General administrative expenses

General administrative expenses comprise:

(CZKm)	2012	2011
Insurance	117	118
Marketing and representation	718	744
Sale and banking products expenses	361	405
Other employees expenses and travelling	145	165
Real estate expenses	1,301	1,256
IT support	877	956
Equipment and supplies	252	198
Telecommunications, postage and data transfer	421	475
External consultancy and other services	665	626
Other expenses	162	211
Total general administrative expenses	**5,019**	**5,154**

'General administrative expenses' include the release and use of the provision for the restructuring in the amount of CZK 9 million (2011: CZK 11 million) relating to the project of the change in the legal status of Komerční banka Bratislava, a.s. to a foreign branch of the Bank (refer to Note 33).

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise:

(CZKm)	2012	2011
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,694	1,766
Impairment and disposal of fixed assets	12	43
Total depreciation, impairment and disposal of assets	**1,706**	**1,809**

12 Cost of risk

Allowance for loan impairment and provisions for other credit commitments

Allowances for loan losses in the total amount of CZK 1,846 million (2011: CZK 1,988 million) include a net loss from allowances and provisions for loans losses in the amount of CZK 2,272 million (2011: CZK 2,449 million) and net gain from written-off and transferred loans in the amount of CZK 426 million (2011: CZK 461 million).

The movement in allowances and provisions was as follows:

(CZKm)	2012	2011
Balance at 1 January	**(17,211)**	**(15,877)**
Balance of the acquired company	0	(451)
Charge of allowances and provisions for loans losses		
– individuals	(3,105)	(3,191)
– corporates*	(4,606)	(4,408)
Release of allowances and provisions for loans losses		
– individuals	1,910	1,874
– corporates*	3,504	3,276
Impact of loans written off and transferred	1,154	1,721
Exchange rate differences attributable to provisions	122	(155)
Balance at 31 December	**(18,232)**	**(17,211)**

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

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

(CZKm)	31 Dec 2012	31 Dec 2011
Allowances for loans to banks (refer to Note 20)	0	0
Allowances for loans to customers (refer to Note 21)	(17,733)	(16,577)
Allowances for other loans to customers (refer to Note 21)	(17)	(17)
Provisions for guarantees and other credit related commitments (refer to Note 33)	(482)	(617)
Total	**(18,232)**	**(17,211)**

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 153 million as at 31 December 2012 (2011: CZK 5,719 million). During the year ended 31 December 2012, the Group derecognised a provision of CZK 5,278 million due to the replacement of Greek government bonds held by the Group and the related foreign exchange differences from provisions against securities denominated in foreign currencies of CZK 288 million (refer to Note 18).

Provisions for other risk expenses

The net loss of *'Provisions for other risk expenses'* of CZK 25 million (2011: net profit of CZK 18 million) mainly consists of the charge for provisions of CZK 261 million (2011: CZK 26 million) and the release and use of provisions of CZK 260 million (2011: CZK 44 million) for legal disputes, together with the costs incurred by the Group as a result of the outcome of legal disputes of CZK 24 million (2011: CZK 0 million). Additional information about the provisions for other risk expenses is provided in Note 33.

13 Income tax

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

(CZKm)	2012	2011
Tax payable – current year, reported in profit or loss	(2,737)	(1,662)
Tax paid – prior year	(3)	21
Deferred tax (refer to Note 34)	18	(78)
Hedge of a deferred tax asset against foreign currency risk	14	(19)
Total income taxes	**(2,708)**	**(1,738)**
Tax payable - current year, reported in equity	0	14
Total tax expense	**(2,708)**	**(1,724)**

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

(CZKm)	2012	2011
Profit before tax	**16,939**	**11,456**
Theoretical tax calculated at a tax rate of 19% (2011: 19%)	3,140	2,177
Tax on pre-tax profit adjustments	78	(64)
Non-taxable income	(1,403)	(1,418)
Expenses not deductible for tax purposes	1,050	1,095
Use of tax losses carried forward	(16)	0
Tax allowance	(3)	(3)
Tax credit	(76)	(83)
Hedge of a deferred tax asset against foreign currency risk	(14)	19
Movement in deferred tax	(18)	78
Tax losses	20	9
Impact of various tax rates of subsidiary undertakings	(30)	(33)
Tax effect of share of profits of associated undertakings	(23)	(18)
Income tax expense	**2,705**	**1,759**
Prior period tax expense	3	(21)
Total income taxes	**2,708**	**1,738**
Tax payable on securities reported in equity*	0	(14)
Total income tax	**2,708**	**1,724**
Effective tax rate	**15.99%**	**15.18%**

Note: * This amount represents the tax payable on unrealised gains from the revaluation of securities 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 Group'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 Group records unused tax losses in the amount CZK 77 million (2011: CZK 166 million). These tax losses are Slovak tax losses from previous years, applicable only for a Slovak corporate tax paid by a 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 34.

14 Distribution of profits / Allocation of losses

For the year ended 31 December 2012, the Group generated a net profit of CZK 14,231 million (2011: CZK 9,718 million). Distribution of profits for the year ended 31 December 2012 will be approved by the general meetings of the Group companies.

The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 230 per share (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 to the approval of 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.

Further the Group paid out dividends to non-controlling owners in the total amount of CZK 143 million (2011: CZK 499 million), of which CZK 94 million (2011: CZK 0 million) was paid to the non-controlling owners of ESSOX s.r.o. and CZK 49 million (2011: CZK 499 million) was paid to the non-controlling owners of SG Equipment Finance Czech Republic s.r.o.

15 Earnings per share

Earnings per share of CZK 369.41 (2011: CZK 249.97 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 13,953 million (2011: CZK 9,475 million) by the number of shares in issue, that is, 38,009,852, decreased by the average number of treasury shares held by the Bank during the period 238,672 pieces (2011: 105,112 pieces).

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	7,549
Current balances with central banks	21,605	9,431
Total cash and current balances with central banks	**28,057**	**16,980**

Obligatory minimum reserves in the amount of CZK 1,134 million (2011: CZK 8,601 million) are included in *'Current balances with central banks'* and they bore interest. 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 Group has not designated any other *'Financial assets as at fair value through profit or loss'.*

(CZKm)	31 Dec 2012	31 Dec 2011
Securities	33,962	15,564
Derivative financial instruments	17,631	19,363
Financial assets at fair value through profit or loss	**51,593**	**34,927**

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 43.

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 Group'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:

(mil. Kč) Country of Issuer	31 Dec 2012 Fair value	31 Dec 2011 Fair value
Italy	13	9
Poland	129	1,326
Slovakia	2,361	665
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	122,911	109,001	110,302	110,306
Variable yield debt securities	18,878	18,238	14,971	15,028
Total debt securities	**141,789**	**127,239**	**125,273**	**125,334**
Total financial assets available for sale	**141,791**	**127,241**	**125,975**	**125,396**

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

As at 31 December 2012, the *'Financial assets available for sale'* portfolio includes securities at fair value of CZK 135,254 million (2011: CZK 119,226 million) that are publicly traded on stock exchanges and securities at fair value of CZK 6,537 million (2011: CZK 6,749 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 Group sold the equity investment in Českomoravská záruční a rozvojová banka, a.s. The net gain from the sale for the Group was CZK 830 million (refer to Note 7). The acquisition cost 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	100,105	85,101
– Other currencies	22,806	25,201
Total fixed income debt securities	**122,911**	**110,302**
Variable yield debt securities		
– Czech crowns	17,009	13,066
– Other currencies	1,869	1,905
Total variable yield debt securities	**18,878**	14,971
Total debt securities available for sale	**141,789**	**125,273**

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	96,859	78,523
– Foreign state institutions	24,251	25,608
– Financial institutions in the Czech Republic	17,057	16,419
– Foreign financial institutions	2,522	2,847
– Other entities in the Czech Republic	502	569
– Other foreign entities	598	1,307
Total debt securities available for sale	**141,789**	**125,273**

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	7,580	7,302	8,234
Poland	6,223	5,545	8,340	7,878
Portugal	0	0	218	261
Greece	0	0	2,071	7,327
Slovakia	6,578	5,950	5,324	5,425
EIB	3,543	3,279	2,353	2,253
Total debt securities	**24,251**	**22,354**	**25,608**	**31,378**

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 85,460 million (2011: CZK 67,270 million) represents securities eligible for refinancing with the CNB.

During the year ended 31 December 2012, the Group acquired bonds with a nominal value of CZK 25,685 million. This amount comprised of bonds issued by state institutions in the Czech Republic in the amount of CZK 24,631 million, bonds of financial institutions in EUR in the amount of EUR 30 million (a CZK equivalent of CZK 754 million) and bonds of other institution in the nominal value of CZK 300 million. During 2012, the Group had a regular repayment of debt securities at the maturity in the aggregate nominal amount of CZK 8,931 million, EUR 35 million and USD 76 million (a total CZK equivalent of CZK 10,191 million), of which CZK 6,330 million were issued by state institutions in the Czech Republic, CZK 2,410 million by foreign state institutions, CZK 201 million by financial institutions and CZK 1,250 million by other entities in the Czech Republic.

During the year ended 31 December 2012, the Group 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 Group sold also 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). The group also sold Czech state bonds in the nominal amount of CZK 4,391 million and bonds of other institutions in nominal value of CZK 400 million.

Greece

During the first quarter of 2012, the Group decided to participate in the exchange of the Greek Government Bonds ("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 the event that the GDP growth of Greece in a particular year exceeds a certain percentage.

Subsequently, the Group 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 Group reported assets held for sale at a carrying amount of CZK 86 million (2011: CZK 138 million) mainly comprising equipment which was obtained by taking possession of leasing collateral.

20 Amounts due from banks

Balances due from banks comprise of:

(CZKm)	31 Dec 2012	31 Dec 2011
Current account with other banks	5,913	179
Debt securities	7,929	10,098
Loans and advances to banks	8,559	13,392
Advances due from central banks (reverse repo transactions)	22,900	59,011
Term placements with other banks	18,810	18,713
Total amount due from banks, gross	**64,111**	**101,393**
Allowances for amount due from banks (refer to Note 12)	0	0
Total amounts due from banks	**64,111**	**101,393**

Advances due from central banks 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	22,514	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	**25,552**	**65,483**

Securities acquired as loans and receivables

As at 31 December 2012, the Group maintains in its portfolio bonds at an amortised cost of CZK 7,929 million (2011: CZK 10,098 million) and a nominal value of CZK 7,773 million (2011: CZK 10,148 million), of which CZK 5,658 million represents bonds issued by the parent company Société Générale S. A. (2011: CZK 8,033 million) which the Group acquired under initial offerings and normal market conditions in 2006 and 2010. The 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). The bond with the nominal value of CZK 3,068 million (2011: CZK 3,443 million) is denominated in EUR, bears floating interest and will mature in 2026. During 2012, there was a partial repayment of the nominal value of the bond in the amount of EUR 2.4 million (an equivalent of CZK 61 million) (2011: EUR 2 million, an equivalent of CZK 51 million). Additionally, the Group 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 of:

(CZKm)	31 Dec 2012	31 Dec 2011
Loans to customers	466,439	447,963
Bills of exchange	421	439
Forfaits	1,776	1,650
Total loans and advances to customers excluding bonds and other amounts due from customers, gross	**468,636**	**450,052**
Debt securities	461	461
Other amounts due from customers	200	467
Total loans and advances to customers, gross	**469,297**	**450,980**
Allowances for loans to customers		
- individuals	(6,794)	(5,892)
- corporates*	(10,939)	(10,685)
Total allowances for loans to customers	**(17,733)**	**(16,577)**
Allowances for other amounts due from customers	(17)	(17)
Total allowances for loans and other amounts due from customers (refer to Note 12)	**(17,750)**	**(16,594)**
Total loans and advances to customers, net	**451,547**	**434,386**

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

As at 31 December 2012, loans and advances to customers include interest due of CZK 1,482 million (2011: CZK 1,487 million), of which CZK 714 million (2011: CZK 896 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 289 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 Group (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	430,523	196,175	234,348	0	430,523	0%
Watch	11,121	4,587	6,534	(806)	10,315	12%
Substandard	6,450	3,251	3,199	(1,317)	5,133	41%
Doubtful	2,569	720	1,849	(1,099)	1,470	59%
Loss	17,973	1,136	16,837	(14,511)	3,462	86%
Total	**468,636**	**205,869**	**262,767**	**(17,733)**	**450,903**	

As at 31 December 2011 the loan portfolio of the Group (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	409,703	181,845	227,858	0	409,703	0%
Watch	14,633	4,907	9,726	(1,001)	13,632	10%
Substandard	4,837	2,490	2,347	(946)	3,891	40%
Doubtful	4,239	1,587	2,652	(1,631)	2,608	62%
Loss	16,640	1,059	15,581	(12,999)	3,641	83%
Total	**450,052**	**191,888**	**258,164**	**(16,577)**	**433,475**	

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	17,595	16,085
Mining and extraction	1,482	2,112
Chemical and pharmaceutical industry	6,009	6,068
Metallurgy	9,649	10,064
Automotive industry	2,941	2,486
Manufacturing of other machinery	8,518	7,712
Manufacturing of electrical and electronic equipment	3,638	3,070
Other processing industry	9,208	9,164
Power plants, gas plants and waterworks	21,925	22,566
Construction industry	10,792	11,829
Retail	12,519	11,689
Wholesale	28,137	26,745
Accommodation and catering	1,056	1,168
Transportation, telecommunication and warehouses	19,462	15,761
Banking and insurance industry	21,713	21,743
Real estate	28,023	26,938
Public administration	34,228	32,399
Other industries	22,088	20,821
Individuals	209,653	201,632
Loans to customers	**468,636**	**450,052**

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	17,935	15,301	15,194	16,528	13,779	13,160
Guaranteed deposits	8,747	8,180	7,951	7,981	7,979	7,704
Issued debentures in pledge	0	0	0	4	3	3
Pledge of real estate	343,009	211,676	152,229	319,707	192,021	139,877
Pledge of movable assets	20,433	3,002	2,936	20,862	3,439	3,353
Guarantee by legal entity	21,842	13,425	12,908	20,911	13,802	13,145
Guarantee by individual (natural person)	5,420	608	572	6,394	690	648
Pledge of receivables	27,657	424	72	32,782	376	79
Insurance of credit risk	11,804	11,213	11,213	10,928	10,381	10,381
Other	841	414	98	2,095	129	123
Total nominal value of collateral	**462,180**	**266,956**	**205,869**	**448,560**	**246,032**	**191,888**

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 collateralised exposure balance.

Pledges on industrial real-estate represent 10% of total pledges on real estate (2011: 10%).

Debt securities designated as loans and receivables

As at 31 December 2012, the Group 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	1,277	950
Corporates *	5,447	5,915
Total	**6,724**	**6,865**

Note: * this item includes loans granted to individual entrepreneurs.

Leasing

Within the Group, ESSOX s.r.o. and SG Equipment Finance Czech Republic s.r.o. engage in providing lease services. Assets leased under lease arrangements at ESSOX s.r.o. primarily include used passenger and utility vehicles with an average lease instalment period of 41 months (2011: 42 months), technology with an average lease instalment period of 27 months (2011: 27 months). At SG Equipment Finance Czech Republic s.r.o. leased assets primarily include trucks, tractors and buses with an average lease instalment period of 61 months (2011: 60 months), agricultural vehicles and machines with an average lease instalment period of 50 months (2011: 54 months), machine technology with an average lease instalment period of 53 months (2011: 60 months) and high-tech finance with an average lease instalment period of 43 months (2011: 40 months).

Loans and advances to customers - leasing

(CZKm)	31 Dec 2012	31 Dec 2011
Due less than 1 year	4,465	4,851
Due from 1 to 5 years	6,310	6,799
Due over 5 years	706	682
Total	**11,481**	**12,332**

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

(CZKm)	31 Dec 2012	31 Dec 2011
Due less than 1 year	435	527
Due from 1 to 5 years	544	646
Due over 5 years	79	88
Total	**1,058**	**1,261**

As at 31 December 2012, the provisions recognised against uncollectible lease receivables amount to CZK 848 million (2011: CZK 825 million).

Trade finance losses

During 1999, the Group incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Group. As at 31 December 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 Group did not report any off balance sheet receivables from this client in 2012 and 2011. The Group 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:

		1 Dec 2012		31 Dec 2011
(CZKm)	Carrying value	Cost*	Carrying value	Cost*
Fixed income debt securities	3,322	3,211	3,359	3,259
Total investments held to maturity	**3,322**	**3,211**	**3,359**	**3,259**

Note:* Amortised acquisition cost

As at 31 December 2012, *'Financial assets held to maturity'* portfolio includes bonds of CZK 3,322 million (2011: CZK 3,359 million) that are publicly traded on stock exchanges.

Debt securities held to maturity comprise:

(CZKm)	31 Dec 2012	31 Dec 2011
– Czech crowns	3,143	3,175
– Other currencies	179	184
Total fixed income debt securities	**3,322**	**3,359**

Debt securities held to maturity, allocated by issuer, comprise:

(CZKm)	31 Dec 2012	31 Dec 2011
Debt securities held to maturity issued by:		
- State institutions in the Czech Republic	3,143	3,175
- Foreign state institutions	179	184
Total debt securities held to maturity	**3,322**	**3,359**

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	263	502
Settlement balances	598	262
Receivables from securities trading	19	37
Other assets	2,697	2,457
Total prepayments, accrued income and other assets	**3,577**	**3,258**

In the year ended 31 December 2012, *'Other assets'* included receivables of CZK 910 million (2011: CZK 934 million) from the state budget including contributions to construction savings scheme and pension insurance policy holders and also advances and receivables for other debtors.

24 Investments in associates

Investments in associates comprise:

(CZKm)	31 Dec 2012	31 Dec 2011
Investments in associated undertakings	971	766
Total investments in associates	**971**	**766**

(CZKm)			31 Dec 2012		31 Dec 2011
Associates	%	Net book value	Share of net assets	Net book value	Share of net assets
Komerční pojišťovna, a.s.	49	482	971	482	766
Czech Banking Credit Bureau, a.s.*	20	0	0	0	0
Total investments in associates		**482**	**971**	**482**	**766**

Note:* The cost and net book value of Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

(CZKm)				31 Dec 2012
Associates	Assets	Liabilities	Net operating income	Profit
Komerční pojišťovna, a.s.	33,564	31,446	550	247
Czech Banking Credit Bureau, a.s.	24	30	112	3

(CZKm)				31 Dec 2011
Associates	Assets	Liabilities	Net operating income	Profit
Komerční pojišťovna, a.s.	26,791	25,227	451	166
Czech Banking Credit Bureau, a.s.	28	23	117	5

Additional information about the Group's equity investments is presented in Notes 1 and 2.

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	2,216	112	699	11,144
Additions	943	193	(36)	1,104	2,204
Disposals/Transfers	(144)	(18)	0	(1,125)	(1,287)
Exchange rate difference	0	(1)	0	0	(1)
31 December 2012	**8,916**	**2,390**	**76**	**678**	**12,060**
Accumulated amortisation and provisions					
31 December 2011	5,696	1,526	74	0	7,296
Additions	813	205	(21)	0	997
Disposals	(128)	(17)	0	0	(145)
Impairment charge	0	0	0	0	0
Exchange rate difference	0	(1)	0	0	(1)
31 December 2012	**6,381**	**1,713**	**53**	**0**	**8,147**
Net book value					
31 December 2011	2,421	690	38	699	3,848
31 December 2012	**2,535**	**677**	**23**	**678**	**3,913**

During the year ended 31 December 2012, the Group 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	Fixtures, fittings and equipment	Acquisition of assets	Total
Cost					
31 December 2011	287	10,998	5,287	364	16,936
Reallocation from / to assets held for sale	0	20	0	0	20
Additions	73	1,274	489	1,778	3,614
Disposals/Transfers	(3)	(176)	(363)	(1,838)	(2,380)
Exchange rate difference	0	0	(1)	0	(1)
31 December 2012	**357**	**12,116**	**5,412**	**304**	**18,189**
Accumulated depreciation and provisions					
31 December 2011	0	5,600	4,402	0	10,002
Reallocation of accumulated depreciation of assets held for sale	0	6	0	0	6
Additions	0	361	336	0	697
Disposals	0	(145)	(350)	0	(495)
Impairment charge	0	(12)	(2)	0	(14)
Exchange rate difference	0	0	(1)	0	(1)
31 December 2012	**0**	**5,810**	**4,385**	**0**	**10,195**
Net book value					
31 December 2011	287	5,398	885	364	6,934
31 December 2012	**357**	**6,306**	**1,027**	**304**	**7,994**

As at 31 December 2012, the Group recognised provisions against tangible assets of CZK 1 million (2011: CZK 16 million). These provisions primarily included provisions charged in respect of leasehold improvements.

27 Goodwill

Goodwill by companies as at 31 December 2012 is as follows:

(CZKm)	31 Dec 2012	31 Dec 2011
Modrá pyramida stavební spořitelna, a.s.	3,388	3,388
ESSOX s.r.o.	163	163
SG Equipment Finance Czech republic s.r.o.	201	201
Total Goodwill	**3,752**	**3,752**

28 Financial liabilities at fair value through profit or loss

As at 31 December 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 Group has not designated any other *'Financial liability as at fair value through profit or loss'*.

(CZKm)	31 Dec 2012	31 Dec 2011
Sold securities	2,481	4,686
Derivative financial instruments	17,108	19,375
Financial liabilities at fair value through profit or loss	**19,589**	**24,061**

For detailed information of financial derivative instruments included in the portfolio for trading, refer to Note 43 (C).

29 Amounts due to banks

Amounts due to banks comprise:

(CZKm)	31 Dec 2012	31 Dec 2011
Current accounts	7,578	2,516
Other amounts due to banks	31,324	34,938
Total amounts due to banks	**38,902**	**37,454**

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).

30 Amounts due to customers

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

(CZKm)	31 Dec 2012	31 Dec 2011
Current accounts	329,238	319,440
Savings accounts	155,132	137,001
Term deposits	46,148	58,196
Depository bills of exchange	4,653	10,071
Loans received from customers	6,498	0
Other payables to customers	37,398	35,993
Total amounts due to customers	**579,067**	**560,701**

The fair value of securities and treasury bills serving as collateral for received repurchase loans from clients 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	186,639	184,385
Other financial institutions, non-banking entities	10,308	9,185
Insurance companies	14,404	4,625
Public administration	1,273	1,395
Individuals	256,341	257,533
Individuals - entrepreneurs	23,030	24,538
Government agencies	64,676	60,355
Other	11,757	10,733
Non-residents	10,639	7,952
Total amounts due to customers	**579,067**	**560,701**

31 Securities issued

Securities issued comprise mortgage bonds of CZK 19,624 million (2011: CZK 18,338 million). Publicly tradable mortgage bonds are issued to fund the Group's mortgage activities.

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

(CZKm)	31 Dec 2012	31 Dec 2011
In less than one year	0	0
In one to five years	13,370	12,399
In five to ten years	400	0
In ten to twenty years	0	0
Over twenty years	5,854	5,939
Total debt securities	**19,624**	**18,338**

During the year ended 31 December 2012, the Group repurchased the mortgage bonds with an aggregate nominal amount of CZK 104 million and increased the nominal amount of CZK 1,440 million.

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

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 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	4.40%	CZK	21 Oct 2005	21 Oct 2015	11,169	10,093
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	5,855	5,939
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	400	0
Total debts					**19,624**	**18,338**

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 swaps CZK sale average for ten years as at 31 December 2012 was 137 basis points (2011: 219 basis points).

32 Accruals and other liabilities

Accruals and other liabilities comprise:

(CZKm)	31 Dec 2012	31 Dec 2011
Settlement balances and outstanding items	0	70
Payables from securities trading and issues of securities	1,407	1,433
Payables from payment transactions	4,579	6,844
Other liabilities	4,496	4,071
Accruals and deferred income	260	230
Total accruals and other liabilities	**10,742**	**12,648**

'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).

33 Provisions

Provisions comprise:

(CZKm)	31 Dec 2012	31 Dec 2011
Provisions for contracted commitments (refer to Notes 9 and 12)	476	441
Provisions for other credit commitments (refer to Note 12)	482	617
Provision for restructuring (refer to Notes 9 and 10)	10	9
Total provisions	**968**	**1,067**

In 2012, the Group created a provision for restructuring in respect to the project of the reorganisation of distribution network. The Group also adjusted the amount of the provision for restructuring in respect the project 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 for and use of provisions is reported in the income statement lines *'Personnel cost'* (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 jubilee and 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 January 2012	Additions	Disposals	Accrual	Foreign exchange difference	31 Dec 2012
Provisions for retirement bonuses	96	20	(10)	6	0	112
Provisions for loyalty and jubilee bonuses	2	0	0	0	0	2
Other provisions for contracted commitments	343	293	(270)	0	(4)	362
Provisions for restructuring	9	10	(9)	0	0	10
Total	**450**	**323**	**(289)**	**6**	**(4)**	**486**

34 Deferred income taxes

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 asset is as follows:

(CZKm)	31 Dec 2012	31 Dec 2011
Banking provisions and allowances	0	0
Provisions for non-banking receivables	16	23
Allowances for assets	0	0
Non-banking provisions	1	1
Difference between accounting and tax net book value of assets	13	(8)
Leases	0	(4)
Revaluation of hedging derivatives - equity impact (refer to Note 41)	5	5
Revaluation of financial assets available for sale - equity impact (refer to Note 42)	3	0
Other temporary differences	(4)	3
Net deferred tax asset	**34**	**20**

Deferred tax liability is as follows:

(CZKm)	31 Dec 2012	31 Dec 2011
Banking provisions and allowances	254	271
Provisions for non-banking receivables	92	91
Allowances for assets	1	4
Non-banking provisions	66	86
Difference between accounting and tax net book value of assets	(787)	(382)
Leases	(77)	(490)
Revaluation of hedging derivatives - equity impact (refer to Note 41)	(3,355)	(2,294)
Revaluation of financial assets available for sale - equity impact (refer to Note 42)	(1,627)	(298)
Other temporary differences	(49)	(85)
Net deferred tax liability	**(5,482)**	**(3,097)**

Net deferred tax liability recognised in the financial statements:

(CZKm)	31 Dec 2012	31 Dec 2011
Balance at the beginning of the period	**(3,077)**	**(1,074)**
Balance of acquired company	0	(376)
Movement in net deferred tax liability - profit and loss impact (refer to Note 13)	18	(78)
Movement in net deferred tax liability - equity impact (refer to Note 41 and 42)	(2,389)	(1,549)
Balance at the end of the period	**(5,448)**	**(3,077)**

35 Subordinated debt

In 2012 the Group repaid the subordinated debt (2011: CZK 6,002 million). The nominal value of the subordinated debt received by the Group at the end of 2006 was CZK 6,000 million which was issued by the parent company of the Group, Société Générale S. A. The subordinated debt carried a floating rate linked to one-month PRIBOR and had a 10-year maturity with the Group's option for early repayment after five years and thereafter as at any interest payment date. In December 2011, the Group 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 Group, the subordinated debt was repaid on 27 January 2012. Subsequently, the Group 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.

36 Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,005 million and consists of 38,009,852 ordinary bearer shares in dematerialised form with a nominal value of CZK 500 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of 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 GDR 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 (%)
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 ultimum 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 the following of the French Commercial Code, as well as current by-laws.

As at 31 December 2012, the Group 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 Group manages its capital adequacy to ensure its sufficient level while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel II capital adequacy regulation currently in force, in addition to the usual reporting of the capital adequacy ratio (Pillar 1) the Group has to meet the requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Group has selected methods close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

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

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

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 Group, the dividend payment strategy is the main tool for the capital adequacy management. Secondary management tools comprise purchasing the Group's own shares into treasury and managing the volume of subordinated debt.

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

The Group did not purchase its own treasury shares during 2012 and as at 31 December 2012 the Group holds a total amount of 238,672 treasury shares at a total cost of CZK 726 million which were bought in previous years (as at 31 December 2011: 238,672 treasury shares at a total cost of CZK 726 million). The purchase of treasury shares was approved by the Group's General Meeting to manage the capital adequacy of the Group.

The Group 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 analyses their potential impact on the capital planning process.

The Czech National Bank, as the local regulatory authority, oversees the Group's compliance with the capital adequacy ratio both on a stand-alone and consolidated basis. During the past year, the Group complied with all regulatory imposed requirements. The Group regularly prepares the regulatory report on Pillar 2 and submits it to the CNB.

Regulatory capital

(CZKm)	31 Dec 2012	31 Dec 2011
Tier 1 capital	56,295	52,692
Tier 2 capital	0	6,000
Deductible items of Tier 1 and Tier 2	(2,611)	(3,111)
Total Regulatory capital	**53,684**	**55,581**

37 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)	28,057	16,980	11,077
Amounts due from banks – current accounts (refer to Note 20)	5,913	179	5,734
Amounts due to central banks	(1)	(1)	0
Amounts due to banks - current accounts (refer to Note 29)	(7,578)	(2,516)	(5,062)
Cash and cash equivalents at the end of the year	**26,391**	**14,642**	**11,749**

38 Acquisition of subsidiary

On 4 May 2011, the Bank acquired a 50.1% ownership interest in SG Equipment Finance Czech Republic s.r.o. (SGEF) for CZK 1,800 million.

Income Statement of the acquired company:

(CZKm)	1 Jan 2011 until acquisition date	Since acquisition date until 31 Dec 2011
Interest and similar income	356	716
Interest and similar expense	(144)	(297)
Dividend income	0	0
Net interest income and similar income	**212**	**419**
Net fee and commission income	9	19
Net profit on financial operations	(26)	56
Other income	3	(2)
Net operating income	**198**	**492**
Personnel expenses	(40)	(83)
General administrative expenses	(27)	(52)
Depreciation, impairment and disposal of assets	(2)	(3)
Total operating expenses	**(69)**	**(138)**
Profit before allowances/provision for a loan and investment losses, other risk and income taxes	**129**	**354**
Allowances for loan losses	(54)	(53)
Allowances for impairment of securities	0	0
Provisions for other risk expenses	0	0
Cost of risk	**(54)**	**(53)**
Profit before income taxes	**75**	**301**
Income taxes	(15)	(36)
Net profit for the period	**60**	**265**

Initial carrying amounts of the acquired company and its revaluation to fair value at the date of business acquisition:

(CZKm)	Initial carrying amounts	Fair value adjustment	Total
ASSETS			
Cash and current balances with central banks	0	0	**0**
Financial asset at fair value through profit or loss	0	0	**0**
Positive fair value of hedging financial derivative transactions	1	0	**1**
Assets held for sale	108	0	**108**
Amounts due from banks	1,267	(15)	**1,252**
Loans and advances to customers	18,272	563	**18,835**
Investments held - to - maturity	0	0	**0**
Income tax receivables	23	0	**23**
Prepayments, accrued income and other assets	441	0	**441**
Intangible fixed assets	6	0	**6**
Property, plant and equipment	5	0	**5**
Total assets	**20,123**	**548**	**20,671**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial liabilities at fair value through profit or loss	0	0	**0**
Amounts due to banks	16,403	61	**16,464**
Current tax liabilities	131	0	**131**
Deferred tax liability	376	93	**469**
Accruals and other liabilities	414	0	**414**
Provisions	0	0	**0**
Total liabilities	**17,324**	**154**	**17,478**
Share capital	146	0	**146**
Share premium and reserves	2,652	394	**3,047**
Total shareholders' equity	**2,798**	**394**	**3,193**

Loans and advances to customers in the amount of CZK 18,272 million are comprised by CZK 18,723 million loans net of provisions and CZK 451 million of provisions.

The net assets of the acquired company:

(CZKm)	30 April 2011
Total acquired assets	20,671
Total acquired liabilities	17,478
Total net assets of acquired companies	**3,193**
Acquired 50.1% of net assets of a company	1,599
Goodwill	201
Total paid for 50.1% investment	**1,800**
Total paid in cash	**1,800**
Cash flow from acquisition	
Payment for acquired company	(1,800)
Cash of acquired company at the acquisition date	0
Net cash flow from acquisition	**(1,800)**

39 Commitments and contingent liabilities

Legal disputes

The Group 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 Group has recorded a provision of CZK 289 million (2011: CZK 175 million) for these legal disputes (refer to Note 33). The Group 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 Group assessed lawsuits filled against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as loans and therefore the Group makes provisions for these instruments on the same basis as it is applicable to loans.

Capital commitments

As at 31 December 2012, the Group had capital commitments of CZK 199 million (2011: CZK 1,740 million) in respect of current capital investment projects. As at 31 December 2011, CZK 1,249 million was associated with the project of the new building for headquarters of the Group which was implemented during 2012.

Commitments arising from the issuance of letters of credit

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

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

Principal off-balance sheet exposures include undrawn overdrafts under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and overdraft loans is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. In accordance with the IFRS definition of conditioned commitment the Group 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 Group 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 incl. commitments to issued non-payment guarantees	35,235	37,544
Payment guarantees including commitments to issued payment guarantees	10,296	10,863
Received bills of exchange/acceptances and endorsements of bills of exchange	0	23
Committed facilities and unutilised overdrafts	17,802	18,453
Undrawn credit commitments	46,309	46,712
Unutilised overdrafts and approved overdraft loans	32,809	33,657
Unutilised limits under framework agreements to provide financial services	9,516	11,042
Open customer/import letters of credit uncovered	517	554
Stand-by letters of credit uncovered	551	673
Confirmed supplier/export letters of credit	131	252
Total contingent revocable and irrevocable commitments	**153,166**	**159,773**

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 Group issued the guarantee and taking into account the collateral obtained. As at 31 December 2012, the Group recorded provisions for these risks in the amount of CZK 482 million (2011: CZK 617 million). Refer to Note 33.

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

(CZKm)	31 Dec 2012	31 Dec 2011
Food industry and agriculture	6,674	8,625
Mining and extraction	1,588	1,043
Chemical and pharmaceutical industry	2,065	2,387
Metallurgy	5,191	4,868
Automotive industry	874	699
Manufacturing of other machinery	8,246	9,011
Manufacturing of electrical and electronic equipment	2,126	1,672
Other processing industry	4,364	4,643
Power plants, gas plants and waterworks	13,878	15,496
Construction industry	32,963	34,804
Retail	4,110	4,131
Wholesale	12,452	12,713
Accommodation and catering	493	591
Transportation, telecommunication and warehouses	7,262	7,566
Banking and insurance industry	5,781	6,472
Real estate	2,976	3,490
Public administration	9,699	12,426
Other industries	16,873	14,306
Individuals	15,551	14,830
Contingent liabilities	**153,166**	**159,773**

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:

(CZKm)	31 Dec 2012 Total commitments and contingencies collateral*	31 Dec 2012 Discounted commitments and contingencies collateral value**	31 Dec 2012 Applied commitments and contingencies collateral value***	31 Dec 2011 Total commitments and contingencies collateral*	31 Dec 2011 Discounted commitments and contingencies collateral value**	31 Dec 2011 Applied commitments and contingencies collateral value***
Guarantees of state and governmental institutions	359	333	333	42	38	38
Bank guarantee	2,739	1,616	1,523	2,111	2,016	1,726
Guaranteed deposits	1,920	1,889	1,784	2,177	2,136	1,965
Pledge of real estate	7,764	4,463	3,630	7,708	4,242	3,449
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	4,315	4,087	4,087	4,882	4,638	4,636
Other	5	4	4	3	3	3
Total nominal value of collateral	**25,021**	**15,516**	**14,350**	**25,035**	**17,088**	**15,695**

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.

40 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 Group was controlled by Société Générale which owns 60.35% of the Bank’s 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 and transactions with derivative financial instruments and other types of transactions. These transactions were carried out on an arm´s length basis.

Amounts due to and from the Group companies

As at 31 December 2012, the Group had deposits of CZK 906 million (2011: CZK 790 million) due to the associate, Komerční pojišťovna, a.s. The positive fair value of financial derivatives of the associate Komerční pojišťovna, a.s. to the Group amounted to CZK 506 million (2011: CZK 462 million) and the negative fair value amounted to CZK 117 million (2011: CZK 57 million).

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 387 million (2011: CZK 345 million) and interest expense on financial derivatives amounted to CZK 385 million (2011: CZK 291 million). Income of the Group arising from the intermediation amounted to CZK 273 million (2011: CZK 261 million). Other amounts due, amounts owed, income and expenses with the Group were not significant in 2012 and 2011.

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include:

Company (CZKm)	31 Dec 2012	31 Dec 2011
ALD Automotive Czech Republic, s.r.o.	2,848	2,621
ESSOX SK s.r.o.	0	199
Succursale Newedge UK	5	10
SG Express bank	3	2
Rosbank	87	101
SG Bruxelles	20	23
SG Private Banking /Suisse/ S.A.	2	5
Belrosbank	11	0
SGA Société Générale Acceptance	3,142	3,300
SG London	262	0
SG Paris	18,038	21,976
SG Algerie	0	2
BRD Roumani	3	136
SG Orbeo	0	378
SG Warsaw	499	0
Total	**24,920**	**28,753**

Principal balances owed to the Société Générale Group entities include:

Company (CZKm)	31 Dec 2012	31 Dec 2011
ALD Automotive Czech Republic, s.r.o.	0	1
SG Consumer Finance d.o.o.	0	5
SG Cyprus LTD	0	533
BRD Roumani	1	2
ESSOX SK s.r.o.	25	130
SG New York	2	2
SG Private Banking /Suisse/ S.A.	100	39
SG Amsterdam	42	28
SGBT Luxemburg	3,213	4,618
SG Paris	15,758	23,131
SG London	0	23
Pema Praha	19	0
SG Warsaw	26	1
Splitska Banka	2	2
Credit du Nord	6	4
SG Lisabon	90	0
SG Frankfurt	1	0
Inter Europe Conseil	2	8
SG Zurich	1	0
Total	**19,288**	**28,527**

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, and debt securities acquired under initial offerings not designated for trading (refer to Note 20).

As at 31 December 2012, the Group also carried off balance sheet exposures to the Société Générale Group, of which off balance sheet notional assets and liabilities amounted to CZK 180,258 million (2011 CZK 180,741 million) and CZK 182,550 million (2011: CZK 191,020 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 Group 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 Group made total income of CZK 27,436 million (2011: CZK 23,717 million) and had total expenses of CZK 27,674 million (2011: CZK 26,486 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, loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

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

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

(CZKm)	Year ended 31 Dec 2012	Year ended 31 Dec 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 Group recorded an estimated payable 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.

41 Movements in the revaluation of hedging instruments in the statement of changes in 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)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Cash flow hedge fair value at 1 January	12,049	4,828
Deferred tax liability at 1 January	(2,289)	(920)
Balance at 1 January	**9,760**	3,908
Movements during the year		
Gains/losses from changes in fair value	8,045	9,193
Deferred income tax	(1,532)	(1,744)
	6,513	**7,449**
Transferred to interest income/expense	(2,472)	(1,972)
Deferred income tax	471	375
	(2,001)	**(1,597)**
Transferred to personnel expenses	(1)	0
Deferred income tax	0	0
	(1)	0
Cash flow hedge fair value at 31 December	17,621	12,049
Deferred tax liability at 31 December (refer to Note 34)	**(3,350)**	(2,289)
Balance at 31 December	**14,271**	**9,760**

42 Movements in the revaluation of available-for-sale financial assets in the statement of changes in equity

(CZKm)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Reserve from fair-value revaluation at 1 January	2,387	2,438
Deferred tax liability/income tax liability at 1 January	(305)	(231)
Balance at 1 January	**2,082**	**2,207**
Movements during the year		
Gains/(losses) from changes in fair value	8,274	(1,525)
Deferred tax liability /income tax liability	(1,282)	233
	6,992	**(1,292)**
(Gains)/losses from the sale	(908)	(189)
Deferred tax liability /income tax liability	(48)	9
	(956)	**(180)**
(Gains)/losses from the impairment	0	1,663
Deferred tax liability /income tax liability	0	(316)
	0	**1,347**
Reserve from fair-value revaluation at 31 December	9,753	2,387
Deferred tax liability/income tax liability at 31 December	(1,635)	(305)
Balance at 31 December	**8,118**	**2,082**

Unrealised gains and losses from available-for-sale financial assets recognised in the equity of the subsidiary Penzijní fond Komerční banky, a.s. in the amount of CZK 1,198 million as at 31 December 2012 (31 December 2011: CZK 511 million) were included within the available-for-sale reserve. When an available-for-sale financial asset is disposed of the gain or loss on the disposal is posted to the Income Statement. In accordance with the Czech law 85% of the total pension fund profit for the year is distributed to pension plan holders.

43 Risk management and financial instruments

(A) Credit risk

Credit rating of borrowers

The assessment of credit risk is based on quantitative and qualitative criteria, which leads to a rating assignment. The Group uses several types of ratings, depending on the type and profile of the counterparty, and type of transactions. As a result, specific ratings are assigned to both the Group'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 Group 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 Group 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 Group (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 Group'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 Group 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 Group updated a special model to assign a rating to associations of owners and building societies based on individual characteristics of these clients. The updated model now better distinguishes between these two types of jurisdiction subjects.

In 2012 the Group 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 Group uses the economic rating models developed by Société Générale.

c) Ratings for individual clients

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

In 2012, the Group 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 Group initiated a regular review of the pricing process of all loan products provided to individuals with the aim to optimise criteria for their approval and to update the setting of standard risk costs representing the valuation of the anticipated cost of risk.

d) Internal register of negative information

The Group maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for an evaluation of the negative information and thus substantially contributes to protect the Group 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 Group 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 Group uses an automated system for the detection of individual credit frauds and also for coordinated reactions to credit fraud attacks. The system is fully integrated with Group's main applications and it will be fully applied at the Group level.

Credit risk concentration

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 Group. The Group'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 Group 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 Group complies with regulatory limits set in respect of concentration risk. Refer to Note 21 and 39 for quantitative information about credit concentration risk.

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

	Total exposure			Applied collateral		
(CZKm)	Statement of Financial Position	Off-balance sheet*	Total credit exposure	Statement of Financial Position	Off-balance sheet*	Total collateral
Balances with central banks	**21,605**	**x**	**21,605**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**51,593**	**x**	**51,593**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**26,068**	**x**	**26,068**	**0**	**x**	**0**
Financial assets available for sale	**141,791**	**x**	**141,791**	**0**	**x**	**0**
Amounts due from banks	**64,111**	**4,370**	**68,481**	**21,459**	**157**	**21,616**
Loans and advances to customers	**469,297**	**148,796**	**618,093**	**205,869**	**14,193**	**220,062**
Corporates**	258,983	133,367	**392,350**	62,684	13,013	**75,697**
Of which: top corporate clients	97,066	75,939	**173,005**	32,068	5,908	**37,976**
Individuals	209,653	15,429	**225,082**	143,185	1,180	**144,365**
Of which: mortgage loans	134,812	4,566	**139,378**	110,525	1,059	**111,584**
consumer loans	21,129	80	**21,209**	2,328	28	**2,356**
construction savings scheme loans	45,843	1,285	**47,128**	30,240	88	**30,328**
Debt securities	461	x	**461**	0	x	**0**
Other amounts due from customers	200	x	**200**	0	x	**0**
Financial assets held to maturity	**3,322**	**x**	**3,322**	**0**	**x**	**0**
Total	**777,787**	**153,166**	**930,953**	**227,328**	**14,350**	**241,678**

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 Group'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	**9,431**	**x**	**9,431**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**34,927**	**x**	**34,927**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**18,802**	**x**	**18,802**	**0**	**x**	**0**
Financial assets available for sale	**125,975**	**x**	**125,975**	**0**	**x**	**0**
Amounts due from banks	**101,393**	**5,931**	**107,324**	**59,319**	**28**	**59,347**
Loans and advances to customers	**450,980**	**153,842**	**604,822**	**191,592**	**15,667**	**207,259**
Corporates**	251,982	139,263	**391,245**	58,297	14,486	**72,783**
Of which: top corporate clients	88,954	77,076	**166,030**	28,878	6,259	**35,137**
Individuals	198,070	14,579	**212,649**	133,295	1,181	**134,476**
Of which: mortgage loans	123,553	4,730	**128,283**	100,460	1,028	**101,488**
consumer loans	22,344	202	**22,546**	2,906	22	**2,928**
constructions savings scheme loans	47,361	2,203	**49,564**	30,256	128	**30,384**
Debt securities	461	x	**461**	0	x	**0**
Other amounts due from customers	467	x	**467**	0	x	**0**
Financial assets held to maturity	**3,359**	**x**	**3,359**	**0**	**x**	**0**
Total	**744,867**	**159,773**	**904,640**	**250,911**	**15,695**	**266,606**

Note: * Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

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

Classification of receivables

The Group classifies its receivables arising from financial activities into five categories according to Regulation of the CNB 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 categorised

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

Allowances for receivables

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 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 Group 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:

(CZKm)	31 Dec 2012 Individually	31 Dec 2012 Statistical model	31 Dec 2011 Individually	31 Dec 2011 Statistical model
Corporates*	21,296	2,652	24,317	2,827
Individuals	5,358	8,807	8,848	4,357
Total	**26,654**	**11,459**	33,165	7,184

Note: * This item includes loans granted to individuals entrepreneurs.

As at 31 December 2012, the Group 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	63,519	0	0	0	0	0	**0**	**63,519**
Watch	592	0	0	0	0	0	**0**	**592**
Total	**64,111**	**0**	**0**	**0**	**0**	**0**	**0**	**64,111**
Customers								
Standard	424,850	5,557	65	16	3	2	**5,643**	**430,493**
Watch	1,812	22	26	16	0	0	**64**	**1,876**
Total	**426,662**	**5,579**	**91**	**32**	**3**	**2**	**5,707**	**432,369**

As at 31 December 2011, the Group 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	101,119	0	0	0	0	0	**0**	**101,119**
Watch	266	0	0	0	0	0	**0**	**266**
Total	**101,385**	**0**	**0**	**0**	**0**	**0**	**0**	**101,385**
Customers								
Standard	402,820	6,706	97	25	13	42	**6,883**	**409,703**
Watch	12,012	8	37	14	0	0	**59**	**12,071**
Total	**414,832**	**6,714**	**134**	**39**	**13**	**42**	**6,942**	**421,774**

The amount of the used collateral in respect of past due loans not impaired was CZK 6,274 million (2011: CZK 6,639 million).

Loan collateral

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

The Group 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 Group uses the Advanced Internal Ratings-Based (AIRB) approach. For clients of business division Slovakia, the Group uses for assessment of collateral eligibility the Standardized (STD) approach.

The amount of the recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically for all real estate collateral, which represents the most frequent type of collateral, the Group uses independent valuations performed or supervised by a dedicated specialised department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involves the fulfilment of collateral eligibility according to CNB Decree 123/2007.

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The Group (except for 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 Group 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 Group'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 Group 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 Group 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 regularly 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 Group 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 collaterals.

Given the growing volume of the retail loan portfolio in recovery, the Group 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 Group continued in regular sales of packaged uncollateralised 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 Group 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 Group 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 Group depending on the debtor's circumstances and attitudes of other creditors.

Credit risk hedging instruments

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

Credit risk of financial derivatives

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator estimates the potential future development of the market value of a derivative and the potential loss that the Group 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 Group posted a credit exposure of CZK 18,313 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 Group 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 Group monitors its compliance with all limits and if exceeding the Group 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 Group's financial operations

For market risk management purposes, the Group 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 Group'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 Group

Products that are traded by the Group 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 Group 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 Group entered into complex derivatives known as structured derivatives. These structures are designed to allow clients to use the sophisticated features of the deals that can not be achieved by simple (so-called "plain-vanilla") derivatives. The Group 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 Group uses the Value-at-Risk (hereafter only "VaR") concept.

VaR is calculated using historical scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the top 1% most unfavourable occurrences. This loss is calculated as the average of the second and third largest potential losses, out of the 250 considered scenarios.

The 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 -11 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 Group 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 Group 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 Group monitors its compliance with all limits and if exceeding the Group 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 Group 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 Group uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk (hereafter only "EaR") for net interest income. The EaR indicator shows the maximum departure of the planned net interest income 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 Group'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 Group'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 -154 million (2011: CZK 6 million), in EUR CZK -19 million (2011: CZK -24 million), in USD CZK -21 million (2011: CZK 35 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 Group is limited by this indicator and the level of the limit is determined to be approximately 2% of capital.

In order to hedge against interest rate risk within the Structural Book, the Group uses both standard derivative instruments available in the interbank market (such as 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 Group 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 Group also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

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

Financial derivative instruments designated as held for trading:

	31 Dec 2012 Notional value		31 Dec 2011 Notional value		31 Dec 2012 Fair value		31 Dec 2011 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	444,566	444,566	416,530	416,530	13,341	13,576	9,820	9,794
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	**480,096**	**480,096**	**524,973**	**524,973**	**13,351**	**13,587**	**10,370**	**10,346**
Foreign currency instruments								
Currency swaps	126,518	126,586	136,795	137,007	854	924	1,955	2,191
Cross currency swaps	64,694	64,168	31,380	31,539	2,067	1,388	750	787
Currency forwards	25,803	26,021	28,000	27,957	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	25,717	25,757	0	460	0	1,030
Total currency instruments	**283,844**	**283,604**	**247,646**	**247,975**	**3,556**	**3,171**	**4,453**	**4,568**
Other instruments								
Futures on debt securities*	0	0	0	0	0	0	0	0
Forwards on emission allowances	1,763	1,399	0	0	426	56	0	0
Commodity forwards	1,302	1,302	7,457	7,417	16	15	3,606	3,540
Commodity swaps	2,243	2,243	1,035	1,035	60	57	36	35
Commodity cross currency swaps	8,798	8,798	13,953	13,953	222	222	896	884
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	**778,046**	**777,442**	**795,086**	**795,375**	**17,631**	**17,108**	**19,363**	**19,375**

Note.: * Fair values include only forwards, with regard to futures the Group 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	127,691	199,228	117,647	444,566
Interest rate forwards and futures*	29,011	2,000	0	31,011
Interest rate options	0	3,377	1,142	4,519
Total interest rate instruments	**156,702**	**204,605**	**118,789**	**480,096**
Foreign currency instruments				
Currency swaps	124,898	1,484	136	126,518
Cross currency swaps	5,465	30,197	29,032	64,694
Currency forwards	22,352	3,309	142	25,803
Purchased options	24,369	9,186	0	33,555
Sold options	24,190	9,084	0	33,274
Total currency instruments	**201,274**	**53,260**	**29,310**	**283,844**
Other instruments				
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	**363,962**	**265,985**	**148,099**	**778,046**

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	79,702	230,579	106,249	416,530
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	**165,349**	**231,976**	**127,648**	**524,973**
Foreign currency instruments				
Currency swaps	134,599	1,972	224	136,795
Cross currency swaps	4,311	16,165	10,904	31,380
Currency forwards	25,235	2,518	247	28,000
Purchased options	20,725	5,029	0	25,754
Sold options	20,685	5,032	0	25,717
Total currency instruments	**205,555**	**30,716**	**11,375**	**247,646**
Other instruments				
Futures on debt securities	0	0	0	0
Forwards on emission allowances	0	0	0	0
Commodity forwards	7,447	10	0	7,457
Commodity swaps	1,035	0	0	1,035
Commodity cross currency swaps	8,428	5,525	0	13,953
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	**387,836**	**268,227**	**139,023**	**795,086**

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:

(CZKm)	31 Dec 2012 Notional value Assets	Liabilities	31 Dec 2011 Notional value Assets	Liabilities	31 Dec 2012 Fair value Positive	Negative	31 Dec 2011 Fair value Positive	Negative
Cross currency swaps for cash flows hedging	37,617	35,136	31,385	29,615	226	591	114	1,162
Cross currency swaps for fair value hedging	348	3,048	3,584	6,570	29	61	1	320
Currency swaps for fair value hedging	202	204	200	209	0	1	0	8
Forwards on stocks for cash flow hedging	7	7	0	0	1	0	0	0
Interest rate swaps for cash flow hedging	413,153	413,153	350,841	350,841	25,781	7,231	18,687	6,168
Interest rate swaps for fair value hedging	19,710	19,710	11,821	11,821	0	3,349	0	1,887
Interest rate swaps for portfolio fair value hedging	4,350	4,350	0	0	31	13	0	0
Total	**475,387**	**475,608**	397,831	399,056	**26,068**	**11,246**	18,802	9,545

Remaining maturity of derivatives designated as hedging as at 31 December 2012:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	1,734	29,120	6,763	37,617
Cross currency swaps for fair value hedging	0	348	0	348
Currency swaps for fair value hedging	202	0	0	202
Interest rate swaps for cash flow hedging	82,256	193,694	137,203	413,153
Interest rate swaps for fair value hedging	141	156	19,413	19,710
Interest rate swaps for portfolio fair value hedging	300	1,650	2,400	4,350
Forwards on stocks for cash flow hedging	0	7	0	7
Total	**84,633**	**224,975**	**165,779**	**475,387**

Remaining maturity of derivatives designated as hedging as at 31 December 2011:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	418	27,147	3,820	31,385
Cross currency swaps for fair value hedging	0	1,653	1,931	3,584
Currency swaps for fair value hedging	200	0	0	200
Interest rate swaps for cash flow hedging	49,537	178,408	122,896	350,841
Interest rate swaps for fair value hedging	0	386	11,435	11,821
Interest rate swaps for portfolio fair value hedging	0	0	0	0
Forwards on stocks for cash flow hedging	0	0	0	0
Total	**50,155**	**207,594**	**140,082**	**397,831**

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	(175)	(3,173)	(2,663)	(677)	(5,457)	(4,371)

The Group 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 Group recorded the following hedges:

(i) 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. The fair value of portfolio of savings accounts from retail clients is hedge by an portfolio of interest rate swap;
  c. 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 Group Income Statement on an ongoing basis);
  d. Future cash flows of a portfolio of short-term liabilities traded on the interbank market and short-term client liabilities are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Income Statement on an ongoing basis).

(ii) Foreign exchange risk hedge:
  a. In selected material cases, the Group hedges the future cash flows of firm commitments arising from the Group's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Group, the hedging instrument includes foreign currency assets (e.g. securities) or foreign currency liabilities (client deposits), respectively;
  b. 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).

(iii) Share price risk hedge:
  a. Part of bonuses to selected Group's employees is paid in cash equivalents of the Société Générale S.A. share price. The Group hedges the risk of change of Société Générale S.A. share price. Hedging instruments are equity forwards.

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

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

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	1,134	0	0	0	26,923	**28,057**
Financial assets at fair value through profit or loss	15,738	14,916	2,418	891	17,630	**51,593**
Positive fair values of hedging financial derivatives	0	0	0	0	26,068	**26,068**
Financial assets available for sale	2,240	14,025	60,347	65,179	0	**141,791**
Assets held for sale	0	0	0	0	86	**86**
Amounts due from banks	55,297	1,438	4,932	1,351	1,093	**64,111**
Loans and advances to customers	196,543	75,334	154,559	23,279	1,832	**451,547**
Financial assets held to maturity	0	1	1,461	1,860	0	**3,322**
Current tax assets	0	6	0	0	14	**20**
Deferred tax assets	0	0	0	0	34	**34**
Prepayments, accrued income and other assets	0	742	0	0	2,835	**3,577**
Investments in associates	0	0	0	0	971	**971**
Intangible assets	0	0	0	0	3,913	**3,913**
Tangible assets	0	0	0	0	7,994	**7,994**
Goodwill	0	0	0	0	3,752	**3,752**
Total assets	**270,952**	**106,462**	**223,717**	**92,560**	**93,145**	**786,836**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	2,481	0	0	0	17,108	**19,589**
Negative fair values of hedging financial derivatives	0	1	145	107	10,993	**11,246**
Amounts due to banks	34,575	789	0	0	3,538	**38,902**
Amounts due to customers	75,458	24,718	29,144	2,386	447,361	**579,067**
Revaluation differences on portfolios hedge items	0	0	0	0	16	**16**
Securities issued	2,194	0	17,034	396	0	**19,624**
Current tax liabilities	0	0	0	0	622	**622**
Deferred tax liabilities	0	0	11	41	5,430	**5,482**
Accruals and other liabilities	558	0	0	0	10,184	**10,742**
Provisions	0	0	0	0	968	**968**
Subordinated debt	0	0	0	0	0	**0**
Total liabilities	**115,267**	**25,508**	**46,334**	**2,930**	**496,220**	**686,259**
On balance sheet interest rate sensitivity gap at 31 December 2012	**155,685**	**80,954**	**177,383**	**89,630**	**(403,075)**	**100,577**
Derivatives*	371,933	247,004	203,783	197,248	0	**1,019,968**
Total off balance sheet assets	**371,933**	**247,004**	**203,783**	**197,248**	**0**	**1,019,968**
Derivatives*	437,240	245,964	228,128	108,329	0	**1,019,661**
Undrawn portion of loans**	(5,387)	1,005	4,147	235	0	**0**
Undrawn portion of revolving loans**	(331)	331	(149)	149	0	**0**
Total off balance sheet liabilities	**431,522**	**247,300**	**232,126**	**108,713**	**0**	**1,019,661**
Net off balance sheet interest rate sensitivity gap at 31 December 2012	**(59,589)**	**(296)**	**(28,343)**	**88,535**	**0**	**307**
Cumulative interest rate sensitivity gap at 31 December 2012	**96,096**	**176,754**	**325,794**	**503,959**	**100,884**	**x**

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

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

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	8,609	0	0	0	8,371	**16,980**
Financial assets at fair value through profit or loss	3,356	5,715	4,642	1,851	19,363	**34,927**
Positive fair values of hedging financial derivative transactions	0	0	0	1	18,801	**18,802**
Financial assets available for sale	1,560	14,867	43,730	65,120	698	**125,975**
Assets held for sale	0	0	0	0	138	**138**
Amounts due from banks	90,287	3,402	4,942	1,567	1,195	**101,393**
Loans and advances to customers	185,648	66,695	151,414	23,630	6,999	**434,386**
Investments held to maturity	0	1	1,496	1,862	0	**3,359**
Income taxes receivable	0	29	0	0	243	**272**
Deferred tax assets	0	0	0	0	20	**20**
Prepayments, accrued income and other assets	0	777	0	0	2,481	**3,258**
Investments in associates	0	0	0	0	766	**766**
Intangible assets	0	0	0	0	3,848	**3,848**
Tangible assets	0	0	0	0	6,934	**6,934**
Goodwill	0	0	0	0	3,752	**3,752**
Total assets	**289,460**	**91,486**	**206,224**	**94,031**	**73,609**	**754,810**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	4,686	0	0	0	19,375	**24,061**
Negative fair values of hedging financial derivative transactions	0	82	132	145	9,186	**9,545**
Amounts due to banks	30,333	970	0	0	6,151	**37,454**
Amounts due to customers	84,588	20,846	32,133	2,755	420,379	**560,701**
Revaluation differences on portfolios hedge items	0	0	0	0	0	**0**
Securities issued	2,295	2	10,094	5,947	0	**18,338**
Income tax	0	0	0	0	46	**46**
Deferred tax liability	0	0	0	0	3,097	**3,097**
Accruals and other liabilities	581	0	0	0	12,067	**12,648**
Provisions	0	0	0	0	1,067	**1,067**
Subordinated debt	6,002	0	0	0	0	**6,002**
Total liabilities	**128,486**	**21,900**	**42,359**	**8,847**	**471,368**	**672,960**
On balance sheet interest rate sensitivity gap at 31 December 2011	**160,974**	**69,586**	**163,865**	**85,184**	**(397,759)**	**81,850**
Derivatives*	339,412	244,086	208,970	161,516	0	**953,984**
Total off balance sheet assets	**339,412**	**244,086**	**208,970**	**161,516**	**0**	**953,984**
Derivatives*	403,950	238,441	233,465	79,503	0	**955,359**
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	**398,687**	**238,432**	**238,165**	**80,075**	**0**	**955,359**
Net off balance sheet interest rate sensitivity gap at 31 December 2011	**(59,275)**	**5,654**	**(29,195)**	**81,441**	**0**	**(1,375)**
Cumulative interest rate sensitivity gap at 31 December 2011	**101,699**	**176,939**	**311,609**	**478,234**	**80,475**	**x**

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

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

Average interest rates as at 31 December 2012 and 2011:

	2012			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:

	31 Dec 2012				31 Dec 2011			
(CZKm)	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and balances with central banks	0	1,134	26,923	**28,057**	0	8,608	8,372	**16,980**
Financial assets at fair value through profit or loss	31,210	1,939	18,444	**51,593**	13,935	1,622	19,370	**34,927**
Positive fair values of hedging financial derivatives	0	0	26,068	**26,068**	1	0	18,801	**18,802**
Financial assets available for sale	119,833	21,537	421	**141,791**	106,712	18,214	1,049	**125,975**
Amounts due from banks	6,100	57,833	178	**64,111**	9,967	91,342	84	**101,393**
Loans and advances to customer	277,001	170,184	4,362	**451,547**	277,357	154,796	2,233	**434,386**
Financial assets held to maturity	3,212	0	110	**3,322**	3,249	0	110	**3,359**
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	19,589	**19,589**	0	0	24,061	**24,061**
Negative fair values of hedging financial derivatives	0	0	11,246	**11,246**	0	0	9,545	**9,545**
Amounts due to banks	9,515	28,898	489	**38,902**	13,034	24,061	359	**37,454**
Amounts due to customers	63,999	478,488	36,580	**579,067**	65,700	456,772	38,229	**560,701**
Securities issued	11,569	8,055	0	**19,624**	13,253	5,085	0	**18,338**
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 reprising 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 Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) Liquidity risk

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

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

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

The liquidity risk of the Group 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	25,893	0	0	0	0	2,164	**28,057**
Financial assets at fair value through profit or loss	981	12,518	13,386	4,930	1,322	18,456	**51,593**
Positive fair values of hedging financial derivatives	0	0	0	0	0	26,068	**26,068**
Financial assets available for sale	0	3,131	10,239	56,533	61,856	10,032	**141,791**
Assets held for sale	0	18	56	0	0	12	**86**
Amounts due from banks	25,262	26,080	1,960	5,701	2,016	3,092	**64,111**
Loans and advances to customers	3,901	39,562	70,154	123,150	196,211	18,569	**451,547**
Financial assets held to maturity	0	72	39	1,981	1,230	0	**3,322**
Current tax assets	0	0	16	0	0	4	**20**
Deferred tax assets	0	0	0	4	0	30	**34**
Prepayments, accrued income and other assets	117	342	890	23	0	2,205	**3,577**
Investments in associates	0	0	0	0	0	971	**971**
Intangible assets	0	0	0	0	0	3,913	**3,913**
Tangible assets	0	0	0	0	0	7,994	**7,994**
Goodwill	0	0	0	0	0	3,752	**3,752**
Total assets	**56,154**	**81,723**	**96,740**	**192,322**	**262,635**	**97,262**	**786,836**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss	2,481	0	0	0	0	17,108	**19,589**
Negative fair values of hedging financial derivatives	0	0	1	145	107	10,993	**11,246**
Amounts due to banks	20,562	1,922	3,184	9,104	4,130	0	**38,902**
Amounts due to customers	429,298	61,746	24,990	28,618	1,933	32,482	**579,067**
Revaluation differences on portfolios hedge items	0	0	0	0	0	16	**16**
Securities issued	0	1	102	13,277	6,244	0	**19,624**
Current tax liabilities	0	0	617	0	0	5	**622**
Deferred tax liabilities	0	51	152	215	41	5,023	**5,482**
Accruals and other liabilities	8,381	995	242	1	0	1,123	**10,742**
Provisions	51	46	245	109	5	512	**968**
Subordinated debt	0	0	0	0	0	0	**0**
Equity	0	0	0	0	0	100,577	**100,577**
Total liabilities	**460,774**	**64,761**	**29,533**	**51,469**	**12,460**	**167,839**	**786,836**
Statement of Financial Position liquidity gap at 31 December 2012	**(404,620)**	**16,962**	**67,207**	**140,853**	**250,175**	**(70,577)**	**0**
Off balance sheet assets*	21,944	116,279	65,598	82,728	36,072	0	**322,621**
Off balance sheet liabilities*	26,118	138,777	141,493	112,608	39,036	17,577	**475,609**
Net off balance sheet liquidity gap at 31 December 2012	**(4,174)**	**(22,498)**	**(75,895)**	**(29,880)**	**(2,964)**	**(17,577)**	**(152,988)**

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	9,096	0	0	0	0	7,884	**16,980**
Financial assets at fair value through profit or loss	107	2,794	5,753	4,846	2,054	19,373	**34,927**
Positive fair values of hedging financial derivative transactions	0	0	0	0	0	18,802	**18,802**
Financial assets available for sale	47	1,684	13,631	49,723	63,300	(2,410)	**125,975**
Assets held for sale	0	28	95	0	0	15	**138**
Amounts due from banks	47,738	38,734	3,436	5,624	2,418	3,443	**101,393**
Loans and advances to customers	4,119	35,112	66,918	121,345	185,748	21,144	**434,386**
Investments held to maturity	0	0	1	1,496	1,862	0	**3,359**
Income taxes receivable	0	0	267	0	0	5	**272**
Deferred tax assets	0	0	0	0	0	20	**20**
Prepayments, accrued income and other assets	47	418	865	0	0	1,928	**3,258**
Investments in associates	0	0	0	0	0	766	**766**
Intangible assets	0	0	0	0	0	3,848	**3,848**
Tangible assets	0	0	0	0	0	6,934	**6,934**
Goodwill	0	0	0	0	0	3,752	**3,752**
Total assets	**61,154**	**78,770**	**90,966**	**183,034**	**255,382**	**85,504**	**754,810**
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	19,375	**24,061**
Negative fair values of hedging financial derivative transactions	8	0	8	206	146	9,177	**9,545**
Amounts due to banks	19,777	2,231	2,492	7,608	5,346	0	**37,454**
Amounts due to customers	417,566	53,546	23,802	32,875	1,844	31,068	**560,701**
Revaluation differences on portfolios hedge items	0	0	0	0	0	0	**0**
Securities issued	0	0	96	12,577	5,665	0	**18,338**
Income tax	0	0	17	0	0	29	**46**
Deferred tax liability	0	81	147	245	0	2,624	**3,097**
Accruals and other liabilities	10,265	1,486	53	0	0	844	**12,648**
Provisions	10	82	212	275	3	485	**1,067**
Subordinated debt	0	6,002	0	0	0	0	**6,002**
Equity	0	0	0	0	0	81,850	**81,850**
Total liabilities	**452,313**	**63,428**	**26,827**	**53,786**	**13,004**	**145,452**	**754,810**
Statement of Financial Position liquidity gap at 31 December 2011	**(391,159)**	**15,342**	**64,139**	**129,248**	**242,378**	**(59,948)**	**0**
Off balance sheet assets*	30,618	110,662	67,187	61,865	16,584	0	**286,916**
Off balance sheet liabilities*	35,179	135,216	140,067	99,639	21,761	16,261	**448,123**
Net off balance sheet liquidity gap at 31 December 2011	**(4,561)**	**(24,554)**	**(72,880)**	**(37,774)**	**(5,177)**	**(16,261)**	**(161,207)**

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

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial assets at fair value through profit or loss (except derivatives)	2,481	0	0	0	0	0	**2,481**
Amounts due to banks	20,565	2,068	3,498	9,624	4,183	0	**39,938**
Amounts due to customers	429,401	62,304	25,330	31,569	2,215	32,482	**583,301**
Securities issued	2	101	1,356	17,501	7,774	0	**26,734**
Current tax assets	0	0	617	0	0	5	**622**
Deferred tax liabilities	0	51	152	215	41	5,023	**5,482**
Accruals and other liabilities	8,381	995	242	1	0	1,123	**10,742**
Provisions	51	46	245	109	5	512	**968**
Subordinated debt	0	0	0	0	0	0	**0**
Total non-derivative financial liabilities	**460,882**	**65,565**	**31,440**	**59,019**	**14,218**	**39,145**	**670,269**
Other loans commitment granted	1,789	14,012	59,700	13,488	1,016	17,498	**107,503**
Guarantee commitments granted	1,988	7,734	15,910	17,898	1,880	90	**45,500**
Total contingent liabilities	**3,777**	**21,746**	**75,610**	**31,386**	**2,896**	**17,588**	**153,003**

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as at 31 December 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	19,789	2,396	2,886	8,346	5,448	(343)	**38,522**
Amounts due to customers	417,659	54,034	24,228	36,517	3,435	31,068	**566,941**
Securities issued	4	81	1,279	16,707	7,992	0	**26,063**
Current tax liabilities	0	0	17	0	0	29	**46**
Deferred tax liabilities	0	82	163	245	0	2,624	**3,114**
Accruals and other liabilities	10,265	1,487	53	0	0	842	**12,647**
Provisions	10	82	212	276	3	484	**1,067**
Subordinated debt	7	6,002	0	0	0	0	**6,009**
Total non-derivative financial liabilities	**452,421**	**64,164**	**28,838**	**62,091**	**16,878**	**34,704**	**659,096**
Other loans commitment granted	2,472	16,622	55,971	18,149	1,687	22,898	**117,799**
Guarantee commitments granted	2,075	7,999	16,834	18,520	3,183	71	**48,682**
Total contingent liabilities	**4,547**	**24,621**	**72,805**	**36,669**	**4,870**	**22,969**	**166,481**

(F) Foreign exchange position

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

(CZKm)	Czech crowns	Euros	US dollars	Other currencies	Total
Assets					
Cash and current balances with central banks	26,575	983	235	264	**28,057**
Financial assets at fair value through profit or loss	45,441	5,877	147	128	**51,593**
Positive fair values of hedging financial derivatives	24,204	1,506	358	0	**26,068**
Financial assets available for sale	117,115	22,672	2,004	0	**141,791**
Assets held for sale	86	0	0	0	**86**
Amounts due from banks	40,561	18,655	3,764	1,131	**64,111**
Loans and advances to customers	385,116	58,138	7,896	397	**451,547**
Financial assets held to maturity	3,144	178	0	0	**3,322**
Current tax assets	20	0	0	0	**20**
Deferred tax assets	27	7	0	0	**34**
Prepayments, accrued income and other assets	3,262	299	10	6	**3,577**
Investments in associates	971	0	0	0	**971**
Intangible assets	3,913	0	0	0	**3,913**
Tangible assets	7,987	7	0	0	**7,994**
Goodwill	3,752	0	0	0	**3,752**
Total assets	**662,174**	**108,322**	**14,414**	**1,926**	**786,836**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	17,340	2,059	153	37	**19,589**
Negative fair values of hedging financial derivatives	9,114	2,038	94	0	**11,246**
Amounts due to banks	11,552	23,061	4,242	47	**38,902**
Amounts due to customers	525,554	43,303	7,844	2,366	**579,067**
Revaluation differences on portfolios hedge items	16	0	0	0	**16**
Securities issued	19,624	0	0	0	**19,624**
Current tax liabilities	622	0	0	0	**622**
Deferred tax liabilities	5,482	0	0	0	**5,482**
Accruals and other liabilities	9,259	1,250	156	77	**10,742**
Provisions	793	125	44	6	**968**
Subordinated debt	0	0	0	0	**0**
Equity	100,219	358	0	0	**100,577**
Total liabilities	**699,576**	**72,194**	**12,533**	**2,533**	**786,836**
Net FX position at 31 December 2012	**(37,402)**	**36,128**	**1,881**	**(607)**	**0**
Off-balance sheet assets*	954,935	227,249	66,714	5,147	**1,254,045**
Off-balance sheet liabilities*	918,557	261,954	68,624	4,494	**1,253,629**
Net off balance sheet FX position at 31 December 2012	**36,378**	**(34,705)**	**(1,910)**	**653**	**416**
Total net FX position at 31 December 2012	**(1,024)**	**1,423**	**(29)**	**46**	**416**

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

(CZKm)	Czech crowns	Euros	US dollars	Other currencies	Total
Assets					
Cash and current balances with central banks	15,219	1,258	259	244	**16,980**
Financial assets at fair value through profit or loss	31,408	2,050	144	1,325	**34,927**
Positive fair values of hedging financial derivative transactions	17,655	814	333	0	**18,802**
Financial assets available for sale	98,869	23,335	3,771	0	**125,975**
Assets held for sale	138	0	0	0	**138**
Amounts due from banks	82,289	14,842	3,850	412	**101,393**
Loans and advances to customers	373,769	55,216	5,192	209	**434,386**
Investments held to maturity	3,175	184	0	0	**3,359**
Income taxes receivable	272	0	0	0	**272**
Deferred tax assets	14	6	0	0	**20**
Prepayments, accrued income and other assets	3,057	189	12	0	**3,258**
Investments in associates	766	0	0	0	**766**
Intangible assets	3,848	0	0	0	**3,848**
Tangible assets	6,926	8	0	0	**6,934**
Goodwill	3,752	0	0	0	**3,752**
Total assets	**641,157**	**97,902**	**13,561**	**2,190**	**754,810**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	22,199	1,707	148	7	**24,061**
Negative fair values of hedging financial derivative transactions	7,649	1,720	176	0	**9,545**
Amounts due to banks	17,756	17,250	2,409	39	**37,454**
Amounts due to customers	510,963	40,430	6,963	2,345	**560,701**
Revaluation differences on portfolios hedge items	0	0	0	0	**0**
Securities issued	18,338	0	0	0	**18,338**
Income tax	46	0	0	0	**46**
Deferred tax liability	3,097	0	0	0	**3,097**
Accruals and other liabilities	11,037	1,356	177	78	**12,648**
Provisions	723	290	44	10	**1,067**
Subordinated debt	6,002	0	0	0	**6,002**
Equity	81,469	381	0	0	**81,850**
Total liabilities	**679,280**	**63,134**	**9,917**	**2,479**	**754,810**
Net FX position at 31 December 2011	**(38,123)**	**34,768**	**3,644**	**(289)**	**0**
Off-balance sheet assets*	881,208	243 915	66,505	4,150	**1,195,778**
Off-balance sheet liabilities*	841,559	281 009	70,406	3,802	**1,196,776**
Net off balance sheet FX position at 31 December 2011	**39,649**	**(37,094)**	**(3,901)**	**348**	**(998)**
Total net FX position at 31 December 2011	**1,526**	**(2,326)**	**(257)**	**59**	**(998)**

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

G) Operational risk

Since 2008, the Group has adopted the Advanced Measurement Approach (AMA) for the operational risk management. 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 Group developed and deployed also the permanent supervision system consisting of a set of operational (everyday) controls and set of formalised (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 extension of the detail of information that is being collected.

Within the frame of operational risk management of the Group level, the cooperation between group companies was improved. After the full incorporation of SG Equipment Finance Czech Republic s.r.o. into the group, the AMA approach is being used by three group companies, two of them being non-banking financial group members (SG Equipment Finance Czech Republic s.r.o. and ESSOX s.r.o.). As at 31 December 2012 the CNB has initiated the AMA pre-validation mission in Modrá Pyramida, The validation of the AMA approach in Modrá Pyramida will take place during the first half of 2013.

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

(I) Estimated fair value of assets and liabilities of the Group

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 Group'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 Group'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 Group is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis..

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

(CZKm)	31 Dec 2012 Carrying value	31 Dec 2012 Fair value	31 Dec 2011 Carrying value	31 Dec 2011 Fair value
Financial assets				
Cash and current balances with central banks	28,057	28,057	16,980	16,980
Amounts due from banks	64,111	64,361	101,393	101,814
Loans and advances to customers	451,547	464,388	434,386	444,111
Financial assets held to maturity	3,322	3,775	3,359	3,462
Financial liabilities				
Amounts due to central banks and banks	38,903	38,936	37,455	38,429
Amounts due to customers	579,067	579,179	560,701	560,741
Securities issued	19,624	21,360	18,338	20,487
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	Level1	Level 2	Level 3	31 Dec 2011	Level 1	Level 2	Level3
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	17,631	426	17,205	0	19,363	3,606	15,757	0
Financial assets at fair value through profit or loss	**51,593**	**8,816**	**42,777**	**0**	**34,927**	**12,359**	**22,568**	**0**
Positive fair value of hedging financial derivatives	**26,068**	**0**	**26,068**	**0**	**18,802**	**0**	**18,802**	**0**
Financial assets available for sale								
– Shares and participation certificates	2	0	0	2	702	0	0	702
– Debt securities	141,789	109,229	32,560	0	125,273	91,871	31,331	2,071
Financial assets available for sale	**141,791**	**109,229**	**32,560**	**2**	**125,975**	**91,871**	**31,331**	**2,773**
Financial assets at fair value	**219,452**	**118,045**	**101,405**	**2**	**179,704**	**104,230**	**72,701**	**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	17,108	56	17,052	0	19,375	3,540	15,835	0
Financial liabilities at fair value through profit or loss	**19,589**	**2,537**	**17,052**	**0**	**24,061**	**8,226**	**15,835**	**0**
Negative fair value of hedging financial derivatives	**11,246**	**0**	**11,246**	**0**	**9,545**	**0**	**9,545**	**0**
Revaluation differences on portfolios hedge items	**16**	**0**	**16**	**0**				
Financial liabilities at fair value	**30,851**	**2,537**	**28,314**	**0**	**33,606**	**8,226**	**25,380**	**0**

Financial assets at fair value – Level 3:

(CZKm)	Year ended 31 Dec 2012 Financial assets available for sale	Year ended 31 Dec 2012 Total	Year ended 31 Dec 2011 Financial assets available for sale	Year ended 31 Dec 2011 Total
Balance at 1 January	**2,773**	**2,773**	**702**	**702**
Comprehensive income / (loss)				
- in the statement of comprehensive income	(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

44 Assets under management

As at 31 December 2012, the Group 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).

45 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 Group 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.

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

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

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

Douglas Burnham
Partner

Michaela Kubýová
Auditor, License No. 1810

28 February 2013
Prague, Czech Republic

SEPARATE INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 DECEMBER 2012

Separate Income Statement

(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

(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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012

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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
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

Note: * 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 amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation are also recognised.

3.5.2 Recognition of income and expenses
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 recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late fee income is recognised at the date of its payment and presented in the line *'Interest income and similar income'.* 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 amortisation is included in *'Interest income and similar income'* in the Income Statement. When an impairment of assets is identified, the Bank recognises allowances in the Income Statement in the line *'Allowance for impairment of securities'.*

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than due to a significant decrease of 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 amortisation is included in the line *'Interest income and similar income'* in the Income Statement. When the impairment of assets is identified, the Bank recognises allowances in the Income Statement in the line *'Allowance for loan losses'.*

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

(iv) Available for sale financial assets
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);

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.

The Bank as lessor

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',* its creation, release and use are presented in the line *'Personnel 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 recognised in *'Personnel expenses'* is CZK 27 million (2011: CZK: 2 million) and the total amount of CZK 27 million (2011: CZK 6 million) recognised 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 recognised 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 recognised 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 amortisation (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) Country of Issuer	31 Dec 2012 Fair value	31 Dec 2011 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)	Total client loan collateral*	Discounted client loan collateral value**	31 Dec 2012 Applied client loan collateral value***	Total client loan collateral*	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 collateralised 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:

(CZKm)	Carrying value	31 Dec 2012 Cost*	Carrying value	31 Dec 2011 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) Country of Issuer	Fair value	31 Dec 2012 Cost*	Fair value	31 Dec 2011 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	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	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.

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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 (%)
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 analyses 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:

(CZKm)	31 Dec 2012 Total commitments and contingencies collateral*	31 Dec 2012 Discounted commitments and contingencies collateral value**	31 Dec 2012 Applied commitments and contingencies collateral value***	31 Dec 2011 Total commitments and contingencies collateral*	31 Dec 2011 Discounted commitments and contingencies collateral value**	31 Dec 2011 Applied commitments and contingencies 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 collateralised 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 associations of owners and building societies based on individual characteristics of these clients. The updated model now better distinguishes 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 optimise criteria for their approval and to update the setting of standard risk costs representing the valuation of the anticipated cost of risk.

(d) Internal register of negative information

The Bank maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for 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:

(CZKm)	Individually	31 Dec 2012 Statistical model	Individually	31 Dec 2011 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:

	Loans before	Past due loans, not impaired						
(CZKm)	due date	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:

	Loans before	Past due loans, not impaired						
(CZKm)	due date	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 collateralisation of the exposure towards clients. The risk management related to collateralisation 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 recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically for all real estate collateral, which 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 uncollateralised 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 Notional value		31 Dec 2011 Notional value		31 Dec 2012 Fair value		31 Dec 2011 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:

(CZKm)	31 Dec 2012 Notional value Assets	Liabilities	31 Dec 2011 Notional value Assets	Liabilities	31 Dec 2012 Fair value Positive	Negative	31 Dec 2011 Fair value 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 as at 31 December 2012:

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

Remaining maturity of derivatives designated as hedging as at 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:

(CZKm)	31 Dec 2012 Up to 1 year	1 to 5 years	Over 5 years	31 Dec 2011 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)	Fixed interest rate	Floating interest rate	No interest	Total 31 Dec 2012	Fixed interest rate	Floating interest rate	No interest	Total 31 Dec 2011
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 formalised (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 extension of the detail of information that are being collected.

The information collected by the Operational Risks Department is regularly analysed 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.

(l) 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:

(CZKm)	Carrying value	31 Dec 2012 Fair value	Carrying value	31 Dec 2011 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:

(CZKm)	2012 Financial assets available for sale	2012 Total	2011 Financial assets available for sale	2011 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.

Report on Relations among Related Entities for the year ended 31 December 2012

(hereinafter called the **"Report on Relations"**)

Komerční banka, a.s., with its registered office in Prague 1, Na Příkopě 33/969, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies maintained at the Metropolitan Court of Prague, Section B, File 1360, (hereinafter called **"KB"** or **"Komerční banka"**), is part of a business group (holding company) in which the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entity (hereinafter called **"related entities"**) exist.

This report on relations between the entities stated below was prepared in accordance with the provision of Section 66a (9) of Act 513/1991 Coll., as amended (the Commercial Code) for the year ended 31 December 2012, that is, from 1 January 2012 to 31 December 2012 (hereinafter called the **"reporting period"**).

I. Introduction

In the period from 1 January 2012 to 31 December 2012, KB was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter called "SG" or "SG Paris").

During the course of the 2012 reporting period, the Bank entered into arrangements with the following related entities:

(a) SG's Head Office and branch offices

Company	Registered office
SG Paris *	29, Boulevard Haussmann, Paris, France
SG London	Exchange House, Primrose Street, London, Great Britain
SG New York	1221 Avenue of the Americas, 10020, New York, USA
SG Istanbul	Nispetye Cad. Akmerkez E-3 Blok Kat. 9 ETILER 80600 Istanbul, Turkey
SG Zurich	Sihlquai 253, 8031 Zurich, Switzerland
SG Warsaw	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Neue Mainzer Strasse 46-50, 60311, Frankfurt am Main, the Federal Republic of Germany
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Vienna	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Milan	Via Olona 2, 20123 Milan, Italy
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, the Netherlands
SG Polska	111, Marszalkowska St., 00-102 Warsaw, Poland
SG Hong Kong	11-19A Queen's Road Central, Hong Kong, Hong Kong

* including the branch offices

(b) SG's subsidiaries

Company	Registered office	SG's share of voting power (%)
ALD (SIA)	K. Ulmana gatve 119, Riga, LV-2167, Latvia	75.00
ALD (UAB)	Ukmerges 283, Vilnius, LT -06313, Lithuania	75.01
ALD Automotive Hungary	1133 Budapest, Váci út 76, Hungary	99.99
ALD Automotive Polska sp. z.o.o.	Ostrobramska 101A, 04-041 Warsaw, Poland	100.00
ALD Automotive s.r.o.	U Stavoservisu 527/1, Prague 10, 10040, Czech Republic	100.00
ALD EESTI AS (Estonia)	Akadeemia tee 15A, 12618 Tallinn, Estonia	75.01
Banca Romana Pentrui Devzoltare (B.R.D.)	Boulevard Ion Mihalache no.1-7, sector I, Bucharest, Romania	58.32
Crédit du Nord	28 Place Rihour 59800 Lille, France	100.00
Essox SK s. r. o.	Cesta na Senec 2/A, Bratislava 821 04, Slovak Republic	100.00
European Fund Services, SA	17 rue Antoine Jans L-1820 Luxembourg, Luxembourg	100.00
EURO-VL Luxembourg	16, Boulevard Royal, L 2449 Luxembourg, Luxembourg	100.00
Franfinance, SA	57-59 Avenue De Chatou, 92500 Rueil Malmaison, France	100.00
General Bank of Greece	109 Messogion Avenue, 11510 Athens, Greece	99.08[1)]
General Financing LIT	Perkünkiemio g. 3, Vilnius, Lithuania	100.00
HITEX Hungary	1062 Budapest, Vaci út 1-3, Hungary	100.00
Inter Europe Conseil	Tour Société Générale, 17 Cours Valmy, 92987 La Défense, Paris, France	100.00
Komerční pojišťovna, a.s.	Karolinská 1/650, Prague 8, 186 00, Czech Republic	100.00
Lyxor International Asset Management (LIAM)	Tour Société Générale, 17 Cours Valmy, 92800 Puteaux, France	100.00
National Société Générale Bank (N.S.G.B.)	5 Champollion Street, Cairo, Egypt	77.20[2)]
Newedge Group (Frankfurt branch)	Neue Mainzer Strasse 52, 60311 Frankfurt am Main, Federal Republic of Germany	100.00
Newedge Group Financial Limited (UK Branch)	10 Bishops Square, London, E1 6EG, UK	100.00
Newedge UK Finacial Limited	10 Bishops Square, Londýn, E1 6EG, Velká Británie	100.00
PEMA Polska sp. z. o. o.	Ul. Syrenia 4, Poznaň 61-017, woj. Wielkopolskie, Poland	100.00
PEMA Praha, spol. s r. o.	Ul. Dopraváků 723, 184 00 Prague 8, Czech Republic	100.00
PEMA Slovakia, spol. s r. o.	Pri Prachárni 20, 04001 Košice, Slovakia	100.00
Rosbank	11 Masha Poryvaeva Street, 107 078 Moscow, Russian Federation	82.40
SG Algerie	Résidence EL KERMA, 16 105 Gué de Konstantine, Algeria	100.00
SG Asset Management	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Asset Management Alternative Investments	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Asset Management Banque (SGAM Banque)	170 place Henri Renault, 92400 Courbevoie, France	100.00
SG Cyprus Ltd.	7/9 Grivas Dighenis Avenue, Nicosia, Cyprus	51.00
SG Equipment Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	99.85
SG Equipment Leasing Hungary Ltd	1062 Budapest, Vaci út 1-3, Hungary	99.97
SG Equipment Leasing Polska	Marszalkowska 111 St., 00-102 Warsaw, Poland	100.00
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	99.72
SG China Ltd.	Taikang International Tower, Wudinghou Street, Xicheng District, 100140 Peking, China	100.00
SG Issuer S.A.	15 Boulvard du Prince Henri Luxembourg, 1724, Luxembourg	100.00
SG Maroccaine de Banques	55, boulevard Abdelmoumen, Casablanca, Morocco	56.91
SG Private Banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneve 11, Switzerland	100.00
SG Private Banking Belgique	Rue des Colonies, 11,1000 Brussels Belgium	100.00
SG Securities (London) Ltd.	8 Salisbury Square, London, EC4Y 8BB, UK	100.00
SG Splitska Banka	Rudjera Boskovica 16, 21000 Split, Croatia	100.00
SG Vehicle Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	100.00
SGA Société Générale Acceptance N.V.	PO Box 837, Curacao De Ruyterjade 58A, Netherlands Antilles	100.00
SGBT Luxembourg	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100.00
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	99.72
Sogecap	50 avenue du Général de Gaulle, 92093 Paris, la Défense CEDEX, France	100.00
Sogeprom Česká republika s. r. o.	Legerova 802/64, Prague 2 – Vinohrady, 120 00, Czech Republic	100.00

[1)] On 14 December 2012, Société Générale sold its business stake in the bank.
[2)] On 12 December 2012, Société Générale announced the sale of its stake in the bank.

c) KB's subsidiaries

Company	Registered office	SG's share of voting power (%)
ESSOX s.r.o.	Senovážné náměstí 231/7, České Budějovice, 370 21, Czech Republic	100.00
Factoring KB a.s.	náměstí Junkových 2772/1, Praha 5 – Stodůlky, 155 00	100.00
Modrá pyramida stavební spořitelna, a.s.	Bělehradská 128, č.p. 222, Prague 2, 120 21, Czech Republic	100.00
Penzijní fond Komerční banky, a.s.*	Lucemburská 1170/7, Prague 3, 130 11, Czech Republic	100.00
Protos, uzavřený investiční fond, a.s.	Dlouhá 34, č. p. 713, Prague 1, 110 15, Czech Republic	100.00
Bastion European Investments S.A.	Rue des Colonies, 11,1000, Brussels, Belgium	100.00
SG Equipment Finance Czech Republic s.r.o.	Antala Staška, 2027/79, Prague 4 – Krč, 14000 Czech Republic	100.00
KB Real Estate s. r. o.	Politických vězňů 1419/11, 111 10, Prague 1, Nové Město, Czech Republic	100.00

* KB Penzijní společnost, a.s., with registered office náměstí Junkových 2772/1, Praha 5 – Stodůlky, postal code 155 00 since 1 January 2013

The information on the relations between KB and these subsidiaries is stated in the reports on the relations of the individual subsidiaries of KB with the exception of the company Bastion European Investments S.A.

II. Arrangements with Related Entities

A. Contracts and Agreements with the Controlling Entity and Other Related Entities

Banking Transactions

During the reporting period, KB entered into the following contractual arrangements with controlled entities that were subject to banking secrecy restrictions:

Deposit Arrangements
In the deposit segment, KB entered into arrangements with 30 branches and subsidiaries of the SG Group at the end of the reporting period. As at 31 December 2012, KB maintained a total of 57 accounts, of which 29 were loro accounts for branches and subsidiaries of the SG Group, 24 were current accounts and 4 overdraft accounts opened for non-banking entities of the SG Group. The average monthly overdraft balance (borrowing) on loro accounts was CZK 99.8 million, the average monthly credit balance (deposit) was CZK 532.8 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 64.2 million; the average monthly overdraft balance on these accounts was CZK 83.2 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 0.6 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 4.3 million. For the year ended 31 December 2012, KB paid CZK 0.13 million to clients arising from deposits on current and overdraft accounts.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris, B.R.D, SG New York, SG Warszawa, SG Express Bank, Rosbank, SG Splitska Banka and SG China. During the reporting period, KB's average deposit on nostro accounts with SG was CZK 18.1 million; the average monthly overdraft balance on nostro accounts was CZK 111 million. Interest income on nostro accounts for the reporting period was CZK 0.017 million; interest expenses amounted to CZK 0.019 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 11.6 million; income fees (i.e. provided discounts from credit operations on nostro accounts) amounted to CZK 3.1 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 1.4 million. Interest expenses paid by KB on loro accounts amounted to CZK 0.2 million and interest income amounted to CZK 1.1 million in the reporting period.

Two SG subsidiaries held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 951.8 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 4.6 million for the reporting period.

Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

Loan Arrangements
In the loan segment, in 2012 KB provided loans to two SG Group subsidiaries. One SG Group subsidiary paid off its loans in the course of the reporting period so, at the end of the reporting period, KB was providing loans to only one SG Group subsidiary – 126 loans in the aggregate amount of CZK 2,807.8 million. The average monthly balance of the loans during the reporting period was CZK 2.673,8 million. The aggregate amount of interest income was CZK 70.7 million.

At the end of the reporting period, KB provided 2 entities from the SG Group with confirmed export letters of credit in the aggregate amount of CZK 15.7 million, 5 entities were provided with bank guarantees (payment, non-payment) in the amount of CZK 436.4 million, and the statement of guarantee was provided to one entity in the amount of CZK 1 million. As at 31 December 2012, commitments to extending loans, opening letters of credit, free limit and framework and unutilised overdraft limits were provided to one entity in the amount of CZK 193.2 million.

At the end of the reporting period, KB received guarantees from 3 SG Group entities as collateral for the loans provided to clients in the aggregate amount of CZK 6,194 million. The aggregate amount of expense fees for guarantees received in the reporting period amounted to CZK 8 million.

Investment Banking Arrangements

In the investment banking segment, KB carried out transactions with 12 branches and subsidiaries from within the SG Group. The total number of transactions was 19,916 (2,262 on-balance sheet transactions and 17,654 off-balance sheet transactions) in the aggregate amount of CZK 1,274,802.8 million. The income from the investment banking transactions amounted to CZK 27,246.9 million and the costs were equal to CZK 27,564.9 million.

The aggregate amount of on-balance sheet transactions was CZK 488,827.4 million, of which:

– depository transactions – a total of 1,969 transactions in the aggregate amount of CZK 468,148 million;
– securities held for trading - a total of 293 transactions in the aggregate amount of CZK 20,679.4 million.

The aggregate amount of off-balance sheet transactions was CZK 785,975.5 million, of which:

– foreign currency transactions (spots, forwards, swaps) in the total number of 6,400 transactions in the aggregate amount of CZK 453,007.5 million;
– interest rate derivative transactions (interest rate swaps and futures) in the total number of 679 transactions in the aggregate amount of CZK 222,437.8 million;
– option transactions with currency instruments in the total number of 8,375 transactions in the aggregate amount of CZK 90,011.8 million;
– commodity transactions were realised only with SG Paris; KB implemented 1,771 transactions in the aggregate amount of CZK 13,130.9 million;
– emission allowance transactions - KB realised a total of 429 transactions in the aggregate amount of CZK 7,387.6 million with SG Paris and ORBEO during the reporting period.

All of the banking products were provided under standard terms and conditions, according to KB's price list, taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

Other Arrangements

1. Contracts and Agreements Entered into during the Reporting Period

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Agreement for the reduction of the basis for the calculation of the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Agreement for the reduction of the commission for the extraordinary insurance premium on Brouček, Vital and Vital Invest	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Agreement to cooperate in the performance of the Agreement to provide group risk insurance to employees	Komerční pojišťovna, a.s.	Insurance premium and regulation of mutual rights and obligations	Provision of insurance and mutual regulation of rights and obligations	None
Agreement to provide group risk insurance to employees	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 1 to the Agreement to provide group risk insurance to employees	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Amendment No. 1 to the Contract for the “Moje pojištění plateb” collective insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 1 to the Contract for the “Profi pojištění” collective insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 1 to the Contract for the acceptance of payment cards - internet	Komerční pojišťovna, a.s.	Acceptance of payment cards	Fees according to the price list	None
Amendment No. 1 to the Contract for the collective insurance for business loans	Komerční pojišťovna, a.s.	Mediation of and entering into insurance contracts	Commission	None
Amendment No. 1 to the Custody contract	Komerční pojišťovna, a.s.	Administration and settlement of securities transactions	Contractual fee	None
Amendment No. 1 to the Custody contract for VITAL INVEST	Komerční pojišťovna, a.s.	Securities administration	Contractual fee	None
Amendment No. 1 to the Partial contract No.4 - Provision of technical infrastructure solutions	Komerční pojišťovna, a.s.	Provision of services in the area of technical infrastructure	Contractual fee	None
Amendment No. 2 to the Brouček distribution contract	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 2 to the Contract for the mediation of TRAVEL INSURANCE	Komerční pojišťovna, a.s.	Mediation of and entering into insurance contracts	Commission	None
Amendment No. 3 to the Contract for the MERLIN and PROFI MERLIN collective insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 4 to the Contract for the collective insurance of payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 4 to the Contract for the mediation of sale of “VITAL“	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 4 to the Contract for the mediation of sale of “VITAL PLUS“	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 6 to the “Vital Premium” brokerage contract	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendments No. 15 and 16 to the Contract for mediation of the sale of VITAL INVEST	Komerční pojišťovna, a.s.	Mediation of the conclusion of insurance contracts	Commission	None
Contract for the mediation of sale of “Vital Premium” in EUR	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the provision of Direct Banking	Komerční pojišťovna, a.s.	Provision of Direct Banking services	Fees according to the price list	None
Contract to pledge securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	None
Framework agreement to make deals in the financial market	Komerční pojišťovna, a.s.	Making deals secured by a securing transfer of securities	Contractual fee	None
Individual pricing agreement	Komerční pojišťovna, a.s.	Provision of banking services	Contractual fee	None
Partial contract No. 5 for the provision of notification services	Komerční pojišťovna, a.s.	Provision of IT services	Contractual fee	None
Partial contracts No.1 – 4 regarding the Framework agreement for the provision of IT services	Komerční pojišťovna, a.s.	Provision of services in the area of technical infrastructure	Contractual fee	None
3 x Amendments to Contracts for temporary assignment of employee	SG Paris	Assignment of employee	Provision of know how	None
Amendment No. 2 to the ISDA Master Agreement	SG Paris	Adjustment of conditions to trade in emissions allowances	Contractual fee	None
Amendment to the Contract for the organization of periodic controls	SG Paris PEMA Praha s.r.o.	Provision of internal audit services	Contractual fee	None
Amendment to the Contract for the organization of periodic controls	SG Paris ALD Polska sp.	Provision of internal audit services	Contractual fee	None
Amendment to the Contract for the organization of periodic controls	SG Paris SGEL Polska	Provision of internal audit services	Contractual fee	None
Bankers Blanket Bond	SG Paris	Insurance premium	Banking risk insurance	None
Business Interruption	SG Paris	Insurance premium	Business interruption insurance	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Contract for temporary assignment of employee	SG Paris	Assignment of employee	Provision of know how	None
Contract for the organization of periodic controls	SG Paris General Financing LIT	Provision of internal audit services	Contractual fee	None
Directors & Officers Liability	SG Paris	Insurance premium	Liability insurance for the board of directors	None
Professional Indemnity	SG Paris	Insurance premium	Liability insurance	None
Revisions of written texts	SG Paris	Free of charge	Revision making	None
Sending reports to SG Thematic Research	SG Paris	Provision of information on Central and Eastern Europe	Free of charge	None
Custody Agreement	SG Splitska Banka	Custody services	Contractual fees	None
Custody Agreement	SG Splitska Banka	Contractual fees	Custody services	None

2. Consideration Received and Provided during the Reporting Period under Contracts Entered into in Prior Reporting Periods

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Accession to the rules of cooperation between KB and Group members in the area of sourcing and acquisitions	ALD Automotive s.r.o.	Provision of services	Payment of price and cooperation	None
Separate VoIP Agreement No. 1	ALD Automotive s.r.o	Provision of voicemail	Contractual fees	None
Amendment No.4 to the Cooperation Agreement	ALD Automotive s.r.o.	Takeover of the obligations and liabilities arising from the Cooperation Agreement with KBB	Takeover of the obligations and liabilities arising from the Cooperation Agreement with KBB	None
Contract for cooperation	ALD Automotive s.r.o.	Mediation of the finance lease as part of “KB Fleet Lease”	Contractual fee	None
Framework agreement to rent cars	ALD Automotive s.r.o.	Lease instalments	Full service lease, finance lease, sale of cars	None
Custodian services agreement	B.R.D.	Fees according to the price list	Provision of securities custody services	None
Service Level Agreement	B.R.D.	Fees according to the price list	Provision of securities custody services; inclusion of further conditions in the Custodian service agreement	None
Contract for the provision of office premises in case of an emergency (terror, disaster)	ESSOX SK s.r.o.	Provision of office premises	Contractual fee	None
Service Level Agreement	European Fund Services S.A.	Mediation of the purchase of securities	Settlement of securities transactions	None
2x Contract for the lease of non-residential premises, 2 x Amendment to Contracts for the lease of non-residential premises made in the past years	Komerční pojišťovna, a.s.	Lease of non-residential premises	Rent	None
2x Contract for the issuance and use of the company certificate	Komerční pojišťovna, a.s.	Issuance of the company certificate	Fees according to the price list	None
2x Contract for the provision of direct banking services	Komerční pojišťovna, a.s.	Provision of direct banking	Fees according to the price list	None
Accession to the rules of cooperation between KB and Group members in the area of sourcing and acquisitions	Komerční pojišťovna, a.s.	Provision of services	Payment of price and cooperation	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Agreement for the reduction of the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Agreement to send electronic notifications of clearing	Komerční pojišťovna, a.s.	Sending electronic notifications of clearing	Fees according to the price list	None
Amendment No. 1 to the Contract for the mediation of MERLIN and PROFI MERLIN	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 1 to the Contract for the mediation of the Brouček product	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 2 to the Contract for mediation of the sale of PROGRAM VITAL and PROGRAM VITAL PLUS	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 2 to the Contract for mediation of the sale of VITAL GRANT	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Amendment No. 2 to the Contract for mediation of the sale of VITAL	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Amendment No. 2 to the Contract for the collective insurance of KB credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 2 to the Contract for the collective insurance of MERLIN and PROFI MERLIN	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 3 to the Contract for mediation of the sale of VITAL	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Amendment No. 3 to the Contract for mediation of the sale of VITAL PREMIUM	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Amendment No. 4 to the Contract for mediation of the sale of VITAL PREMIUM	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Amendment No. 4 to the Contract for the collective insurance of consumer loans	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendment No. 5 to the Contract for mediation of the sale of the “Vital Premium” product	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendment No. 5 to the Contract for mediation of the sale of VITAL INVEST	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Amendments No. 1, 2 and 3 to the Contract for the collective insurance of consumer loans	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Amendments No. 12, 13 and 14 to the Contract for the mediation of the sale of VITAL INVEST	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendments No. 2 and 3 to the Contract for the mediation of Risk life insurance in respect of mortgages	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Amendments No. 7, 8, 9, 10 and 11 to the Contract for mediation of the sale of VITAL INVEST	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Amendments No. 8 to the Insurance contract for group insurance of persons	Komerční pojišťovna, a.s.	Mediation and conclusion of insurance contracts	Commission	None
Confidentiality Agreement	Komerční pojišťovna, a. s	Provision of data and protection of information	Provision of data and protection of information	None
Contract for acceptance of electronic payments through the Mojeplatba service	Komerční pojišťovna, a.s.	Acceptance of electronic payments	Fees according to the price list	None
Contract for investment advisory	Komerční pojišťovna, a.s.	Investment consulting	Contractual fee	None
Contract for mediation of the sale of VITAL INVEST including its amendments	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for mutual cooperation	Komerční pojišťovna, a.s.	Provision of services	Provision of services	None
Contract for the “Moje pojištění plateb” collective insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the “Profi pojištění plateb” collective insurance	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the acceptance of payment cards - internet	Komerční pojišťovna, a.s.	Acceptance of payment cards	Fees according to the price list	None
Contract for the business representation in the sale of products under the VITAL and VITAL PLUS programme	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Contract for the collective business loan insurance	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the collective insurance for payment cards including Amendments Nos. 1, 2 and 3	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the collective insurance of purchase of goods for credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the collective insurance of the “A KARTA” and “LADY” credit cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the cooperation in the group registration for VAT including Amendment No. 1	Komerční pojišťovna, a.s.	Representation of group members in respect of VAT payments	Contractual fee	None
Contract for the mediation of MERLIN and PROFI MERLIN	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of PATRON and PROFI PATRON	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of Risk life insurance in respect of mortgages including Amendments	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of RISK LIFE FOR MORTGAGE LOANS	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of sale of VITAL PREMIUM including Amendment No.1	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of the Brouček product	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of TRAVEL INSURANCE	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of VITAL PLUS including Amendments Nos. 1, 2 and 3	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the mediation of VITAL, VITAL GRANT and VITAL PLUS	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the MERLIN and PROFI MERLIN collective insurance including Amendment No. 1	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Contract for the PATRON collective insurance in the wording of amendment No. 1	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Contract for the provision of services – outsourcing (HR services)	Komerční pojišťovna, a.s.	Provision of HR services	Contractual fee	None
Contract of cooperation	Komerční pojišťovna, a.s.	Organization of a competition for tellers	Contractual fee	None
Contract of cooperation	Komerční pojišťovna, a.s.	Valuation of investment instruments	Contractual fee	None
Contract of mutual cooperation including Amendment No. 1	Komerční pojišťovna, a.s.	Provision of services	Provision of services	None
Contract to issue and use a company certificate	Komerční pojišťovna, a.s.	Issuance of a company certificate	Fees according to the price list	None
Contract to pledge securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	None
Contracts to pledge securities	Komerční pojišťovna, a.s.	Pledge of securities	Pledge of securities	None
Custody contract	Komerční pojišťovna, a.s.	Administration and settlement of securities transactions	Contractual fee	None
Custody contract for the VITAL INVEST FORTE product	Komerční pojišťovna, a.s.	Administration securities	Contractual fee	None
Framework contract for personal data processing	Komerční pojišťovna, a.s.	Personal data processing	Provision of information	None
Framework contract for the provision of services	Komerční pojišťovna, a.s.	Provision of services in the area of information technologies infrastructure	Contractual fee	None
Framework contract for the Spektrum insurance program in the wording of amendment No.1	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Framework contract to negotiate term deposits with individual interest rates	Komerční pojišťovna, a.s.	Negotiation and maintenance of term deposits	Contractual fee	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Framework distribution contract including its amendments	Komerční pojišťovna, a.s.	Mediation of and making insurance contracts	Commission	None
Insurance contract – insurance of risks arising form abuse of payment cards	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance and of insurance premium	None
Insurance contract for group insurance of persons	Komerční pojišťovna, a.s.	Insurance premium	Provision of insurance	None
Licensing contract	Komerční pojišťovna, a.s.	Provision of KB's trade mark	Contractual fee	None
Partial contracts No.1 – 4 regarding the Framework agreement for the provision of IT services	Komerční pojišťovna, a.s.	Provision of services in the area of technical infrastructure	Contractual fee	None
Contact Bank Agreement including Amendments No. 1 and 2	LIAM	Mediation of the sale of participation certificates	Commission	None
Distribution Agreement Amendments No. 1 and 2	LIAM	Mediation of the sale of participation certificates	Commission	None
Global Terms of Business	Newedge Group (UK branch)	Contractual fees	Maintenance of clearing accounts and brokerage services	None
Global Terms of Business	Newedge Group (UK branch)	Contractual fees	Maintenance of clearing accounts and brokerage services	None
Transfer of Futures Accounts	Newedge Group (UK branch)	Contractual fees	Futures operations in an organized market	None
Novation agreement	Newedge UK Financial Limited	Free of charge	Broker's services	None
Agreement on meaning and maintaining correspondent account on non-resident-credit Institution, including amendments no.1 a 2.	Rosbank	Fees according to the price list	Maintenance of and payments from and to KB's nostro account denominated in RUB.	None
Brokerage Conformity Agreement	SG Asset Management Alternative Investments	Distribution of securities issued by SGAM FUND in the Czech Republic	Contractual fee	None
Contact Bank Agreement	SG Asset Management Alternative Investments	Mediation of the sale of securities	Contractual fee	None
Contact Bank Agreement	SG Asset Management Alternative Investments	Mediation of the sale of securities	Contractual fee	None
Distribution Agreement	SG Asset Management Alternative Investments	Mediation of the sale of securities	Contractual fee	None
Distribution Agreement	SG Asset Management Alternative Investments	Mediation of the sale of securities	Contractual fee	None
Introduction Broker Agreement	SG Asset Management Alternative Investments	Mediation of purchases of SGAM funds	Contractual fee	None
Cross-Border RMB Agent Settlement Agreement	SG China	Fees according to the price list	Maintenance of a nostro account denominated in jüan	None
Appointment of process agent for Komerční banka, a.s.	SG London	Free of charge	Transmission of information as to whether an action has been filed against KB to a court in GB	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Appointment of process agent for Komerční banka, a.s.	SG London	Free of charge	Transmission of information as to whether an action has been filed against KB to a court in GB in respect of the ISDA Master Agreement	None
Terms for Business for Treasury Equities, Derivates and Fixed Income Products	SG London	Free of charge	Business conditions for provision of investment services	None
Appointment of process agent for Komerční banka, a.s., including an amendment	SG New York	Free of charge	Provision of information as to whether a lawsuit has been filed against KB in the US	None
Service Level Agreement	SG New York	Fees according to the price list	Processing of payments	None
2 x Contract for temporary assignment of employee	SG Paris	Assignment of employee	Provision of know how	None
ACPI – subscribing product of SG at KB's points of sale	SG Paris	Mediation of the sale of selected SG products	Contractual fee	None
Agreement	SG Paris	Contractual fee	HR-related consulting	None
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	Mediation of the sale of derivative instruments	Contractual fee	None
Agreement relating to the use of the Class Custody Tool	SG Paris	Contractual fees	Custody activities	None
Agreements and contracts relating to the provision of management and advisory services "Management Support Agreement" (including Amendments Nos. 1 and 2)	SG Paris	Contractual fee	Provision of management and advisory services	None
Amendment No. 1 to the Agreement relating to the intermediation in the sale of market products linked to investment banking activity In the Czech Republic	SG Paris	Mediation of the sale of derivatives	Contractual fee	None
Amendment No. 1 to the ISDA Master Agreement	SG Paris	Adjustment of conditions to trade in emissions allowances	Contractual fee	None
Amendment to the ISDA Master Agreement	SG Paris	Adjustment of conditions	Adjustment of conditions	None
Amendment to the Sub-Custodian service agreement KB Ametyst 2 and KB Ametyst 3	SG Paris	Contractual fee	Custody services	None
Amendment to the Sub-Custodian service agreement KB Kapitál konzervativní and KB Kapitál růstový	SG Paris	Contractual fee	Custody services	None
Amendment to the sub-custodian services agreement	SG Paris	Contractual fee	Custody services	None
Amendment to the sub-custodian services agreement	SG Paris	Contractual fee	Custody services	None
Cash letter service agreement	SG Paris	Payment of chequers	Issuance of checques	None
Contingency agreement	SG Paris	Free of charge	Adjustment of conditions of the payment operations in n the case of accident or failure of SWIFT	None
Contract for Cooperation	SG Paris	Definition of framework conditions of cooperation in the internal audit area	Definition of framework conditions of cooperation in the internal audit area	None
Contract for the provision of communication services	SG Paris	Fees	Provision of communication services	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
Credit Support Annex	SG Paris	Transactions with financial collateral to secure transactions with emission allowances	Contractual fee	None
Custodian Services Agreement	SG Paris	Contractual fees	Custody services	None
Custody contract	SG Paris	Administration of securities traded on stock exchange	Fees according to the price list	None
Custody contract	SG Paris	Administration of securities traded on stock exchange	Fees according to the price list	None
EUR Account Maintenance & Clearing Service Agreement	SG Paris	Fees according to the price list	Conditions and terms for the maintenance of and payments related to KB's NOSTRO account denominated in EUR and maintained by SG Paris	None
Global Master Repurchase Agreement	SG Paris	Contractual fee	Framework contract to make repo and buy-and-sell-back transactions	None
Hosting contract	SG Paris	Contractual fee	Data processing	None
ISDA Master Agreement	SG Paris	Mediation of transactions with emission allowances	Contractual fee	None
ISDA Master Agreement	SG Paris	Fees	Mediation of transactions with all types of derivative financial instruments on the interbank market	None
ISDA Master Agreement	SG Paris	Mediation of transactions with emission allowances	Contractual fee	None
LABO Agreement	SG Paris	Contractual fees according to the price list	Review of reporting in terms of money laundering activities, funding of terrorism and other restrictions (embargos)	None
Protection agreement	SG Paris	Contractual fees	Protection of personal information within the appraisal system (APE)	None
Service Agreement – SNAP services	SG Paris	Fees	Transfer of swift reports	None
Service Level Agreement	SG Paris	Fees according to the price list	Contract for the mediation of foreign payments	None
Service Level Agreement	SG Paris	Administration of benefits of expatriates	Administration of benefits of expatriates	None
SG – LABO Agreement	SG Paris	Fees	Review of swift reports in terms of money laundering activities, funding of terrorism and other restrictions (embargos)	None

Type of agreement (or the subject matter of the agreement – if not clear from the name of the agreement)	Party to the contract	Consideration by KB	Consideration by the party to the contract	Damage incurred by KB
SG Paris – Pay Away	SG Paris	Free of charge	Mediation of foreign payments at the payer's order to selected African countries	None
SG Paris – Sure Pay	SG Paris	Free of charge	Contract for the mediation of payments to selected Euro zone countries	None
SG Paris - Word Pay	SG Paris	Fees	Processing and transfer of payments	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Administration of securities traded in France	None
Sub-Custodian Service Agreement	SG Paris	Contractual fees	Custody for mutual funds	None
T3C competence centers contract	SG Paris	Consulting and technical assistance in the creation of SG branch infrastructure	Contractual fees	None
Agreement on the Organization of Periodic Control	SG Paris and MPSS	Internal audit services	Contractual fee	None
18x Agreement on the Organization of Periodic Control including 13 amendments thereto	SG Paris and the relevant SG Group company	Internal audit services	Contractual fee	None
Custody Agreement	SG Splitska Banka	Custody services	Contractual fees	None
Custody Account Agreement	SG Warsaw	Fees according to the price list	Custody services (administration and settlement of securities)	None
Service Level Agreement	SG Warsaw	Fees according to the price list	Custody services (administration and settlement of securities)	None
EURO Medium Term Note Master Purchase Agreement	SGAM Banque	Contractual fees	Securities transactions	None
Novation Agreement	SGAM Banque	Contractual fees	Regulation of the conditions to trade in securities	None
ISDA Master Agreement	SGBT Luxembourg	Framework contract to make foreign exchange transactions	Contractual fee	None
Sub-Custody & Brokerage Service Agreement	SGBT Luxembourg	Contractual fee	Custody services	None
Accession to the rules of cooperation in the area of sourcing and purchases between KB and group members	Sogeprom Česká republika s. r. o	Provision of services	Payment of price and cooperation	None
Confidentiality Agreement	Sogeprom Česká republika s. r. o.	Protection of information and banking secret	Protection of information and banking secret	None

B. Other Legal Acts Implemented by the Bank in the Interest of the Controlling Entity and Other Related Entities

Pursuant to a decision of the General Meeting held on 26 April 2012, the shareholder, SG Paris, received dividends for the year 2011 in the aggregate amount of CZK 3,698,203,680.00.

On the basis of an agreement to purchase bonds entered into with SG Paris, KB received interest of 4.2719 percent p.a., that is, CZK 137.1 million, for the year 2012.

C. Measures Taken or Implemented by the Bank in the Interest of or at the Initiative of the Controlling Entity and Other Related Entities

During the reporting period, KB did not take or implement any measures that would be in the interest of or at the initiative of the related entities.

III. Conclusion

The Bank's Board of Directors has reviewed all arrangements put in place between the Bank and the related entities during the 2012 reporting period and states that the Bank incurred no damage as a result of any contracts, agreements, any other legal acts or any other measures taken or implemented by the Bank in the reporting period.

In Prague on 28 February 2013

Henri Bonnet
Chairman of the Board of Directors
Komerční banka, a.s.

Peter Palečka
Member of the Board of Directors
Komerční banka, a.s.

Securities issued by KB

KOMERČNÍ BANKA SHARES

Kind:	ordinary share
Type:	bearer share
Form:	dematerialised
Total value of the issue:	CZK 19,004,926,000
Total number of shares:	38,009,852
Nominal value per share:	CZK 500
ISIN:	CZ0008019106

Public tradability

Komerční banka 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, česká burza cenných papírů, a.s. (the Czech Stock Exchange).

Rights vested in the shares

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. Each CZK 500 of nominal share value is equivalent to one vote.

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.

In accordance with the Articles of Association, the right to a dividend shall accrue to any shareholder registered as owning shares in the statutory records of the securities' issuer 7 calendar days prior to the date of the General Meeting. The dividend shall become payable upon expiration of 30 days following the date of the General Meeting at which the resolution on the dividend payment was adopted.

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' 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.

For further information about trading in the shares, their prices and dividends, please refer to the chapter Komerční banka Share on the Capital Market.

KOMERČNÍ BANKA GLOBAL DEPOSITORY RECEIPTS

Global depository receipts (GDRs) were issued for shares of Komerční banka administered by The Bank of New York Mellon ADR Department. 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 Komerční banka.

The GDR programme was launched at the end of June 1995. In issuing the first tranche, Komerční banka marked its entry into the international capital markets. A second tranche followed in 1996.

From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as of 31 December 2012 was 236,361.

BONDS ISSUED BY KOMERČNÍ BANKA (OUTSTANDING)

List of outstanding bonds issued by Komerční banka

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pcs (as of 31 December 2012)	Interest rate	Payout of interest	Quotation at BCPP
1.	HZL 2005/2015	CZ0002000565 1)	2 August 2005	2 August 2015	5,200,000,000	520,000	3M PRIBID + min. (-0.10% p.a.; [-0.1 * 3M PRIBID] % p.a.)	quarterly	yes
2.	HZL 2005/2015	CZ0002000664 1)	21 October 2005	21 October 2015	11,040,000,000	1,104,000	4.40 % p.a.	yearly	yes
3.	HZL 2006/2016	CZ0002000854 1)	1 September 2006	1 September 2016	EUR 17,068,000	42,670	3.74 % p.a.	yearly	no
4.	HZL 2007/2019	CZ0002001142 2)	16 August 2007	16 August 2019	3,000,000,000	30	5.00 % p.a.	yearly	no
5.	HZL 2007/2037	CZ0002001324 2)	16 November 2007	16 November 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no
6.	HZL 2007/2037	CZ0002001332 2)	16 November 2007	16 November 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no
7.	HZL 2007/2037	CZ0002001340 2)	16 November 2007	16 November 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no
8.	HZL 2007/2037	CZ0002001357 2)	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
9.	HZL 2007/2037	CZ0002001365 2)	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
10.	HZL 2007/2037	CZ0002001373 2)	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
11.	HZL 2007/2037	CZ0002001381 2)	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
12.	HZL 2007/2037	CZ0002001399 2)	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
13.	HZL 2007/2037	CZ0002001431 2)	30 November 2007	30 November 2037	700,000,000	7	RS minus 0.20 % p.a.	stated	no
14.	HZL 2007/2037	CZ0002001449 2)	30 November 2007	30 November 2037	900,000,000	9	RS minus 0.20 % p.a.	stated	no
15.	HZL 2007/2037	CZ0002001456 2)	30 November 2007	30 November 2037	700,000,000	7	RS minus 0.20 % p.a.	stated	no
16.	HZL 2007/2037	CZ0002001464 2)	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
17.	HZL 2007/2037	CZ0002001472 2)	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
18.	HZL 2007/2037	CZ0002001480 2)	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
19.	HZL 2007/2037	CZ0002001498 2)	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
20.	HZL 2007/2037	CZ0002001506 2)	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
21.	HZL 2007/2037	CZ0002001514 2)	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
22.	HZL 2007/2037	CZ0002001522 2)	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20 % p.a.	stated	no
23.	HZL 2007/2037	CZ0002001530 2)	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no
24.	HZL 2007/2037	CZ0002001548 2)	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no
25.	HZL 2007/2037	CZ0002001555 2)	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no
26.	HZL 2007/2037	CZ0002001563 2)	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pcs (as of 31 December 2012)	Interest rate	Payout of interest	Quotation at BCPP
27.	HZL 2007/2037	CZ0002001571 [2)]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no
28.	HZL 2007/2037	CZ0002001589 [2)]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20 % p.a.	stated	no
29.	2007/2017	CZ0003701427 [1)]	18 December 2007	1 December 2017	383,500,000	767	4.216 % p.a.	yearly December 1st	no
30.	HZL 2007/2017	CZ0002001761 [1)]	19 December 2007	19 December 2017	643,100,000	12,862	4.09 % p.a.	yearly	no
31.	HZL 2007/2037	CZ0002001753 [1)]	21 December 2007	21 December 2037	5,680,000,000	568	RS plus 1.5 % p.a.	yearly	no
32.	HZL 2007/2037	CZ0002001746 [1)]	28 December 2007	28 December 2037	1,240,000,000	124	RS plus 1.5 % p.a.	yearly	no
33.	HZL 2012/2022	CZ0002002801 [1)]	21 December 2012	21 December 2022	400,000,000	40,000	2.55 % p.a.	yearly	yes
34.	2012/2014	CZ0003703563 [1)]	21 December 2012	21 December 2014	2,000,000,000	2,000,000,000	2.75 % p.a.	yearly	no
35.	2012/2015	CZ0003703571 [1)]	21 December 2012	21 December 2015	2,000,000,000	2,000,000,000	3.00 % p.a.	yearly	no
36.	2012/2016	CZ0003703589 [1)]	21 December 2012	21 December 2016	3,000,000,000	3,000,000,000	3.25 % p.a.	yearly	no
37.	2012/2017	CZ0003703597 [1)]	21 December 2012	21 December 2017	3,000,000,000	3,000,000,000	3.50 % p.a.	yearly	no
38.	2012/2018	CZ0003703605 [1)]	21 December 2012	21 December 2018	5,000,000,000	5,000,000,000	Note 1	yearly	no
39.	2012/2019	CZ0003703613 [1)]	21 December 2012	21 December 2019	5,000,000,000	5,000,000,000	Note 2	yearly	no

HZL = mortgage bonds, RS = reference rate
[1] dematerialised bonds
[2] bonds in documentary form

Note 1: 1.50 % p.a. for the first year period
2.50 % p.a. for the second year period
4.00 % p.a. for the third year period
4.50 % p.a. for the fourth year period
5.00 % p.a. for the fifth year period
5.50 % p.a. for the sixth year period

Note 2: 1.50 % p.a. for the first year period
2.00 % p.a. for the second year period
2.50 % p.a. for the third year period
5.00 % p.a. for the fourth year period
5.50 % p.a. for the fifth year period
6.00 % p.a. for the sixth year period
6.50 % p.a. for the seventh year period

All bonds are made out to the bearer and, with the exception of mortgage bond ("HZL") ISIN CZ0002000854, are denominated in CZK.

HZL ISIN CZ0002000565 was issued under the KB Debt Issuance Programme approved by a decision of the Czech Securities Commission dated 6 May 2003. This 10-Year Debt Issuance Programme with the maturity for any single issue of up to 10 years enables the Bank to issue mortgage bonds in a maximum amount of CZK 15 billion outstanding.

The bonds listed in the table under numbers 4–39 were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. This 30-Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding.

Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act and the Act on Business Activities on the Capital Market, as amended. The bonds' prospectuses, the base prospectuses of the bond programmes or issuance terms and conditions and supplements to the bond programmes were approved, if requested by the law, by the Czech National Bank or the. Czech Securities Commission (in the case of bonds issued before 1 April 2006).

Public tradability

HZL ISIN CZ0002000565, CZ0002000664 and CZ0002002801 were admitted for trading on the Regulated market of the Prague Stock Exchange.

Transferability

The transferability of the bonds is not limited.

Rights vested in the bonds

Rights and obligations pertaining to the bonds are governed and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the issuance terms and conditions for each issue.

Bonds bear interest from the date of issue, and coupon payments are made quarterly, yearly or at stated intervals. The bonds' returns are paid by the issuer – Komerční banka.

The bonds will be redeemed by Komerční banka in the whole amount of the nominal value (with the exception of HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bond ISIN CZ0003701427) on the maturity day. HZL ISIN CZ0002000854, HZL ISIN CZ0002001142, HZL ISIN CZ0002001761 and bond ISIN CZ0003701427 are amortised bonds.

History and Profile of KB

Komerční banka is the parent company of KB Group and is a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services – such as pension fund and building society schemes, leasing, factoring, consumer lending and insurance – accessible through KB's branch network, its direct banking channels, and the subsidiaries' own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients.

HISTORY

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company. KB's shares have been listed on the Prague Stock Exchange since its inception, as well as within the RM-System. Global depository receipts (GDRs) representing KB shares have been traded on the London Stock Exchange since 1995. In 2001, the state's 60% holding in Komerční banka was purchased by Société Générale. Following privatisation, KB began significantly to develop its activities for individual customers and entrepreneurs while continuing to build on its traditionally strong position in the enterprises and municipalities market. In developing its retail activities, KB purchased in 2006 the remaining 60% of shares in Modrá pyramida it did not already own. Thereby, Komerční banka attained full control over the Czech Republic's third largest building society. Effective as of 31 December 2010, KB was combined in a cross-border merger with Komerční banka Bratislava. As the successor bank, KB assumed all assets and liabilities of its former subsidiary and continues to operate in Slovakia through a branch. Another important step in extending the offer of financial solutions to our clients was the acquisition in May 2011 of a 50.1% stake in SG Equipment Finance Czech Republic, s.r.o. (hereinafter "SGEF"), a leading provider of asset-backed financing in the Czech Republic. Through a branch, it also is active in the Slovak Republic.

SOCIÉTÉ GÉNÉRALE GROUP

Komerční banka has been an important part of Société Générale Group's international retail banking since October 2001. Société Générale is one of the largest European financial services groups. Based on a diversified universal banking model, the Group combines financial solidity with a strategy of sustainable growth, and aims to be the reference for relationship banking, recognised on its markets, close to clients, chosen for the quality and commitment of its teams.

Around 160,000 employees, based in 77 countries, accompany more than 33 million clients throughout the world on a daily basis. Société Générale's teams offer advice and services to individual, corporate and institutional customers in three core businesses:
- Retail banking in France with the Société Générale branch network, Credit du Nord and Boursorama
- International retail banking, with a presence in Central and Eastern Europe and Russia, in the Mediterranean basin, in Sub- Saharan Africa, in Asia and in the French Overseas Territories
- Corporate and investment banking with a global expertise in investment banking, financing and global markets.

Société Générale is also a significant player in specialised financing and insurance, private banking, asset management and securities services.

Société Générale is included in the socially-responsible investment indices FTSE4Good and ASPI.

IDENTIFICATION BANK DETAILS AS OF DECEMBER 31, 2012

Komerční banka, a.s., entered in the Commercial Register maintained with the Metropolitan Court of Prague Section B, File No. 1360

Date of registration:
5 March 1992

Registered office:
Prague 1, Na Příkopě 33, building identification number 969, postal code 114 07

Identification number:
45317054

Legal form:
Public limited company

Business objects:

I. The Bank shall carry on business pursuant to Act No. 21/1992 Sb., the Banking Act, as amended. The business activities of the Bank shall include:

a) acceptance of deposits from the public,
b) granting of loans,
c) investing in securities on the Bank's own account,
d) financial leasing,
e) making and receiving payments and administration of clearing system,
f) issuing of payment instruments, such as payment cards and traveller's cheques,
g) provision of guarantees,
h) issue of letters of credit,
i) provision of collection services,
j) provision of investment services including:
  – main investment services of reception and transmission, on behalf of investors, of orders in relation to one or more of investment instruments,
  – main investment services of execution of orders on behalf of investors in relation to one or more of investment instruments,
  – main investment services of dealing in investment instruments for the Bank's own account,
  – main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more of investment instruments,
  – main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues,
  – ancillary services of safekeeping and administration in relation to one or more of investment instruments,
  – ancillary services of safe custody,
  – ancillary services of granting credits or loans to an investor to allow him to carry out a transaction in one or more of investment instruments, where the firm granting the credit or loan is involved in the transaction,
  – ancillary services of advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings,
  – ancillary services related to underwriting,
  – ancillary services of investment advice concerning one or more of investment instruments,
  – ancillary services of foreign-exchange service where these are connected with the provision of investment services with
k) dealing on the Bank's own account or on the client's account in foreign currencies and gold,
l) financial brokerage,
m) foreign exchange operations (purchase of foreign currency),
n) provision of depository services,
o) provision of banking information,
p) rental of safe-deposit boxes,
q) issue of mortgage bonds,
r) activities directly related to those mentioned in paragraphs a) - q)

II. Furthermore, the business purpose comprises activities carried out for another as long as these activities relate to the operation of the bank and to the operation of other banks controlled by it, of financial institutions and of businesses which provide ancillary banking services in the scope specified below:

a) accounting consultants activities, book-keeping, tax record keeping,
b) procurement of deals,
c) engineering activities in investment production,
d) administration and maintenance of real property,
e) organisation of specialized courses, training, and other educational programs including teaching,
f) business, financial, organisational, and economic consultants activity,
g) data processing, database services, network (web) administration.

Authorised body - Board of Directors:

– Chairman of the Board of Directors: Henri Bonnet, born on 6 July 1949, date of entry into office: 10 September 2009*, member since: 10 September 2009*
– Member of the Board of Directors: Vladimír Jeřábek, born on 7 April 1968, member since: 2 June 2012*
– Member of the Board of Directors: Peter Palečka, born on 3 November 1959, member since: 7 October 2009*
– Member of the Board of Directors: Aurélien Gérard Étienne Viry, born on 2 November 1966, member since: 1 January 2011*
– Member of the Board of Directors: Charles Karel Vasak (Karel Vašák), born on 9 August 1960, member since: 1 August 2012*
– Member of the Board of Directors: Pavel Čejka, born on 13 December 1964, member since: 1 August 2012*

* with reference to the current term

Course of action:
Acting on behalf of the Bank: The Board of Directors, as the Bank's authorized body. shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.
Signing on behalf of the Bank: Either all members of the Board of Directors jointly or any two of its members jointly shall sign on behalf of the Bank.

Supervisory Board:
- Chairman of the Supervisory Board: Didier Alix, born on 16 August 1946, date of entry into office: 30 April 2009, member since: 30 April 2009
- Vice-Chairman of the Supervisory Board: Jean-Louis Mattei, born on 8 September 1947, date of entry into office: 30 April 2009, member since: 30 April 2009
- Member of the Supervisory Board: Petr Laube, born on 8 July 1949, member since: 30 April 2009
- Member of the Supervisory Board: Ing. Pavel Krejčí, born on 8 November 1963, member since: 29 May 2009
- Member of the Supervisory Board: Dana Neubauerová, born on 7 May 1964, member since: 29 May 2009
- Member: PaedDr. Karel Přibil, born on 14 December 1954, member since: 29 May 2009
- Member of the Supervisory Board: Bernardo Sanchez Incera, born on 9 March 1960, member since: 22 April 2011
- Member of the Supervisory Board: Ing. Bořivoj Kačena, born on 24 February 1943, member since: 30 April 2012
- Member of the Supervisory Board: Jean-Luc André Joseph Parer, born on 16 April 1954, member since: 27 September 2012

Shares:
38,009,852 pieces of uncertificated listed ordinary bearer shares, each of a nominal value of CZK 500

Registered capital:
CZK 19,004,926,000; of which paid up: 100%

Method of the Company's establishment:
In accordance with the privatisation project of the state financial institution Komerční banka, with its registered office at Prague, Na Příkopech 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole promoter, established the public limited company Komerční banka, a.s., based on the Deed of Incorporation of 3 March 1992 under S. 172 of the Commercial Code.

Branches of the business:
Name: Komerční banka, a.s., pobočka zahraničnej banky
Registered office: Bratislava, Hodžovo námestie 1A, postal code 811 06, Slovak Republic
Head of the structural division: Katarína Kurucová, born on 14 June 1974

Notes

Notes

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