NA PARTNERSTVÍ ZÁLEŽÍ

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Annual Report 2014

Komerční banka, a.s.

Survey of results 2010–2014

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2014	2013	2012	2011	2010
Financial results					
Net banking income	30,677	30,894	32,664	32,764	32,386
of which Net interest income	21,423	21,207	21,969	22,190	21,431
of which Net fees and commissions	6,752	7,077	6,971	7,305	7,725
Total operating costs	(13,034)	(13,148)	(13,485)	(13,489)	(12,666)
Attributable net profit	12,985	12,528	13,954	9,475	13,330
Net profit per share (CZK)[1]	343.78	331.68	369.44	249.97	351.20
Balance sheet					
Total assets	953,261	863,980	786,836	754,810	698,014
Loans to customers, net	494,706	473,089	451,547	434,386	384,593
Amounts due to customers	701,867	649,158	579,067	560,701	538,051
Total shareholders' equity	109,494	96,538	100,538	81,850	76,078
Ratios (%)[2]					
Return on average equity (ROAE)[3]	12.98	13.09	15.77	12.31	18.73
Return on average assets (ROAA)[4]	1.43	1.52	1.81	1.30	1.91
Net interest margin	2.56	2.80	3.13	3.30	3.30
Cost/income ratio	42.49	42.56	41.28	41.17	39.11
Capital[5]					
Capital adequacy (%)	16.42	15.81	14.66	14.61	15.27
Tier 1 ratio (%)	16.42	15.81	14.66	13.44	13.95
Tier 1	63,095	61,722	56,295	52,692	49,363
Tier 2	0	0	0	6,000	6,000
Total regulatory capital	63,095	59,087	53,684	55,581	52,405
Total risk-weighted assets	384,186	373,796	366,107	380,520	343,233
Other data					
Number of employees, average	8,520	8,604	8,758	8,774	8,619

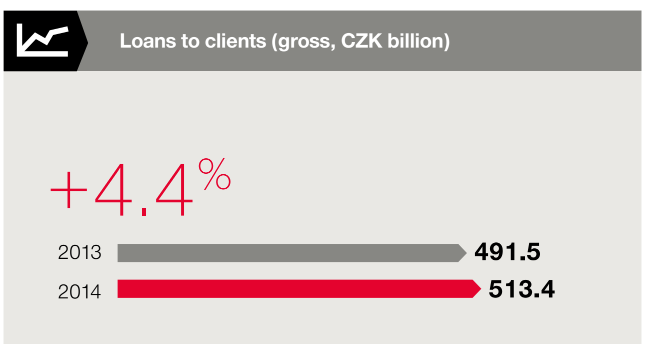
Credit ratings (as of end of March 2015)[6]	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A2
Fitch	F1	A-

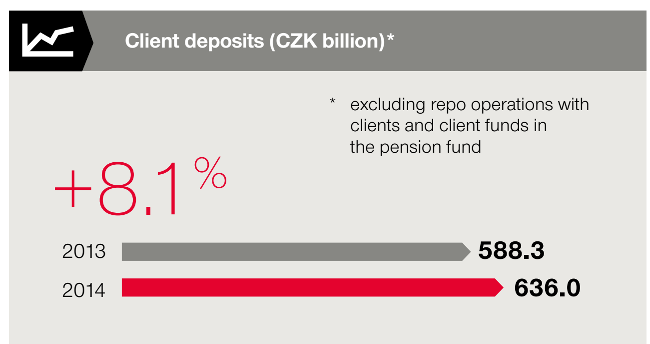
1) Net profit attributable to shareholders/average number of outstanding shares
2) According to the Komerční banka methodology
3) Net profit attributable to shareholders/average shareholders' equity excl. minority interest
4) Net profit attributable to shareholders/average assets
5) According to Basel II methodology in 2010–2013, Basel III since 2014
6) KB was assigned a credit rating by rating agencies registered under the Regulation of the European Parliament and Council Regulation (EC) No. 462/2013. KB has considered appointment of rating agencies in accordance with Article 8d of this Regulation.

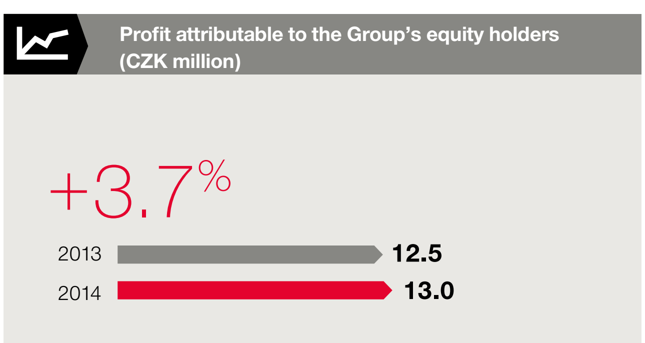
Unconsolidated data (CZK million)	2014	2013	2012	2011	2010
Financial results					
Net banking income	27,762	28,952	28,100	28,113	28,255
of which Net interest income	18,875	18,923	17,794	17,976	17,610
of which Net fees and commissions	6,370	6,672	6,990	7,104	7,429
Total operating costs	(11,843)	(11,790)	(12,008)	(12,011)	(11,427)
Net profit	12,796	13,123	12,249	7,951	12,035
Balance sheet					
Total assets	862,776	773,892	689,457	660,279	607,106
Loans to customers, net	449,180	423,295	396,189	372,688	334,834
Amounts due to customers	601,412	552,253	485,969	469,799	441,285
Total shareholders' equity	95,634	83,702	87,544	72,468	69,014
Ratios (%)[1]					
Return on average equity (ROAE)[2]	14.27	15.33	15.31	11.24	18.28
Return on average assets (ROAA)[3]	1.56	1.79	1.82	1.25	1.99
Net interest margin	2.37	2.63	3.02	3.08	3.12
Cost/income ratio	42.66	40.72	42.73	42.72	40.44
Capital[4]					
Capital adequacy (%)	17.05	16.01	15.32	15.75	16.67
Tier 1 ratio (%)	17.05	16.01	15.32	14.38	15.19
Tier 1	59,151	54,944	51,228	49,321	48,162
Tier 2	0	0	0	6,000	6,000
Total regulatory capital	59,151	52,902	49,102	52,492	51,243
Total risk-weighted assets	346,938	330,444	320,605	333,188	307,423
Other data					
Number of employees, average	7,624	7,706	7,845	7,855	7,819
Number of points of sale	399	399	400	398	396
Number of clients (thousands)	1,626	1,589	1,602	1,602	1,590
Number of ATMs	754	729	702	693	677

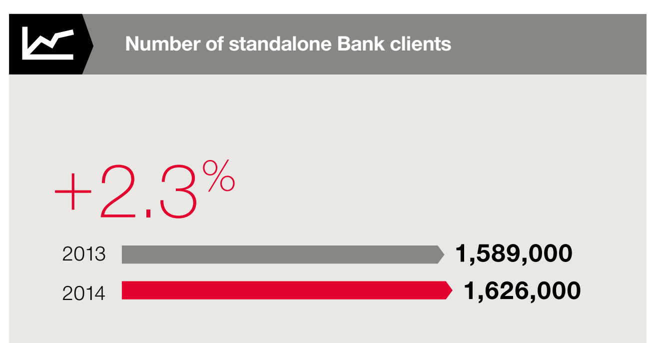
1) According to the Komerční banka methodology
2) Net profit/average shareholders' equity
3) Net profit/average assets
4) According to Basel II methodology in 2010–2013, Basel III since 2014

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 is a universal bank providing a wide range of services in retail, corporate and investment banking complemented by specialised financial services produced by KB’s subsidiaries or other SG Group companies. Long-term partnerships with clients, high-quality advisory, a comprehensive range of value-added products, advanced direct banking and proximity to the clients are KB’s strong competitive advantages. KB Group operates in the Czech Republic and also provides services to corporate clients in Slovakia.









Note: Full registered business names of all KB Group companies are listed on page 33 in this annual report.

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 'About the bank' section at **http://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.**

This document contains a number of forward-looking statements relating to the targets and strategies of 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 fulfilled. Forward-looking statements are valid only as of the date they are made, and it should not be assumed that they will be 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.

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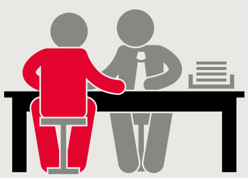
Main client segments+

Individuals



With its 1,371,000 clients, KB is the third largest bank in the Czech market by number of clients in the individuals segment. KB maintains a leading position among active clients, including young people and children.

Volume of loans (CZK billion)

2013	**164.9**
2014	**179.4**

Volume of deposits (CZK billion)

2013	**157.4**
2014	**173.2**

Small Businesses

KB is servicing 242,000 clients in the small business market, which makes it the market leader for that segment.

Volume of loans (CZK billion)

2013	**28.3**
2014	**28.0**

Volume of deposits (CZK billion)

2013	**117.4**
2014	**130.2**

Corporates and Municipalities

Advanced solutions in day-to-day banking, financing, asset management, trade finance, risk management and other services are used by more than 10,000 corporate clients and municipalities.

Volume of loans (CZK billion)

2013	**102.1**
2014	**102.5**

Volume of deposits (CZK billion)

2013	**143.8**
2014	**152.2**

Top Corporations

KB provides services to large corporate clients through dedicated teams of relationship managers who operate in five business divisions (one of which is located in Slovakia).

Volume of loans (CZK billion)

2013	**117.2**
2014	**134.9**

Volume of deposits (CZK billion)

2013	**97.6**
2014	**107.6**

Selected business transactions of 2014

Slovak Gas Holding B.V.

- Refinancing of existing facility and additional financing

EUR 1,780,000,000

Mandated Lead Arranger

SAZKA, a.s.

- Term Loan Facilities Agreement

CZK 7,500,000,000

Coordinator, Underwriter, Mandated Lead Arranger and Facility Agent

PAPCEL, a.s.

- Buyer's Credit
- Trade Finance

EUR 29,325,000

EUR 10,350,000

Complex bank services provider

PointPark Properties (P3)

- Acquisition and Development Financing

EUR 379,775,000

Mandated Lead Arranger

Pražská plynárenská a.s.

- Term Loan Facility Agreement

CZK 4,100,000,000

Mandated Lead Arranger, Acquisition financing

Františkovy Lázně AQUAFORUM a.s.

- Investment Loan

EUR 10,900,000

Complex bank services provider

Varroc Lighting Systems s.r.o.

- Multitranche Multicurrency Facilities Agreement

EUR 79,000,000

CZK 110,000,000

Mandated Lead Arranger

ZETOR TRACTORS a.s.

- Term and Revolving Facilities Agreement

CZK 840,000,000

Mandated Lead Arranger

City of Zlín

- Investment Loans

CZK 200,000,000

Complex bank services provider

Interview with the Chairman of the Board and Chief Executive Officer

When you look back at 2014, what were the main challenges facing the Bank?
Of course, last year brought a very welcome economic recovery, with Czech GDP growth of 2.0% that was due especially to improved household consumption and higher fixed capital investments. Nevertheless, this was only partially reflected in the demand for financing, which remained subdued in such important segments as small and medium-sized enterprises and consumers (with the exception of mortgages). Meanwhile, deposits from both businesses and individuals were rising faster than were their borrowings.

At the same time, we continued to operate (as we do today) in an environment of extremely low interest rates. To illustrate, the benchmark ten-year Czech government bond yield dropped to its lowest level in history. At the end of 2014 that yield was close to 0.5%, whereas it had been around 2.5% just one year earlier. Returns from reinvested deposits therefore diminished significantly, pushing down the net interest income.

As true for the banking industry as a whole, KB must constantly cope with ever-increasing regulatory demands. In 2014, this mainly involved implementing the Basel III regulatory framework with its greater capital requirements. It was also the year when the new Civil Code came into force, for which we had long been preparing. Both of these required sizeable investments in time and money terms, and we managed both successfully.

How did Komerční banka perform in such environment?
As we look at our commercial results, it's clear that we put in a great deal of effort and that we succeeded in reaping the opportunities presented by the economic recovery. KB grew the total volume of its loans by 4.5% year on year, mainly through financing to large corporations and the mortgages business. Along the way, we expanded our market share in mortgages and consumer lending.

Clients' trust in our Group was confirmed by the growth in deposits of more than 8%. We saw mounting interest in the non-banking savings and investment products, as mutual funds, life insurance and pension products all reported double-digit growth in client assets.

Thanks to these significant commercial efforts, as well as to the quality of our loan portfolio and disciplined cost management, we maintained our profitability in the difficult environment I have described. Net profit attributable to shareholders grew by 3.6% year on year.

What are you proud of? What were the main achievements?
I'm proud that we have been able to further develop our client-centric approach. KB's foremost advantage lies in long-term partnerships with our clients. That means it is of paramount importance that our employees are prepared to provide high-quality services and highly competent advisory. The increase in our client numbers was driven by the quality of our staff together with the MojeOdměny rewards programme.

Komerční banka reconfirmed once again that it is an innovative and fully multi-channel bank. We launched the new eTrading application that enables our corporate clients easily to execute foreign currency conversions, deposit transactions, and hedging of currency risk at any time.

We are mindful of the threats to banking security originating in cyberspace. One important step in our continuous efforts to enhance security was to introduce in 2014 the 3D Secure technology for internet payments.

I'm proud, too, of the awards which our Group received. KB won the title Best Bank 2014 and Komerční pojišťovna was awarded Best Life Insurer 2014 in the contest by Hospodářské noviny. I greatly value these awards, because they are based not only upon an economic evaluation but also take into account the products and services provided to customers. Students also named Komerční banka Top Employer 2014 among banking and investment institutions. This reflects well upon our efforts to attract students and KB's ability to offer our employees exceptional opportunities for self-development and career growth along with an attractive benefits package.

Last but not least, KB Group was again very active this year in the area of corporate social responsibility while focusing on sponsoring and charity projects. For example, KB has become an important partner of the National Gallery, which joins the National Theatre as our most important cultural sponsorships. Then, too, Komerční banka's Jistota Foundation supported 99 projects which mainly focused on seniors, children and youngsters. Its donations during 2014 exceeded CZK 9 million. Among many other activities, 258 employees of KB Group volunteered in the Citizen Commitment Games campaign organised by Société Générale as part of its 150th anniversary celebration. The Games raised funds in support of the Okamžik association, which works with the visually impaired.

How has KB changed during 2014 in order to be prepared for the future?
First of all, we continued to invest into training and developing our employees. They are the ones who will ultimately make the Bank successful in a very competitive marketplace. Of course, this is an ever-ongoing process that must be refined continuously.

As I have already announced, KB launched its transformation programme last year with the aim of enhancing our position in selected segments and increasing the Bank's agility in the environment of constant change.

The first effects are already becoming apparent. One of our priorities is to continue in developing our multi-channel approach. We expect branches to continue playing a key role in the relationship with our clients. Our new branch concept was piloted, and we proceeded to implement it within our network. KB will continue in implementing this concept during 2015. At the same time, we have continued to develop our on-line offer of products and services. During 2014, the number of Mobilní banka users grew by 64%. This confirms our ability to be present in those channels corresponding to our clients' preferences.

We have worked on simplifying our internal processes and improving our agility and efficiency. This is visible not only in our careful control over operating costs but also in our improving response time to client demands.

KB also took the steps necessary to manage the regulatory initiatives planned for the near future. The banking sector faces mounting regulatory requirements, and answering to them is part of both our daily management and long-term planning. Even though we respond very efficiently to these demands, banking is nevertheless becoming a more and more costly business.

What are the three main priorities for 2015?
First of all, we will be commercially proactive and deploy our capacities to take full advantage of all those opportunities that the continuing economic recovery should present. We will strive especially to develop lending in all client segments.

Second, we will continue our efforts directed to shaping KB's culture with the aim of enhancing agility, simplicity and accountability so that we are better able to respond to the dynamic regulatory, economic and technological developments.

None of these things can achieve very much, however, if we do not endeavour to maximise our clients' satisfaction. While maintaining our wide range of products and services, we will simplify access to them via whichever channel or channels the clients prefer. As I noted a few minutes ago, we have plans for further developing our internet and mobile banking even as we introduce new services through call centres and implement the new branch concept.

I'm confident that with our skilled and engaged staff, we will achieve our priority objectives, thereby enabling Komerční banka to be the bank of first choice for all of our partners, clients, employees and shareholders.

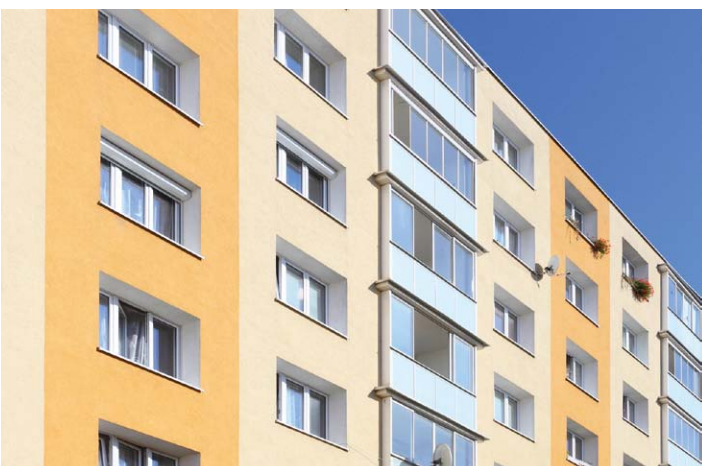
Please allow me to conclude by expressing thanks to all of our clients and our shareholders for their trust.

Albert Le Dirac'h
Chairman of the Board of Directors
and Chief Executive Officer

Major events in 2014

January

Komerční banka began providing advantageous loans for the repair and modernisation of residential buildings under the EU's JESSICA programme, implemented in the Czech Republic by the State Housing Development Fund.



February

KB SK implemented changes to payment standards within the Single Euro Payments Area (SEPA), which essentially meant eliminating country borders within SEPA for banking transfers.

The Bank extended its payment cards portfolio to include contactless debit cards from Visa.

March

KB became the first bank on the Czech market to introduce technology for using contactless payment cards at vending and automatic payment machines (e.g. to pay for snack foods, parking or mobile phone top-ups).

April

The General Meeting approved KB's results for 2013, distribution of the 2013 profit (including the dividend payment of CZ 230 per share), and contracts with members of the Supervisory Board and Audit Committee. It also confirmed the Bank's authority to acquire its own shares into treasury.

Pavel Racocha was elected Chairman of the Board of Directors and Chief Executive Officer at KB Penzijní společnost.

May

Joining forces with the Association of Small and Medium-sized Enterprises (AMSP), KB launched the second year of the Start up! grant programme for young and beginning entrepreneurs.

NA STAR TUJTE SE.CZ

June

In co-operation with the AMSP, Komerční banka offered entrepreneurs and firms an opportunity to obtain direct financial support for their projects through a grant programme dedicated to supporting new business plans and ideas for innovations.

David Formánek was elected Chairman of the Board of Directors and Chief Executive Officer at Modrá pyramida.

July

Komerční banka increased the equity of KB Penzijní společnost by CZK 220 million.

August

KB and the European Investment Bank (EIB) entered into an agreement enabling the Bank to offer more advantageous financing to companies providing work experience and opportunities for young people.

September

Komerční banka was named Best Bank and Komerční pojišťovna Best Life Insurer in a contest by the daily newspaper Hospodářské noviny.

The Czech Agrarian Chamber and KB signed a co-operation agreement. Simultaneously, the Bank extended its co-operation agreement with the Federation of the Food and Drink Industries of the Czech Republic.

October

Komerční banka became the general partner of the National Gallery in Prague.

November

KB Penzijní společnost was named the Best Pension Fund in the Czech Republic again in 2014. The recognition came from the Global Banking & Finance Review portal.

Security was improved for card payments on the internet by KB's introducing 3D Secure technology.

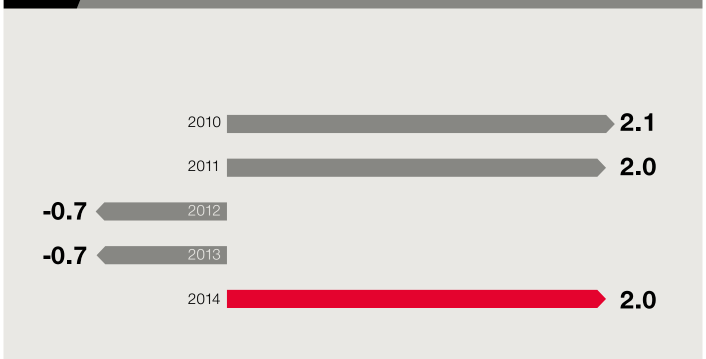
The Supervisory Board re-elected Aurélien Viry as a member of KB's Board of Directors.

December

The new eTrading application allowed KB's corporate clients to execute foreign currency conversions, grow their uncommitted funds, and manage currency risks more quickly and conveniently 24 hours a day during business days.

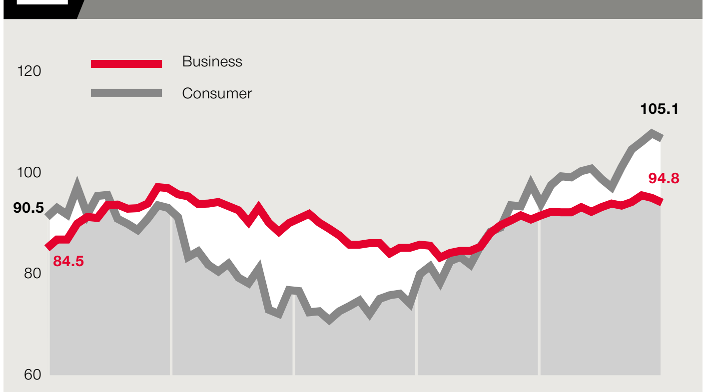
Macroeconomic development in 2014

Real GDP growth (%)



The Czech economy registered growth of 2.0% in 2014, the best result of the past three years. Real gross domestic product increased after declining by 0.7% in each of the previous two years. Recovery in the Czech economy was driven almost solely by domestic demand, as investment activity and household consumption grew at their fastest paces since 2007 and 2008, respectively. The economy expanded in all quarters of the year. In both the first and second quarters, GDP growth reached 0.3% quarter over quarter while the third and fourth quarters saw an acceleration to 0.4% quarter on quarter due to an ongoing pickup in domestic and foreign demand. In terms of gross value added (which better captures the actual performance of the economy), the final three months of the year were the strongest, as the gross value added gained a solid 1.1% quarter over quarter.

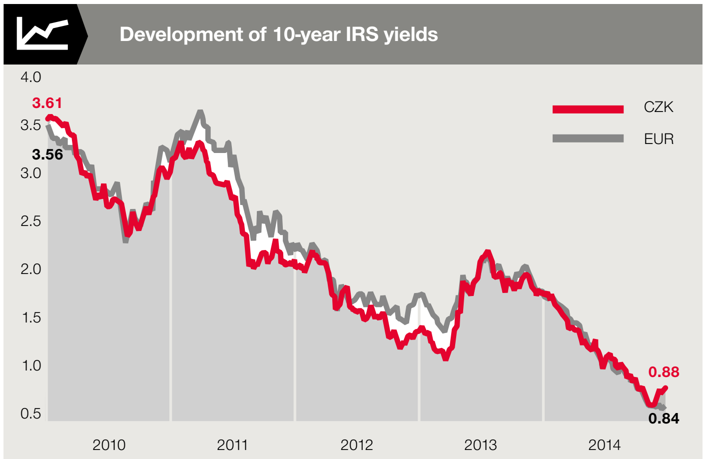
Business and consumer confidence indicators



The macroeconomic development in 2014 was marked by a return of confidence across all segments and sectors of the economy. The confidence indicators for consumers and business improved to levels last seen before the crisis. Households' willingness to increase their spending and companies' readiness to begin investing were supported also by economic policy. Fiscal policy turned expansionary, and monetary policy remained extremely loose as the central bank continued its intervention regime. The final months of the year were also marked by a positive supply shock, as the price of oil declined significantly on global markets and that was reflected in decreasing fuel prices.

The growth in gross value added was mainly attributed to the industrial sector, where production for 2014 as a whole expanded by 4.9% in real terms. The automotive industry was the main driver, growing by 13%, followed by metalworking industry (+6.0%) and by production of electrical equipment (+7.3%). Weakening of the Czech crown in November 2013 manifested itself during 2014 in strong growth of sales (by 8.4% in nominal terms), mainly in export-oriented sectors. Car manufacturers' sales were up by nearly one-fifth (19.5%) while producers of computers and electronic devices saw an overall gain of 17.3%. Receipts from direct exports of industrial enterprises were higher by 15.9% in nominal terms. Thanks to this robust export activity, the trade balance (according to national methodology) ended at a surplus of CZK 157.1 billion, the best figure ever. The total volume of exports expanded year over year by 13.4% while imports rose by 12.1%. After five years of uninterrupted decline, even construction output started to grow. It increased by 2.3% in real terms, solely due to civil engineering (+7.5%).

The economic recovery reflected positively in creation of new jobs and rising employment. After seasonal adjustment, the unemployment rate was coming down throughout the year. This favourable development accelerated toward the end of 2014, when the unemployment rate (measured by the ILO methodology) reached 5.8%, which was one percentage point below that of a year earlier. Unemployment thus declined to the lowest level since the beginning of the crisis in 2008. The employment rate, meanwhile, reached 69.8%, which is the highest level since reporting of that indicator began in 1993. Wage growth apparently bounced back from its bottom. Thanks to low inflation, the rise in real wages was the strongest in five years. The increasing disposable income in combination with high consumer confidence led



to a 5.4% rise in real retail sales for the year as a whole. Contributing most to this growth was the motor vehicles segment (+11.6%), as the service sector expanded in real terms by just 0.6%.

Price inflation was low and even with a disinflationary trend during 2014. Despite the inflationary shock due to the weaker Czech crown, inflation averaged just 0.4% in 2014. That was the lowest since 2003 and second lowest in the history of the Czech Republic. The main reason for the subdued inflation lie in the development of regulated prices, followed by prices of fuels and food. Core inflation was up 0.7% after dropping by 0.5% in 2013.

In spite of the visible recovery in the domestic economy and a marked rise in domestic demand, 2014 saw a persistent decline in market interest rates and flattening of the yield curve. The reasons were to be found mainly in the euro zone, where economic recovery was slow and uneven, inflation and inflationary expectations were decreasing (especially with the drop in oil prices at the end of the year), and uncertainty reigned in connection with developments in Ukraine and Russia. The ECB reacted by further easing monetary policy, cutting the deposit rate into negative territory. By the end of the year, there even were rising expectations that it would begin purchasing government bonds of EMU countries. Due to the tight link between the Czech and other European markets, CZK-denominated bond yields drifted to new all-time lows. Although money market rates had decreased most strongly already in the previous years, the continuing growth in free liquidity, the effect of declining EUR money market rates, and postponements by the CNB in ending its intervention regime led to a further downward shift in PRIBOR rates. The benchmark three-month PRIBOR closed the year at 34 basis points. The yields on Czech government bonds (CZGB) followed the development of German bunds (and other European bonds). CZGB also were supported by a policy of the Ministry of Finance, which decided to draw upon the state's liquidity reserve to meet a large part of its borrowing needs. The relatively limited offer of government bonds, consequences of the chase for yield, and effect of sliding foreign rates were behind a drop in the ten-year CZGB yield to significantly below 1%. The spread between Czech and German bond yields narrowed at the same time, and by the end of the year it had nearly disappeared on ten-year bonds. The asset swap spread on the benchmark ten-year bond sank deeply into negative territory. The Czech interest rate swap rates, and especially at the longer end of the yield curve, followed their euro zone counterparts as the ten-year swap had fallen by the end of 2014 to 84 basis points.

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 (PSE) 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.

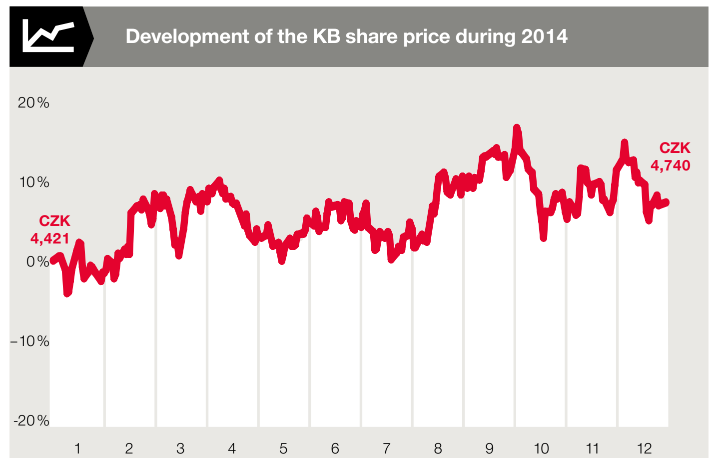
Stock market performance

Global equity markets reached all-time highs in 2014, although the growth was primarily led by a strong US market. Worldwide, there were significant differences in the performance of various regions and sectors. The year saw a surge in volatility, mainly caused by geopolitical tensions (crisis in Ukraine, Islamic State's offensive in the Middle East, outbreak of Ebola) or more narrowly economic themes (shaky recovery in the euro zone, transient doubts about the US economy or the Fed's quantitative easing programme, sharp drop in the price of oil). For the whole of 2014, the US stock market's S&P 500 index thus gained 11.4% in USD terms (27.9% in CZK terms). That compares to an increase of 2.9% (18.1% in CZK) in the MSCI World Index. European equities performed more weakly than the global average, as the broad STOXX Europe 600 index rose by 4.4% in euro terms (5.5% in CZK terms) while its sub-index comprising major European banks (including Komerční banka) even declined by 2.8% (−1.7% in CZK terms). Despite the Czech Republic's solid economic performance generally, its equity market persisted in its uninspiring performance – declining by 4.3% while traded volume continued to diminish.

KB share price development

The KB shares closed out trading for 2014 at CZK 4,740, which was 7.2% above the closing price of a year earlier. As of 31 December 2014, Komerční banka's market capitalisation stood at CZK 180.2 billion (EUR 6.5 billion[1]), ranking it third among titles listed on the PSE. The average daily trading volume on the PSE of CZK 168.2 million (EUR 6.1 million)[2] was the second highest among shares traded on the exchange and represented a daily capital rotation of 0.09%.

The price trend for KB's shares was generally rising during 2014, as the low for the year was touched already on 7 January at CZK 4,230.



Nevertheless, gains from the first quarter were reversed during an April market correction which was linked to multiple factors, including signs of slowing growth in China and worsening relations between the West and Russia. Importantly, KB shares went ex-2013 dividend on 22 April 2014. The announcement of KB's results for the first quarter confirmed the Bank's ability to protect its profitability and to keep operating and risk costs under control. The share price therefore reacted positively. The beginning of summer brought downward revisions of global economic forecasts, however, and banks generally were hit by fears of losses from litigations with regulators. KB's results from the second quarter were perceived well and again gave the share price a boost such that it ended the third quarter on 30 September at CZK 5,179. That turned out to be the highest price for 2014. The beginning of the fourth quarter was marked by a rather sharp correction on global equity markets, as investors became more risk-averse following a flow of weak economic data. The share price development was rather volatile through the remainder of the year.

The gross dividend of CZK 230 per share paid out in 2014 from 2013 net profit represented a dividend yield of 5.2% based upon the closing share price for 2013.

In view of the result achieved in 2014 and while considering KB's capital-generating capacity and the needs for financing growth of risk-weighted assets, as well as the Czech National Bank's increased capital requirements, Komerční banka's Board of Directors has decided to propose to the Supervisory Board a dividend payment of

1) CZK/EUR exchange rate 27.725 as of 31 December 2014
2) CZK/EUR average exchange rate 27.533 for 2014

CZK 11,783 million. That would come to CZK 310 per share and put the payout ratio at 90.7% of KB Group's attributable net profit. The corresponding gross dividend yield based on 2014's closing share price is 6.5%. Given the current state of affairs, the Board of Directors intends to propose increased distribution in the range of 80–100% of attributable net income also in 2015 and 2016. The dividend payment is ultimately decided by the General Meeting.

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

Total return for shareholders

The total return from holding KB shares in 2014 was 11.8%, comprising a 7.2% gain in the share price and the contribution from reinvesting the net dividend on the payment day.

Dialogue with shareholders and the capital market

Apart from the 60.4% of KB's share capital held by Société Générale, an international financial services group headquartered in Paris, France, 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 more than 43,000 shareholders as of 31 December 2014, individuals resident in the Czech Republic numbered more than 38,000. The vast majority of freely traded shares are held by institutional investors located in main global financial centres, such as New York, Boston and London.

KB works to build long-term relationships with its shareholders through regular and open communication with all capital market participants. During 2014, Komerční banka management participated in more than 100 investor presentations and meetings involving approximately 190 institutions in Prague, London, New York, Boston, Philadelphia and Madrid.

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

Cumulative and average annual total return for Komerční banka shareholders reinvesting net dividends
As of 31 December 2014

Duration of shareholding	Position acquired	Cumulative total return	Contribution from share price increase	Contribution from reinvested dividends	Average annual total return*
10 years	30 December 2004	127.7%	44.9%	82.8%	8.6%
5 years	30 December 2009	51.5%	20.6%	30.9%	8.7%
1 year	30 December 2013	11.8%	7.2%	4.5%	11.8%

* geometric mean

Information on Komerční banka shares

	2014	2013	2012	2011	2010
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	37,771,180	37,771,180	37,955,852
Market capitalisation (CZK billion)	180.2	168.0	152.4	126.6	168.6
Earnings per share (CZK)[2]	343.8	331.7	369.4	250.0	351.2
Dividend per share for the year (CZK)[3]	310.0[4]	230.0	230.0	160.0	270.0
Dividend payout ratio (%)[5]	90.7	62.7	62.7	64.2	77.0
Book value per share (CZK)[6]	2,816.0	2,479.6	2,588.5	2,089.1	1,970.2
Share price (CZK)					
– closing price at year-end	4,740	4,421	4,010	3,330	4,435
– maximum	5,179	4,810	4,214	4,510	4,583
– minimum	4,230	3,400	3,089	2,900	3,250

1) Nominal value of each share is CZK 500
2) Earnings attributable to shareholders per average number of shares outstanding (IFRS consolidated)
3) Dividend per share before tax. The statutory tax rate applicable in the Czech Republic is 15% or, in certain cases, 35%. Dividend is paid in the following year.
4) Proposal for the Annual General Meeting on 23 April 2015
5) Total dividend paid / Consolidated net profit attributable to shareholders (IFRS consolidated)
6) Shareholders' equity exclusive of minority equity per share (IFRS consolidated) divided by average number of shares outstanding

Economic events during 2014

Recovery in domestic consumption

Overall confidence in the Czech economy gradually improved during 2014, most significantly in the construction and entrepreneurial sectors and with a contribution from increasing consumer confidence. An impetus may have come from the ending of fiscal consolidation and beginning of a more-relaxed fiscal policy. Growing confidence also manifested itself in recovering domestic demand, as both household consumption and investment spending by non-financial enterprises grew.

Changes in European banking regulation

In the European Union, CRD IV/CRR, a set of new capital and prudential requirements for banking enterprises, came into force on 1 January 2014. Under the direction of the European Central Bank (ECB), a Comprehensive Assessment of the financial health of the 130 largest European banking groups began in November 2013. Its results were published in October 2014. In November 2014, oversight of the most important European banks was transferred from national authorities to the ECB. Supervision of Czech banks remained with the Czech National Bank, although it co-operates with the ECB and member states' authorities particularly within so-called colleges of supervisors.

A weaker Czech crown

The Czech crown's weakening exchange rate due to the CNB's currency intervention was reflected in the real economy in 2014. The weaker crown helped to boost profit margins and thereby non-financial enterprises' operating profits. The increased price competitiveness of Czech manufactures on foreign markets ensured that exports growth would exceed even the dynamics of effective foreign demand.

Further decline in interest rates

Interest rates continued to fall during 2014, reaching new all-time lows. Business thus obtained lower financing costs and households enjoyed very low mortgage rates. Banks had to adjust to the new market conditions.

Lower oil prices

Weaker growth in the global economy meant lower demand for commodities, including oil. Also adding to world oil supplies was the development of shale oil extraction, particularly in the US. The Organization of the Petroleum Exporting Countries (OPEC) did not reduce output, and that led to further disinflationary tendencies. In the Czech Republic, a decrease in prices for industrial production inputs could lead to deflation in the short term, but it may also improve industrial productivity.

Report of the Board of Directors on the Bank's and Group's business activities and financial position

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.

Declaration on principles of corporate social responsibility

Code of conduct
Komerční banka recognises that only by taking an ethical 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.

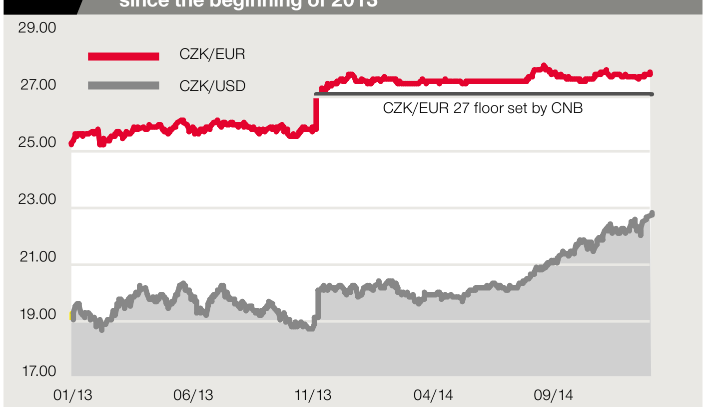
Corporate governance
Komerční banka adheres to and voluntarily upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004 and issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the websites of the Ministry of Finance of the Czech Republic at **www.mfcr.cz** and of the Czech National Bank at **www.cnb.cz**.

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. It then adopts measures directed to effectively reducing its environmental impact.

Main assumptions for 2015

Komerční banka anticipates the Czech economy will continue to build upon the solid growth achieved in 2014. Gross domestic product is expected to expand at a similar pace as in 2014 (i.e. by 2.3%). In contrast to past years, growth should be driven mainly by domestic demand while benefitting from improved levels of economic confidence among households and businesses. Further support will come from expansionary monetary and fiscal policies and the drop in oil prices. This should be reflected positively in a gradual decline in the unemployment rate; greater investments into construction of new housing, production capacities and infrastructure; and even slightly rising real wages. Despite healthy demand, inflation will probably fluctuate around or even below zero, dragged down mainly by the lower oil prices. In such conditions, the Czech National Bank is not expected to withdraw the currency intervention regime set in November 2013, or to start raising the benchmark interest rates. The market's short-term and long-term interest rates may thus remain at very low levels throughout 2015.

Development of CZK/EUR and CZK/USD exchange rates since the beginning of 2013



Improved business confidence should bring stronger demand for financing of companies' new investments or acquisitions. On the other hand, corporates' high cash balances may allow them to tap these reserves first before turning to external funds. In retail, better conditions on the job market might improve clients' willingness to take consumer loans, while low interest rates and stabilised property prices should help to sustain growth rates in housing lending.

KB expects the competitive situation on the Czech banking market will remain challenging across all client segments. In the context of low yields from financial assets and generally high liquidity in the Czech banking sector, banks will aim to deploy the collected funds primarily by lending to clients. Furthermore, overall market dynamics may be affected by some participants' likely attempts to improve their market positions or to achieve sufficient operational scale.

Strategy and priorities for 2015

Komerční banka's strategy is based on building long-term, mutually beneficial relationships with its clients, thereby allowing the Bank precisely to identify dynamic changes in clients' needs and expectations while constantly adapting its services offer in accordance with this knowledge. KB is developing a universal-banking model focused upon meeting the financial needs of its clients. Within that model, KB's investment banking activities are predominantly dedicated to serving clients and are constrained by conservative limits.

Among the principal advantages which KB perceives as differentiating it from the competition are its superior client knowledge, high-quality advisory provided to clients by the Bank's skilled staff, comprehensive range of products meeting clients' comprehensive needs, proximity to clients through a balanced network of branches and advanced direct channels, as well as operational efficiency and prudent risk management.

In 2015, the Group will focus on further boosting the satisfaction of its clients.

KB is progressively reflecting changes in technology and clients' expectations in its client relationship management systems. The branch network will remain the main base for building mutual relationships, and KB will be adapting the design of its branches so that privacy and efficiency of servicing clients are enhanced. At the same time, Komerční banka will introduce further improvements in its direct channels, thereby confirming the Bank's market leadership in multi-channel service and sales capabilities. In the integrated distribution model, Komerční banka will continue developing synergies with complementary channels, such as those of Modrá pyramida, other KB and SG Group companies, and even third parties.

High-quality advisory remains KB's strong competitive advantage across client segments. The Group invests substantially in improving the competence of relationship managers and equipping them with the most useful information and tools. KB will continue to invest into its most valuable asset – the employees – because the Group can achieve its objectives and have satisfied clients only through the work of skilled, loyal and credible people.

Lending growth in both retail and corporate segments remains a priority for KB Group also in 2015, and the Group will be enhancing its credit distribution capability. This effort should be underpinned by Komerční banka's strong capital, liquidity and operational standing, as well as the ongoing economic recovery in the Czech Republic. Client segmentation will be refined in order to keep the service model efficient and commensurate with customer expectations. The development of sales and advisory capacities will also encompass simplification of processes involving clients and refinements in certain credit-granting approaches.

A focus on operating efficiency is an integral part of KB's corporate culture. In order to improve the capacity to respond in a timely manner to changes in the dynamic market, as well as economic, regulatory and technological developments, KB is launching initiatives aimed to reinforce agility, simplicity and accountability in its day-to-day business. From a medium-term perspective, efficiency will be boosted, too, by upgrading selected key elements in the IT infrastructure. Generally, KB is ready and committed to allocating adequate resources to develop the future growth drivers for its business.

In the context of progressively increasing regulatory requirements, and so that the additional costs will not be prohibitive, KB must address new regulatory initiatives in the most efficient manner. In line with the previous year, KB will keep its capital adequacy and liquidity strong and fully compliant with the applicable standards. Risk Management is pursuing a prudent and balanced approach to all types of risks assumed. It aims to support development of the Group's business activities, and that includes sustainably growing 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.

Main challenges and risks for the Bank and Group in 2015 and expected developments in the financial situation

Komerční banka's capital and liquidity include adequate buffers to absorb unexpected adverse developments on the market and to continue developing its business activities and lending to clients. 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 assured 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.

Reflecting Komerční banka's systemic importance on the Czech banking market, its performance is closely linked with that of the Czech economy and, to some extent, the Slovak economy. Both countries have open economies which are fully integrated into the EU's internal market. Should the Czech economy develop more poorly than expected as of the beginning of 2015, KB's results would be affected negatively. The potential scenario of a mild recession in 2015 would mean slower growth or even moderate decline in business volumes and revenues along with a rise in risk costs. Average risk weights of assets would increase, thus leading to a slight decrease in capital adequacy ratios. Those ratios would nevertheless remain safely above the regulatory requirements. KB Group's business model has proven its robustness, and the Group's operations should remain profitable.

The outlook for the Group's net interest income would worsen if market interest rates were to decline further from the level reached at the beginning of 2015, because low interest rates weigh upon average returns from reinvesting deposits. Thanks to KB's long-term effective hedging policy, the decrease is gradual and relatively slow. A potential softening of demand for loans might lead to even more intense competition and, thereby, further squeeze lending spreads.

KB expects that competition on the market will remain intense, and the Group will need to reflect this fact in its pricing. An increasing proportion of clients will switch to new, generally lower-priced account packages and transaction methods. KB intends to compensate for the income lost due to this trend by developing advisory with added value for clients, cross-selling of non-bank savings and investments, as well as a comprehensive offer of credit solutions, including structured and syndicated financing as well as trade finance products.

European and Czech regulatory authorities are about to implement several initiatives which will generally increase costs in the banking business.

In accordance with its obligation under the EU's Bank Recovery and Resolution Directive, the Czech Republic is expected to establish a Bank Resolution Fund and require Czech banks to contribute to building that Fund to its target volume within 10 years. The target volume is expected to be set at 1% of covered deposits, which in 2015 would amount to approximately CZK 27 billion. Given KB's share in the Czech banking system's liabilities and deposits, it is reasonable to expect that Komerční banka's contribution will amount to several hundred million crowns annually, although the parameters for distributing the levy among banks were not known at the time of this writing. The cost to be borne in 2015 will depend upon when the measure will be enacted and when it will come into force.

A parallel change is expected in banks' contributions to the Deposit Insurance Fund such that the required contributions will newly be calculated from the volume of covered deposits. To date, banks have been obliged to pay contributions also for certain deposits which are effectively not covered by potential reimbursement from the Deposit Insurance Fund. In this case, too, the impact in 2015 will depend upon the date when the change comes into force.

Also proposed is new EU regulation on interchange fees for card-based payment transactions. Due to a decision taken by certain payment card associations in light of the forthcoming regulation, the Bank will see smaller revenues related to issuing of payment cards. The estimated full-year negative impact on revenues in the year when the regulation comes into force will come to several hundred million crowns. It is possible that the regulation will take effect already during 2015.

Finally, in 2015, the review of capital requirements conducted by the Czech National Bank and within the College of Supervisors may further raise the level of capital KB is obliged to maintain, thereby increasing the cost of lending to clients.

In the conditions envisaged at the start of 2015, management expects the Bank's operations will generate sufficient profit in 2015 to cover the Group's capital needs which ensue from its growing volume of assets as well as to pay dividends.

PAVEL ČEJKA
Chief Administrative Officer

PETER PALEČKA
Corporate Secretary

ALBERT LE DIRAC'H
Chairman of the Board of Directors and Chief Executive Officer

KAREL VAŠÁK
Top Corporations
and Investment Banking

VLADIMÍR JEŘÁBEK
Distribution – Retail
and Corporate

AURÉLIEN VIRY
Risk Management

Board of Directors

Clients of KB Group and their service

Komerční banka's business model is founded upon building long-term relationships with customers. KB Group perceives its competitive advantages on the banking market as consisting in strong partnerships with clients, high-quality advisory delivered by qualified banking advisors, a wide range of advantageous financial products, and proximity to its clients via the branch network and advanced, secure direct banking.

At the close of December 2014, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,626,000 clients (+2.3% year on year), of which 1,371,000 were individuals. The remaining 255,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 554,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 555,000. ESSOX's services were being used by 274,000 active clients.

The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,269,000 by the end of December 2014 and corresponds to 78.1% of all clients. Customers held 1,532,000 active payment cards, of which 191,000 were credit cards. The number of active credit cards issued by ESSOX came to 127,000. The development in internet banking continued in 2014, as the number of users of the MojeBanka platform rose by 13% to 1,164,000. The number of users in mobile banking increased by more than 58% to 154,000.

It is through the branch network and several state-of-the-art direct banking channels that Komerční banka builds its relationships with clients. The subsidiaries' distribution capacities further supplement these service avenues (in particular Modrá pyramida). For selected products, KB works together with business partners, such as by co-operating with Česká pojišťovna, which includes mutual selling of property insurance at KB branches and of mortgages through the insurance company'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 399 banking branches (including one branch for corporate clients in Slovakia), 754 ATMs, plus full-featured direct banking channels supported by two call centres. Modrá pyramida's customers had at their disposal 215 points of sale and 1,059 advisors. SG Equipment Finance (SGEF) was providing its leasing services via 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 and for the business results. Independent surveys have rated KB advisors as the best on the market[1], mainly because the banking services they provide correspond to client needs. This means delivering simple services efficiently and quickly, comprehensively identifying client objectives to determine appropriate solutions that include products with high value added, and utilising synergies all across the KB and SG groups.

The high quality of the Bank's offer to clients in combination with its financial strength earned Komerční bank the title Best Bank 2014 in the prestigious Hospodářské noviny survey.

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.

1) Source: Barometr spokojenosti 2014, conducted by Agentura Ipsos through telephone interviews, sample size of 4,000

Selected business data+

Number of clients	31 December 2014	31 December 2013	Change %
KB	1,626,000	1,589,000	2.3
- individual clients	1,371,000	1,337,000	2.5
- using direct channels	1,269,000	1,165,000	9.0
Modrá pyramida	554,000	574,000	(3.5)
KB Penzijní společnost	555,000	564,000	(1.5)
ESSOX	274,000	284,000	(3.5)

Loan portfolio (CZK million)	31 December 2014	31 December 2013	Change %
Volume of mortgages	162,600	148,600	9.4
Volume of other loans from KB to individuals	19,200	18,300	4.9
Volume of ESSOX's loan portfolio	9,500	9,800	(3.1)
Volume of Modrá pyramida's loan portfolio	38,300	43,600	(12.2)
Loans to small businesses	28,000	28,300	(1.1)
Loans to corporates (KB)	224,700	213,900	5.0
Volume of total financing (Factoring KB)	6,200	4,500	37.8
Volume of total financing (SGEF)	22,900	21,600	6.0

Individuals

During 2014, Komerční banka reconfirmed its position as the third largest bank on the Czech market in the Individuals segment[1]. The Bank acquired more than 131,000 new clients in this segment, bringing the total number to 1,371,000. That represents a year-on-year gain of 2.5%. The Bank continues also to maintain a prominent position in the children and youth segment, with more than 428,000 accounts.

The situation on the retail banking market was characterised by a strong competitive environment and a rather large number of competitors, including full-service banks as well as specialised and new players. At the same time, regulatory demands have been heightened. A clear trend was seen in growing client demand for service via digital tools and a multi-channel mix.

The Bank further developed its lending to individual clients. Despite intense competition, this successful strategy was reflected in excellent results for most loan products. The total volume of housing loans from KB Group grew year on year by 4.4%. In the environment of low interest rates, customers preferred mortgages to building society loans. KB's mortgage portfolio thus expanded year on year by 9.4% to CZK 162.6 billion even as the volume of loans provided by Modrá pyramida decreased by 12.2% to CZK 38.3 billion. The overall advantageousness of the Bank's mortgages earned its Flexible Mortgage second place among mortgages on the Czech market in the Zlatá koruna 2014 ranking. Although the market was generally flat, the Group succeeded in growing the volume of consumer financing. In a year-on-year comparison, the volume of other loans from KB to individuals rose by 4.9% to CZK 19.2 billion and the volume of financing by ESSOX decreased by 3.1% to CZK 9.5 billion.

The year 2014 saw continuation of the successful MojeOdměny (MyRewards) client programme through which KB rewards clients for their activities. This brought an increase in the number of active clients and growth in financial product sales.

During 2014, the Bank developed especially activities directed to optimising the financial services offer for its clients. It also introduced a number of innovations and improvements in day-to-day banking and contractual documentation. In the lending area, the mortgage refinancing process was improved while consumer loan approval and the loan consolidation process were simplified. KB continued to develop the MojeBanka and Mobilní banka applications, and it improved security for card payments on the internet by introducing 3-D Secure technology.

In the investment area, KB offered new Amundi funds including Czech tranches and the Investment Assistant service. Investment Assistant provides investors important information on capital market developments and investment trends while facilitating their adequate responses to those trends. KB developed the MojePlány (MyPlans) application, which works with clients' investment profiles and, with a view to their income and spending, offers comprehensive recommendations for saving, investment and credit services.

With the objective of enhancing the efficiency, usefulness and comfort it affords clients, KB will maintain its focus on simplifying processes and services. The Bank will continue to provide comprehensive services and high-quality, long-term advisory that truly adds value for the client. In accordance with this strategy, KB will endeavour to boost the number of its active clients. Innovations can be expected across the entire range of financial services – from customer care to the offer of accounts, payment cards, financing, investments and insurance products. In view of the persisting difficult conditions on the deposits market, KB continues in developing long-term savings and investment solutions.

Private Banking

KB offers comprehensive Private Banking services to clients with financial assets exceeding CZK 20 million at selected branches across the entire Czech Republic and also, according to clients' preferences, outside the Bank's business premises. Clients with assets in excess of CZK 10 million have access to selected Private Banking products at all the Bank's regional branches.

Services provided include those meeting day-to-day financial needs as well as highly specialised investment services for managing

1) Source: Data published by Czech banks

clients' financial assets. Of the open-architecture investment solutions available, clients are using especially structured products, funds, guaranteed savings insurance policies and securities. KB Private Banking also successfully furnishes private portfolio management as well as real estate and Lombard loans for financing clients' private needs.

Private Banking again recorded double-digit growth for 2014 in the volume of assets under management. The Bank thus succeeded in utilising its strong standing on the Czech market for prestigious banking services. The result was supported by, among other things, recovery in the market for mergers and acquisitions.

In 2015, KB Private Banking will focus on strengthening internal synergies. Sharing of expertise and analytical support with SG Private Banking will continue, including to utilise the support of expert centres for open-architecture investment solutions. Within the gradually reviving market for mergers and acquisitions, KB Private Banking offers wealth management services to owners selling their companies including to assist in the selling process, in multi-generational structuring of assets, and in building financial assets portfolios.

Small businesses

From the perspectives of both client numbers and breadth of services, KB has long held a leading position in the small businesses segment. As of the end of 2014, Komerční banka was servicing more than 240,000 clients in the small business market and thereby confirming its position as market leader. With its individualised approach and expert advice to entrepreneurs regardless of their size or how long they have been in business, KB attracted more than 22,000 new clients in 2014.

Intense competition was apparent within the segment during 2014, mainly from smaller players striving to strengthen their market positions. In line with the market trend, the volume of KB's loans to small businesses recorded a slight decrease for the year. This reflected small businesses' cautiousness and the sufficiency of their own funds. The segment's client deposits at KB grew by 10.9% (from CZK 117.4 billion to CZK 130.2 billion+) as volumes rose in both current and savings accounts.

KB emphasised the quality of services delivered and the value these add for clients. The extensive branch network is an especially important competitive advantage in this segment. Komerční banka focused, too, on newly established business entities, supplying them not only advantageous products but especially advisory and professional business services. Evidence of this emphasis is seen in the more advantageous offer for newly founded businesses and initial credit lines to finance entrepreneurs' start-up costs. The successful Nastartujte se (Start up!) grant programme continued. In addition, the Bank expanded the MojeOdměny concept with advantageous solutions for start-ups and clients having business and personal packages at KB.

In the financing area, KB directed its attention to various innovations across individual sectors. Examples can be seen in its offer for financing farmland, loans with guarantees from the Czech–Moravian Guarantee and Development Bank, preferential loans for housing co-operatives and owners associations, and EuroInnovace loans with guarantees from the European Investment Fund to support financing of innovative projects.

For beginning businesspeople, KB introduced start-up credit lines for authorised debits and credit cards with no need to document income. The Bank created special financing offers for clients from selected professional organisations (e.g. physicians, pharmacists, dentists, architects, notaries and veterinarians). Even small businesses can use the new KB eTrading application, a tool for easily managing currency and hedging transactions.

In 2015, the Bank will present more innovations, delivering products on-line and further strengthening internet banking security.
In co-operation with a number of external partners, the Bank will jointly bring other benefits to its clients.

Enterprises and municipalities

Komerční banka strengthened its position during 2014 as the largest bank on the corporate financing market. The Bank services nearly 10,200 clients in this segment, and, according to market surveys, 46% of medium-sized and large enterprises are KB clients[1]. In conditions of the gradually recovering Czech economy, indicators of small and medium-sized enterprises' business confidence and demand for financing improved only slowly. Enterprises remained cautious and substantially financed investments from their own sources. Public sector clients, meanwhile, were sensitive to the effects of austerity measures and delays in payment of grant funds.

The market had been substantially impacted by CNB's currency intervention in November 2013 and subsequent stabilisation of the koruna's exchange rate throughout 2014. This diminished companies' activity in currency hedging. The environment of low interest rates reduced the need for interest rate hedging and considerably depressed deposit rates during 2014. On the other hand, clients displayed growing interest in on-line communication with KB.

In 2014, the volume of loans increased year on year by 0.4% to CZK 102.5 billion+. Contributing most significantly to this growth were the wholesale and machinery sectors. Meanwhile, medium-sized and large municipalities cut their use of financing because the operational programmes for drawing European funds during 2014–2020 had not yet been approved. Deposits expanded by 5.8% to CZK 152.2 billion+. Deposits growth was at a similar rate for enterprises and

1) Source: 2014 survey by market research agency GfK

municipalities, and both groups were affected by postponement of their investments.

KB followed a targeted sector approach for responding efficiently to client needs in specific segments. It has special competence centres for the areas of energy, real estate finance, the public sector, European grants and foreign trade. This strategy is markedly contributing to business success.

The Bank succeeded in 2014 to increase the number of programmes directed to supporting the financing of small and medium-sized enterprises using funds from the Council of Europe Development Bank and the European Investment Bank (EIB). KB was the most successful bank in utilising the support of such international financial institutions during 2014[1], and the EIB's new EuroPremium Young programme was especially important.

As part of its support for clients, Komerční banka offered at no charge extensive training and advisory on banking products, foreign trade, European grants, new developments in accounting and the law, and a large number of other topics either as part of the KB Academy cycle or in co-operation with other partners. Together with the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic, KB also implemented a series of autumn seminars about the new grant period and a survey of client needs among export companies. Other formats of information support included the Bank's own Export Journal and its partnership with the magazine Trade News.

During the year, the Bank made possible electronic drawing of loans, guarantees and documentary payments. It also began accepting financial statements from clients electronically and in a format identical to that used by state administration (such as for tax declarations). The new KB eTrading electronic platform for currency operations was put into operation. KB also initiated or reaffirmed co-operation with the Czech Export Bank, the Federation of the Food and Drink Industries of the Czech Republic, and the Agrarian Chamber of the Czech Republic.

KB will continue in 2015 to develop on-line applications for its clients, including to extend functionality of the new KB eTrading application and introduce the Mobilní banka application to clients from the enterprises segment. The Bank is preparing to provide additional advice in preparing grant applications for the new EU programming period.

Top corporations

KB has long been a leading player on the top corporations market and has achieved significant growth in financing. The year 2014 was very successful. The volume of loans increased by 15.1% to CZK 134.9 billion[2]. Deposits expanded by 10.2% to CZK 107.6 billion[2].

Success in this segment is conditioned upon having long-term relationships with clients while understanding and monitoring their needs. As a result, the Bank can be present at the beginning of interesting projects and participate in discussions about new transactions. For the most important transactions, KB can offer very important synergic effects in collaboration with the international Société Générale Group. KB brings comprehensive solutions for large transactions and has specialists for such various areas as telecommunications; energy; renewable resources; export financing; interest, currency and commodity hedging; and other such activities. Other advantages reside in the specialised competences of its subsidiary and affiliated companies in such areas as vehicle leasing and financing investments. The Bank has unique local knowledge supported by the experience of an international financial group. The stability of its sales team, processes, and organisational structure enables the Bank to fully focus on clients, new acquisitions and projects on the market.

Top corporations' demand for financing during 2014 reflected the economic recovery, as they began to invest more into new projects both within the Czech Republic and abroad. There was growing demand also to refinance existing assets. Diminished economic worries led to increased interest in transactions, particularly in such areas as energy, real estate and health care. Komerční banka contributed financing to one of the largest logistics centres in Central Europe and also refinanced one of the largest photovoltaic power plants in the Czech Republic. The Bank strengthened its overall position in export financing by concluding noteworthy new transactions.

As a result of subdued investments in previous years, there was an excess of liquidity on the market. In 2014, this brought extreme pressure to bear on prices in all banking service areas. CNB's intervention in 2013 had led to a slowing in foreign currency operations, and the generally low interest rates greatly affected trading activity.

In 2014, the Bank increased the efficiency of client portfolio management and improved customer relationship management generally. During 2015, KB will strive to keep abreast of new transactions within the Czech Republic and abroad while aiming to participate in the largest deals on the market and potentially to become the lead arranger. In co-operation with key Société Générale Group experts, KB will offer comprehensive solutions for the demanding projects of its existing and new clients.

Komerční banka, a.s., pobočka zahraničnej banky (KB SK)

KB SK is Komerční banka's sole foreign branch. It operates in Slovakia on the basis of a single banking licence issued by the CNB. KB SK is cultivating its co-operation with top corporations within Slovakia, as well as with those clients of KB and the SG Group operating in Slovakia.

1) Source: www.eib.org, www.eif.org, www.coebank.org
2) Excluding branch in Slovakia, unaudited

Having been positively affected also by release of provisions due to the high quality of its portfolio, KB SK's profit for 2014 exceeded that from 2013 and 2012. Total loans outstanding diminished year on year by 28% as a result of high liquidity among both banks and clients. Excess liquidity and declining interest rates led a number of clients to repay their loans early. On the other hand, events in the global economy, the situation in Ukraine and sanctions adopted against Russia added to clients' interest in extraordinary protective measures, for which KB and SG Group could offer very competitive solutions.

KB SK implemented changes in payment standards within the Single Euro Payments Area (SEPA), which essentially meant abolishing borders for banking transfers between individual countries inside SEPA. In addition to the SEPA project, the Slovak branch focused on improving its product offer and client services. KB SK stepped up its activities in export financing in co-operation with EXIMBANKA SR (Export-Import bank of the Slovak Republic), a state company export credit agency. The Bank also worked on new improvements in receiving funds, services enabling acceptance of card payments for goods and services, and contactless card technology.

The main priority for 2015 will continue to be acquisition of new clients, and particularly high-quality enterprises. Komerční banka expects the Slovak market to bring new opportunities for financing large projects, and especially PPP projects in transport infrastructure. KB and SG Group's knowledge and experience will constitute a great competitive advantage in positioning the Bank during upcoming tenders.

Investment banking

Yields on Czech assets fell to historic lows in 2014 as a result of low inflation both within the Czech Republic and abroad as well as expectations that the main central banks and CNB intend to continue their accommodative monetary policy. Interest rate spreads also sharply narrowed both for asset swap spreads and Czech and German government bonds. Yields on 10-year Czech and German bonds dropped at the end of 2014 to 0.5%, which was influenced by a low volume of Czech government bonds issuance. The Czech crown market recorded low volatility as a result of the CNB's interventions in late 2013, and the CZK/EUR exchange rate traded in a narrow range of 27.40–27.80. The year was not a successful one for the Prague Stock Exchange, as its PX Index dropped by nearly 5%. That was in contrast to the positive development on major global markets. Volume traded on the Prague Stock Exchange was down by 14% in comparison to 2013, marking the seventh year in a row of annual decline.

Despite difficult market conditions, KB's investment banking teams achieved solid results in 2014. The Money Market & Liquidity Trading Desk improved its result year on year due to corporate clients' growing demand for short-term financing. The Financial Institution Sales Desk's largest transactions in 2014 included successful private placement of 15 and 20 year European Investment Bank bonds, each valued at CZK 1.0 billion. The Slovak Sales Desk substantially increased profit from foreign currency trades and interest rate derivatives due to its pursuing an active selling approach and achieving more balanced proportions of returns from individual products and client groups. The results achieved by the FX Spot Desk and the Bonds & Derivatives Desk in 2014 were slightly lower in comparison with 2013.

The Global Finance Platform team successfully executed 23 transactions, including 5 in which KB was in the role of main coordinator and several in which it was the lead bank. Global Finance Platform proved its capability to carry out complicated transactions at a high professional level while meeting demanding deadlines. Clients demonstrated their trust in KB's services by not hesitating repeatedly to award mandates to KB.

The Czech Corporate Sales Desk recorded lower overall results in comparison to 2013. By taking an active approach and co-operating professionally with the financial markets division of Société Générale, the Bank did succeed in boosting returns from commodity services.

At the end of 2014, the Bank presented its new eTrading platform, which offers a wide range of services including foreign currency conversions, earning returns on idle funds, and currency risk management. It is available 24 hours a day on working days.

Transaction and payment services

Cash payment operations
KB is among the three Czech banks with the most significant volume of cash operations[1]. Cash transactions predominately involve cash deposits. While more transactions were performed via ATM, cash payment operations at branches recorded a slight year-on-year decrease in terms of both volume and number of transactions.

The Bank recorded remarkable growth in the use of deposit ATMs. The number of deposit transactions performed by clients via ATM increased year on year by 182% while volume grew by 179%. As of the end of 2014, KB was operating 70 deposit ATMs, and their number will continue to rise.

Over the summer, the Bank provisionally offered individual clients the opportunity at KB cash desks to withdraw and deposit foreign currencies to and from their CZK current accounts at no charge. In light of a positive response, the Bank has included this service within its standard offer.

1) Source: KB's own market research

Major events in 2014
Strategy and results
Risk management
Employment policy
Corporate social responsibility
Corporate governance

Non-cash payment operations

KB is one of the three largest players on the Czech market in non-cash payment operations[1]. In foreign payments, the Bank recorded a year-on-year gain of 9% in the number of payments. For domestic non-cash payments, there was a 2% increase in outgoing payments.

A new factor on the market was seen in the efforts of newly emerging banks to attract potential clients by demanding no fees for certain payment services (e.g. for domestic or SEPA payments).

KB introduced a new product in 2014 for urgent processing of SEPA credit transfers, optimising the processing of domestic batch payments via MultiCash and delivering bank statements via e-mail. Innovations for 2015 will mainly concern services for foreign payments.

Payment cards

Komerční banka occupies the second or third position on the Czech payment cards market. Its market share for card issuance reached 15%, and the Bank's market share for card acceptance was 18%[1]. Escalating penetration of contactless technologies was a reason for the significant gain in card payments as contactless technologies open new opportunities for card use. The average transaction size declined slightly, but cards are used more frequently.

KB significantly increased the number of devices supporting contactless technology. The number of contactless terminals at retailers rose year on year by 79% to 20,000. Regarding card issuance, the number of contactless cards swelled by nearly five times to 570,000. The Bank prepared for European Commission regulations concerning interbank fees from payment card transactions.

In 2014, KB launched a cross-border acquisition project which will lead to higher competitiveness in card acceptance area. KB improved security for card payments over the internet by introducing 3-D Secure technology. Distribution of payment cards and PIN codes was made more convenient, and the Bank began a project to further accelerate money transfers between accounts using cards.

Global transaction banking

KB remains one of the major players in trade finance on the market[2]. The Bank has a highly stable professional team of specialists in both the bank guarantees and documentary business areas. It has at its disposal, too, know-how of the parent company Société Générale. The numbers in new sales were stable year on year. The growth in numbers of guarantees issued which the Bank experienced in the previous year has ebded. KB also perceives growth in documentary payments to have stabilised in numbers terms.

The processing of international deals are affected by strict requirements concerning measures against money laundering and financing of terrorism, as well as by recent developments regarding sanctions and embargoes. To maintain a high standard of delivered services, the Bank added to the number of its employees processing trade finance transactions.

The advantage of KB over competitors on the market lies in its advanced on-line solutions, and the Bank is continuing to invest into their further development. The main tool is the T&F Online application, which includes management of documentary payments, bank guarantees, and short-term and revolving loans. The number of those using the application increased in 2014 by nearly 17%.

In cash management, the Bank introduced a new version of its Cash Pooling service for efficient cash flow management among clients with more complex structures (e.g. holdings, international groups, and such public corporations as regions, cities, and the institutions they establish). Great demand was seen particularly among Czech companies which do business in foreign currencies.

Selected operating indicators for Komerční banka

	2014	2013	Year-on -year change
Number of active* payment cards	**1,532,201**	1,561,810	-1.9%
- debit cards	1,341,543	1,362,348	-1.5%
- credit cards	190,658	199,462	-4.4%
Number of retailers	18,344	16,521	11.0%
Number of terminals	30,817	27,480	12.1%
Volume of card payments for retailers contracted with KB (in CZK million)	66,342	59,616	11.3%
Number of card payments for retailers contracted with KB	66,967,001	54,819,705	22.2%
Volume of payments using KB cards (in CZK million)	61,141	54,644	12%
Number of payments using KB cards	67,675,686	56,885,006	19%
Volume of cash withdrawals (in CZK million)	**243,236**	240,282	1%
- via ATM	120,349	117,434	2%
- at branches	122,887	122,848	0%
Volume of cash deposits (in CZK million)	**316,310**	324,166	-2%
- via ATM	3,056	1,095	179%
- at branches	313,253	323,071	-3%
Number of cash withdrawals	**28,071,764**	27,526,640	2%
- via ATM	26,116,186	25,529,991	2%
- at branches	1,955,578	1,996,649	-2%
Number of cash deposits	**7,979,906**	8,407,209	-5%
- via ATM	215,779	76,459	182%
- at branches	7,764,127	8,330,750	-7%
Number of bank guarantees issued	**10,281**	10,186	stable

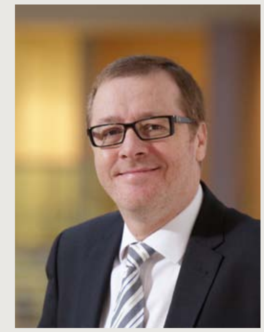
*Cards in circulation

1) Source: KB's own market research
2) Source: Survey by agency IPSOS

1

Komerční banka regularly ranks at the top for various awards. The cornerstone of our strategy is to develop our long-term relationships with clients together with providing high-quality services and creating products directed to simplifying our clients' lives.

PAVEL ČEJKA
Member of the Board of Directors,
Chief Administrative Officer



Our clients perceive our company as a reliable partner presenting them with appealing products and high-quality client service. Our efforts at increasing client satisfaction and improving the product offer were once again recognised.

VLADIMÍR JEŘÁBEK
Member of the Board of Directors,
Distribution–Retail and Corporate

We are the Best Bank and Best Life Insurance Company of 2014

Komerční banka and Komerční pojišťovna again won the main categories of the Hospodářské noviny awards. In the sixth annual prestigious financial sector competition, we received the titles Best Bank of 2014 and Best Life Insurance Company of 2014. Komerční banka Group built upon past years' successes, as in 2013 Komerční banka and Komerční pojišťovna had placed second in both main categories and Komerční pojišťovna won the category Most Client-Friendly Life Insurance Company of 2013. Komerční banka also was awarded the highest title in 2012.

1 Albert Le Dirac'h, Chairman of the Board of Directors of Komerční banka

2 KB Board of Directors

3 Chief Executive Officer of Komerční pojišťovna, Stéphane Corbet accepting the award for Best Life Insurance Company in 2014

4 Albert Le Dirac'h and Stéphane Corbet with the awards

Comments on the IFRS consolidated financial results

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 12,985 million for 2014 under International Financial Reporting Standards (IFRS). This represents growth of 3.6% in comparison with 2013.

Profit and loss statement

Net banking income remained almost stable in 2014. It declined by 0.7% to CZK 30,677 million. Net interest income moved up slightly, as the Group was able to offset the negative impact from low market interest rates by implementing a long-term hedging policy and growing loan and deposit volumes. On the other hand, net fees and commissions declined slightly, as clients increasingly were using lower-priced, mainly on-line, banking tools and taking advantage of the KB MojeOdměny (MyRewards) programme. Gains from financial operations declined as well, because activity in hedging and trading on financial markets was limited by the central bank's anchoring the exchange rate and interest rates.

Net interest income edged up by just 1.0% to CZK 21,423 million, despite the strong growth in loan and deposit volumes. This mainly reflects diminishing yields from reinvesting deposits, as market interest rates were sliding throughout the year. KB's long-term interest rate hedging policy helped significantly to mitigate the negative short-term impact of this trend. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, decreased to 2.6% in 2014 from 2.8% one year earlier.

Net income from fees and commissions dropped by 4.6% to CZK 6,752 million. KB expanded its MojeOdměny client rewards programme, and that effectively drove down fee income from deposit products and transactions. The overall number of transactions was meanwhile on the rise, especially due to the use of payment cards and on-line banking. Since the beginning of 2013, the Bank also has been offering consumer loans and mortgages without administration fees. The effect of that change persisted into 2014 as maturing loans were replaced. On the plus side, growth in the volumes of client savings in life insurance policies and mutual funds boosted income from cross-selling and KB saw increased activity (and thus better fee income) from loan syndications, bank guarantees and documentary payments.

Net gains from financial operations declined by 4.1% to CZK 2,386 million. The environment remained challenging throughout 2014, inasmuch as the Czech crown market was marked by low volatility with the CNB taking measures to anchor the foreign exchange and interest rates. Clients' demand for short-term financing and related hedging was nevertheless solid in the final quarter, and that helped to sustain the result. The comparison base was lower due to negative impact from implementation of the IFRS 13 standard in the last quarter of 2013. Net gains from FX payments reflected narrower average spreads and cost optimisation by clients on conversions.

Other income declined by 4.1% to CZK 116 million. In 2014, other income primarily comprised revenues from intermediation and property rental.

Total operating expenditures were reduced by 0.9% to CZK 13,034 million. Within this total, personnel expenses were almost unchanged, as they rose by just 0.4% to CZK 6,754 million. The average number of employees diminished by 1.0% to 8,520. General administrative expenses were down by 3.8% to CZK 4,489 million. The main savings were achieved in real estate costs and telecommunications. The category 'Depreciation, impairment and disposal of fixed assets' grew by 2.1% to CZK 1,791 million, and this increase was driven mainly by amortisation of software applications.

Profit before allowances / provisions for loan and investment losses, other risk and income taxes for 2014 was down by 0.6% to CZK 17,643 million.

The cost of risk dropped by 25.5% to CZK 1,296 million, or 26 basis points in relative terms as measured over the average volume of the lending portfolio. Net creation of provisions remained at very low levels in both retail and corporate segments thanks to the stable and good quality of the loans portfolio. The Bank was able to reduce its allowances for several classified exposures due to their favourable development.

The proportion of profit attributable to clients of the Transformed fund of KB Penzijní společnost grew to CZK 508 million from CZK 484 million. This line represents a remuneration of funds of participants who have been saving based on the contracts concluded before 1 December 2012.

Consolidated profit before income taxes increased by 1.9% year on year to CZK 16,030 million.

Income taxes decreased by 5.5% to CZK 2,669 million. The decrease is due to extraordinary tax costs recognised in 2013 related to restructuring of the portfolio of foreign bonds.

At CZK 13,361 million, KB Group's consolidated net profit for 2014 was higher by 3.5% in comparison with the year 2013. Of this amount, CZK 376 million was profit attributable to holders of minority stakes in KB's subsidiaries (-0.5% year on year). Profit attributable to the Bank's shareholders totalled CZK 12,985 million, which is 3.6% more than in 2013.

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 8,313 million in comparison with CZK -8,005 million in 2013.

The Group's comprehensive income for 2014 amounted to CZK 21,674 million, up by CZK 16,773 million year on year.

Statement of financial position

As of 31 December 2014, KB Group's total assets had grown by 10.3% year on year to CZK 953.3 billion.

Assets
Amounts due from banks dropped by 52.5% to CZK 59.7 billion. The largest component of this item consisted of placements with central banks in relation to reverse repo operations, which plummeted by 77.0%.

Financial assets at fair value through profit or loss added 13.0% to reach CZK 42.0 billion. That line comprises the Group's trading portfolio.

Total net loans and advances grew from the end of the previous year by 4.6% to CZK 494.7 billion. The gross amount of client loans and advances was up by 4.5%, at CZK 513.6 billion. Standalone KB had a 90% share in the loan portfolio. Modrá pyramida had a share of 7% in the consolidated portfolio.

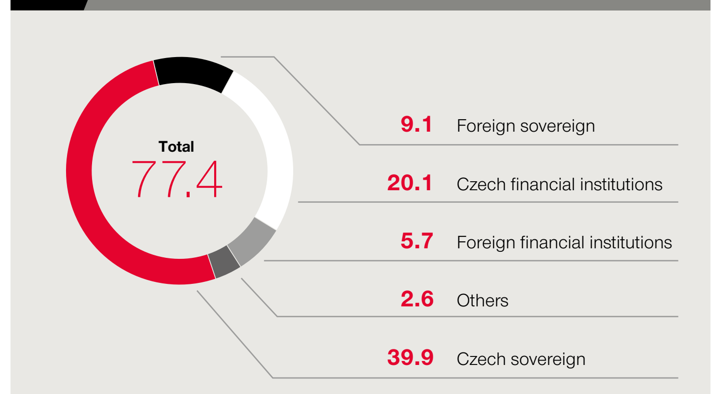
Of the total amount of loans, credits to individual clients comprised 44%, increasing by 3.1% from the year earlier. Mortgages constituted the main driver for growth in lending to individuals, as demand was underpinned by low client interest rates. The portfolio of mortgages to individuals rose by 9.4% year on year to CZK 162.6 billion. On the other hand, the volume of Modrá pyramida's loan portfolio dropped by 12.2% to CZK 38.3 billion. The volume of other loans from KB to individuals rose by 4.9% to CZK 19.2 billion and the volume of financing by ESSOX decreased by 3.1% to CZK 9.5 billion.

The total volume of loans provided by KB Group to businesses climbed by 5.0% to CZK 286.6 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia advanced by 5.7% to CZK 230.9 billion, inclusive of factor finance outstanding at Factoring KB+. Lending to small businesses declined by 1.1% to CZK 28.0 billion+. Total credit and leasing amounts outstanding at SGEF were higher by 6.0% year over year at CZK 22.9 billion.

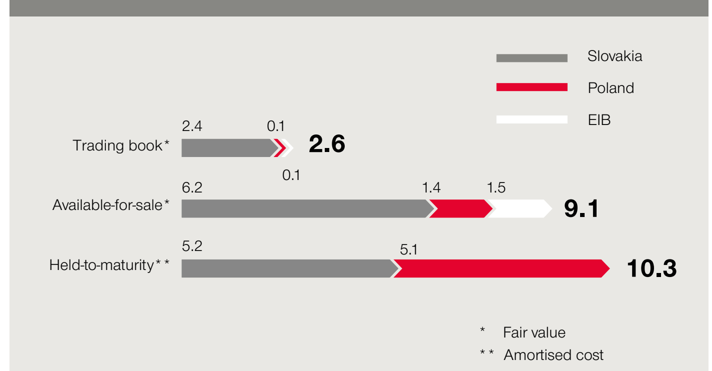
The loan portfolio's quality has improved compared to 2013. The share of standard loans within that total climbed to 92.9% (CZK 474.9 billion) while the proportion of loans rated watch was 1.9% (CZK 9.7 billion). Loans under special review (substandard, doubtful and loss) comprised 5.2% of the portfolio, with volume of CZK 26.8 billion. The volume of provisions created for loans reached CZK 18.8 billion, which was 1.7% more than at the end of 2013.

The portfolio of financial assets available for sale (AFS) shrank by 45.2% to CZK 77.4 billion. Of the CZK 77.4 billion total volume of debt securities in the AFS portfolio, Czech government bonds comprised CZK 39.9 billion and foreign government bonds CZK 9.1 billion.

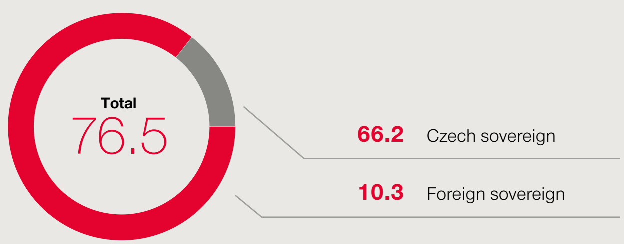
Available-for-sale bonds (in CZK billion, consolidated)



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



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



The volume of securities in the held-to-maturity (HTM) portfolio increased by CZK 72.3 billion to CZK 76.5 billion. These effects were mainly due to reclassification from the AFS to HTM portfolio of certain debt securities in the nominal value of CZK 56.6 billion and which the Group intends to hold until their maturity. The change was carried out in the first quarter of 2014. This reclassification was intended to limit volatility of regulatory capital in accordance with the Basel III regulatory framework while respecting all the rules of international accounting standards. The securities were reclassified at fair value. The corresponding AFS revaluation reserve in the shareholders' equity of CZK 5.0 billion as of the date of reclassification has been retained in other comprehensive income and included into the carrying value of securities held to maturity. Such amounts are amortised over the remaining maturities of those securities. Of the HTM portfolio's CZK 76.5 billion in debt securities, Czech government bonds constituted CZK 66.2 billion and foreign government bonds CZK 10.3 billion.

The net book value of tangible fixed assets slipped by 2.6% to CZK 7.7 billion, while that of intangible fixed assets was lower by 0.4%, at CZK 3.8 billion.

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

Liabilities

Total liabilities were 9.9% higher in comparison to the end of 2013 and reached CZK 843.8 billion.

Amounts due to banks increased in 2014 by 23.5 % to CZK 61.4 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

The overall volume of deposits[1] on KB Group's balance sheet expanded by 8.2% year on year to CZK 676.1 billion. Deposits from corporations and entrepreneurs climbed by 8.9% to CZK 391.2 billion. Increase was recorded across all sectors and size categories of corporations. Deposits at KB from individual clients rose by 10.0% to CZK 173.2 billion.

1) Excluding repo operations with clients. Total amounts due from clients expanded by 8.1% year on year to CZK 701.9 billion.

The deposit book of Modrá pyramida added 0.1% year on year to reach CZK 72.4 billion. Client assets managed by KB Penzijní společnost grew by 12.7% to CZK 40.6 billion+, of which those in the Transformed Fund (which were consolidated into the KB Group accounts) rose by 10.8% to CZK 39.7 billion. Total technical reserves in life insurance at Komerční pojišťovna expanded by 22.6% to CZK 42.6 billion+.

The volume outstanding of issued securities grew by 0.7% to CZK 22.6 billion. The majority of this item is comprised of mortgage bonds issued during 2005–2007. An overview of issued bonds is provided in the chapter Securities issued by KB.

Provisions increased by 17.8% to CZK 1.3 billion. This line item does not include allowances 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 13.4% to CZK 109.5 billion. KB paid out CZK 8.7 billion in dividends during May, and that was more than offset by the generation of net profit and revaluation gains on cash flow hedges and the AFS portfolio (which represent primarily reinvestment of client deposits). The revaluation gains were due to decreased market yields in comparison with the end of 2013. 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 8.2 billion at the end of 2013 to CZK 16.0 billion at the end of 2014, while the available-for-sale portfolio revaluation reserve grew by 7.2% in the same period from CZK 6.2 billion to CZK 6.7 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.

Acquisition of treasury shares in 2014

Komerční banka held 238,672 of its own shares as at 31 December 2014. These securities had been purchased on a European regulated market 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.

Komerční banka shares held in treasury

Number of shares as of 1 January 2014	Part of registered share capital as of 1 January 2014	Number of shares as of 31 December 2014	Part of registered share capital as of 31 December 2014
238,672	0.628%	238,672	0.628%

During 2014, Komerční banka did not acquire its own shares into the banking book, nor did it dispose of its own shares from this portfolio. Komerční banka did not during 2014 intermediate transactions in KB shares for its clients through its own account.

Based upon the consent of the General Meeting convened on 30 April 2014, 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 6,500 per share.
- The period during which the Bank may acquire its own shares is 18 months.
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in Section 301 (1)(b) and (c) and Section 302 of the Corporations Act or, as the case may be, any other applicable legal regulations of the Czech Republic or the European Union.

Komerční banka Group

SOCIÉTÉ GÉNÉRALE

Komerční banka, a.s.

KB FINANCIAL GROUP

Modrá pyramida stavební spořitelna, a.s.
100%

ESSOX s.r.o.
50.93%

VN 42, s.r.o.
100%

KB Penzijní společnost, a.s.
100%

Komerční pojišťovna, a.s.
49%

Cataps, s.r.o.
100%

Factoring KB, a.s.
100%

KB Real Estate, s.r.o.
100%

Protos, uzavřený investiční fond, a.s.
100%

SG Equipment Finance Czech Republic s.r.o.
50.1%

NP 33, s.r.o.
100%

Bastion European Investments S.A.
99.98%

OTHER PARTICIPATIONS

CBCB – Czech Banking Credit Bureau, a.s.
20%

COMPANIES OF SG GROUP IN THE CZECH REPUBLIC AND SLOVAKIA

ALD Automotive s.r.o.

SOGEPROM Česká republika s.r.o.

PEMA PRAHA spol. s r.o.

COMPANIES CO-OPERATING WITH THE KB AND SG GROUPS

Investiční kapitálová společnost KB, a.s.

Major events in 2014
Strategy and results
Risk management
Employment policy
Corporate social responsibility
Corporate governance

As of 31 December 2014, Komerční banka had 11 subsidiaries and 1 associate, Komerční pojišťovna, a.s., where it held a 49% share. KB considers these companies as part of the Group. In addition to its ownership interests in the Group, KB holds a strategic interest of 20% in Czech Banking Credit Bureau, a.s.

With the aim to maximise the use of all potential synergy effects, KB Group deepened in 2014 mutual business co-operation within the Group and also with other members of the Société Générale Group operating on the Czech market. Special emphasis is given to improving co-ordination of product development in business areas and in distribution, in procurement, IT and other supporting services. The result should be optimal, comprehensive and effective satisfaction of clients' financial needs.

Information on values and changes in equity investments is provided in the Unconsolidated Financial Statements according to IFRS, note no. 24 'Equity investments in associates and non-controlling interests in subsidiaries'.

Summary of the results of major companies in Komerční banka Group

CZK million, IFRS	Group holding (%)	Total assets 2014	Total assets 2013	Shareholders' equity 2014	Shareholders' equity 2013	Net profit 2014	Net profit 2013	Consolidation method
Domestic participations								
Modrá pyramida stavební spořitelna, a.s.	100	82,393	81,869	7,611	7,818	995	1,066	Full
Komerční pojišťovna, a.s.	49	51,487*	41,252*	2,514	2,213	387	424	Equity
KB Penzijní společnost, a.s.	100	1,477	1,094	1,192	833	135	51	Full
SG Equipment Finance Czech Republic s.r.o.	50.1	27,613	25,971	2,350	2,315	285	252	Full
ESSOX s.r.o.	50.93	10,214	10,042	3,938	3,402	534	610	Full
Factoring KB, a.s.	100	7,486	5,822	1,598	1,628	27	63	Full
Protos, uzavřený investiční fond, a.s.	100	13,882	13,814	13,822	13,758	228	251	Full
KB Real Estate, s.r.o.	100	1,040	1,071	494	494	0	(1)	Full
VN 42, s.r.o.	100	2,052	2,004	2,015	1,993	22	1	Full
NP 33, s.r.o.	100	876	848	862	848	14	1	Full
Cataps, s.r.o.	100	4	-	4	-	0	-	Full
Foreign participations								
Bastion European Investments S. A.	99.98	6,733	6,744	3,398	3,365	80	85	Full

* The volume of Komerční pojišťovna's total assets according to IFRS is not included in consolidated assets of KB Group and, therefore, this figure is not audited.

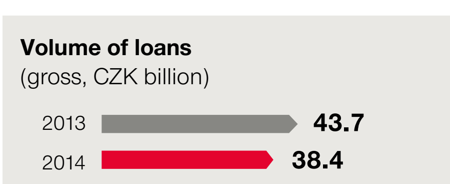
Basic information on Komerční banka Group's major companies

Modrá pyramida stavební spořitelna, a.s.

Shareholder structure: Komerční banka 100%
Core business: building savings deposits and loans
Market position: second largest building savings bank as measured by loan volume (15% market share)[1]
Main products: state-subsidised savings accounts, bridging loans, building savings loans

Financial summary (CAS, CZK thousand)

	31.12.2014	31.12.2013
Total assets	82,774,685	82,155,312
Shareholder's equity	7,611,355	7,817,626
Loans to clients (gross)	38,444,951	43,685,807
Volume of deposits	72,639,189	72,503,840
Net operating income	1,735,589	1,882,737
Net profit	994,684	1,065,526
Average number of FTEs	339	343
Number of points of sale	215	208



Contact:
Modrá pyramida stavební spořitelna, a.s.
Bělehradská 128, č. p. 222, 120 21 Prague 2
ID: 60192852
Phone: +420 222 824 111
Fax: +420 222 824 113
Email: info@modrapyramida.cz
Internet: www.mpss.cz
www.modrapyramida.cz

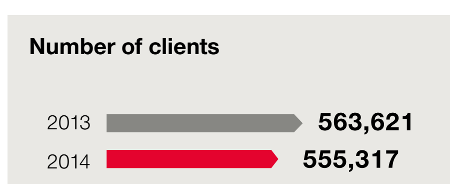
1) Source: Internal data CNB (ARAD); www.cnb.cz

KB Penzijní společnost, a.s.

Shareholder structure: Komerční banka 100%
Core business: to organise supplementary pension insurance by means of a transformed fund, to manage pension funds (2nd pillar), and to manage supplementary pension funds pursuant to the Supplemental Pension Savings Act (3rd pillar)
Market position: by number of participants 11% share on the pension insurance market (transformed funds), 17% share on pension funds market (2nd pillar) and 22% share on supplementary pension savings market[2]
Main products: state-subsidised pension insurance, pension savings, supplementary pension savings

Financial summary (CAS, CZK thousand)

	31.12.2014	31.12.2013
Assets under management[3]	44,062,361	38,666,688
of which in Transformed fund	43,122,337	38,427,121
Shareholder's equity	1,192,660	838,659
Net operating income	263,691	204,259
Net profit	134,974	54,251
Average number of FTEs	49	50



Contact:
KB Penzijní společnost, a.s.
nám. Junkových 2772/1, 155 00 Prague 5
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Phone: +420 955 525 999
Fax: +420 955 525 929
E-mail: kbps@kbps.cz
Internet: www.kbps.cz

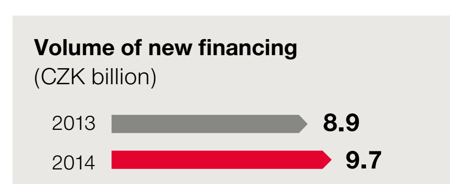
2) Source: The Association of Pension Funds of the Czech Republic, www.apfcr.cz
3) Total volume on client accounts

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: 19% share on the leasing market in the Czech Republic measured as volume results based on financed amount (not including consumer credit companies)[4]
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)

	31.12.2014	31.12.2013
Total assets	28,192,034	26,574,609
Shareholders' equity	1,725,928	1,594,023
Volume of new financing	9,678,061	8,858,686
Net operating income	668,474	63,123
Net profit	382,401	(64,240)
Average number of FTEs	119	115



Contact:
SG Equipment Finance Czech Republic s.r.o.
nám. Junkových 2772/1, 155 00 Prague 5
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Phone: +420 955 526 700
Fax: +420 955 526 790
E-mail: info@sgef.cz
Internet: www.sgef.cz

4) Source: Czech Leasing and Finance Association; www.clfa.cz

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: 14% market share in consumer lending provided by companies associated in the Czech Leasing and Finance Association[1]
Main products: financing of consumer goods and automobiles, general-purpose loans, revolving credit (credit card), automotive financing

Financial summary (CAS, CZK thousand)

	31.12.2014	31.12.2013
Total assets	10,110,208	9,947,402
Shareholders' equity	3,910,792	3,425,237
Amounts due from clients (gross)	9,689,223	9,919,232
Net operating income	1,166,117	1,303,529
Net profit	485,555	648,173
Average number of FTEs	348	347

Amounts due from clients
(gross, CZK billion)

Contact:
ESSOX s.r.o.
Senovážné nám. 231/7, 370 01 České Budějovice
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E-mail: essox@essox.cz
Internet: www.essox.cz

1) Source Czech Leasing and Finance Association, www.clfa.cz

Factoring KB, a.s.

Shareholder structure: Komerční banka 100%
Core business: factoring
Market position: 2nd on the factoring market, managing 21% of the factoring portfolio on the Czech market[1]
Main products: domestic factoring, export factoring, import factoring, modified factoring, receivables management

Financial summary (CAS, CZK thousand)

	31.12.2014	31.12.2013
Total assets	12,214,295	9,456,287
Shareholder's equity	1,598,329	1,628,845
Factoring turnover	34,114,850	26,540,190
Amounts due from clients (gross)	10,964,875	8,188,402
Net operating income	148,002	133,610
Net profit	26,647	63,096
Average number of FTEs	42	42

Factoring turnover
(CZK billion)

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Fax: +420 224 814 628
E-mail: info@factoringkb.cz
Internet: www.factoringkb.cz

Komerční pojišťovna, a.s.

Shareholder structure: SOGECAP 51%; Komerční banka 49%
Core business: insurance
Market position: 14% share on the life insurance market (measured by premiums written)[2]
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)

	31.12.2014	31.12.2013
Total assets	45,273,502	37,617,835
Shareholders' equity	3,113,341	2,564,419
Technical reserves (gross)	43,306,605	35,252,901
Gross premium written	10,192,285	8,350,969
Net profit	283,082	418,372
Average number of FTEs	156	150

Volume of technical reserves
(CZK billion)

Contact:
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Karolinská 1/650, 186 00 Prague 8
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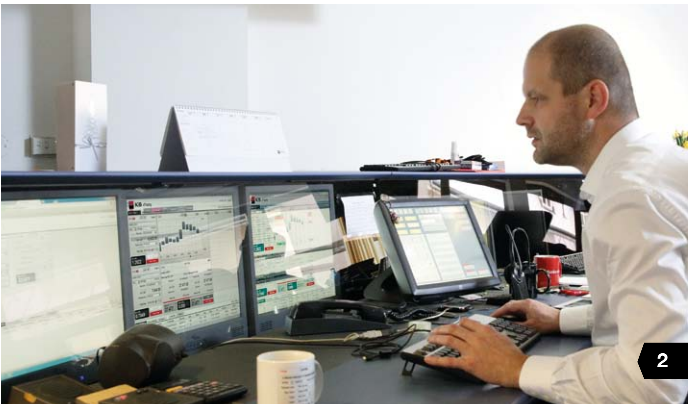
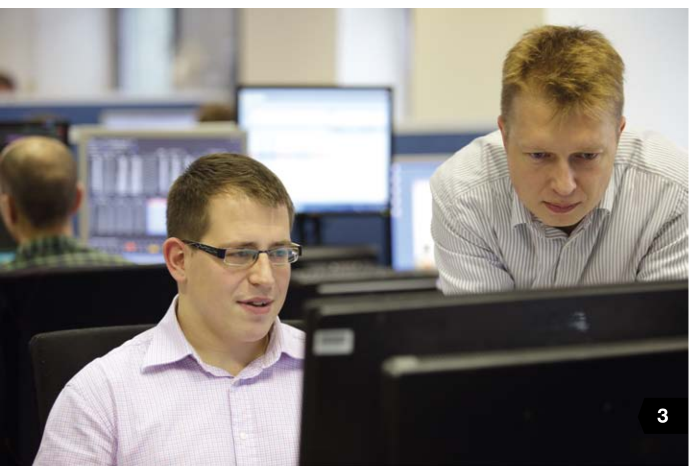
Phone: +420 222 095 999
Fax: +420 224 236 696
E-mail: servis@komercpoj.cz
Internet: www.komercpoj.cz

2) Source: Czech Insurance Association, www.cap.cz


News Story
ECST
KB eTrading
KB eTrading
Historical Line Chart
1





The new KB eTrading application is a truly advanced solution which caters to our clients' demanding requirements. The application's flexibility also enables its future expansion to satisfy clients' needs and requirements. We hope that most of the more than 10,000 current users will be satisfied with the new application and that it will also be sufficiently attractive for many new clients.

ZDENĚK LUST
Corporate Sales Manager,
KB Investment Banking

We closely co-operated on development with Société Générale, and so today we can offer our clients the same market prices which are quoted across the group on a number of multi-platforms around the world.

ALINA ČUGUNOVÁ
eTrading Project Manager,
KB Investment Banking

The new eTrading application has changed the character of trading

In 2004, Komerční banka had been one of the first banks on the Czech market to offer its clients an electronic application for trading investment banking products. Then, at the end of 2014, the Bank introduced an entirely new version offering a number of new possibilities. The KB team in Prague co-operated on the project with their colleagues from the Société Générale Group in London and Paris. The very character of trading changed, as market prices now are offered on-line for most transactions and trades may be executed with a single click. Clients can now use basic types of currency derivatives, and most products are offered 24/5. A number of post-trade functions have also been newly introduced, including for changing payment instructions or cancelling trades at market prices. Clients now have at their disposal, too, rather extensive options for personalising the application.

1 The eTrading application in use

2 eTrading salesman, Vít Dolejš

3 From left Michal Náprstek .NET developer and Martin Hrdý project manager

4 From left Zdeněk Lust, Alina Čugunová and Slawomir Komonski, Executive Director of Investment Banking

Risk management

Risk governance

Main principles of risk management in KB Group

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.

Credit risk management, including management of the Bank's market risks and counterparty risks arising from financial market activities and recovery of the Bank's receivables as well as management of related information systems, is carried out within the Risk Management Arm of KB. Moreover the Risk Management Arm closely co-operates with risk management at KB subsidiaries and supervises their activities. Operational risk, legal risk and compliance risk are managed within the Corporate Secretariat. Management of interest rate risk and foreign exchange risk in the banking book is conducted within the Strategy and Finance Arm.

Overall 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 sustainable growth of its lending activities and 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 tools, are continuously enhanced and analytical and risk management skills are maintained at high levels for both risk management and business staff.

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 designated subsidiaries, thereby providing a unified credit risk view and harmonising the credit risk approach.

The Group continues in regular stress testing of its portfolio as an integral part of its risk management. Stress-testing results in 2014 confirmed that KB Group would meet the regulatory requirements for capital adequacy even in the case of a negative development in the Czech economy.

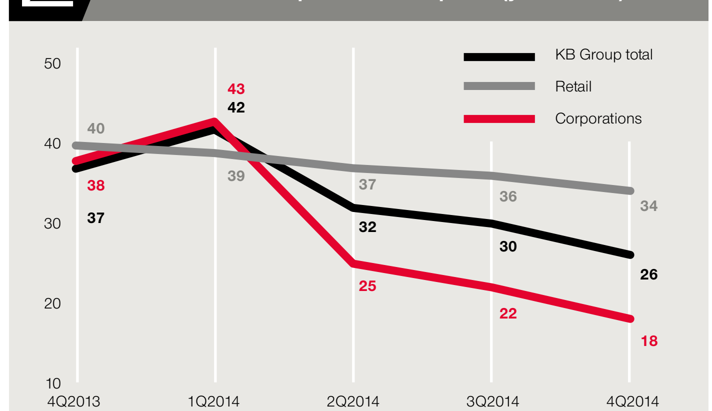
Credit risk

Credit risk development

Credit risk for both the Corporate and Retail segments was positively influenced by revival of the Czech economy during 2014 and the accompanying rise in investment activity and household consumption.

KB considers its current level of net provisioning as satisfactory. The Group's cost of risk diminished to 26 basis points in 2014 from 37 basis points in 2013, driven by low numbers of new defaults and successful recovery.

Cost of risk development in basis points (year to date)+



The proportion of defaulted loans decreased year over year to 5.2% from 5.6%. Provisions coverage for defaulted loans increased to 66.7% at the end of 2014 from 64.2% a year earlier.

Risk appetite and principal activities in 2014

The level of the Group's risk appetite fully reflects the risk management strategy. It is based on actively managing credit-granting criteria reflecting the market and macroeconomic environments in combination with strong and focused monitoring of both individual counterparties and particular portfolios. During 2014, KB focused especially on adjusting its risk appetite for small business financing and consumer lending.

KB Group concentrated during 2014 especially on the following activities in the credit risk area:

- extension of risk management governance to KB subsidiaries;
- establishment of the Group Retail Collection Department within the Risk Arm, including efficient governance principles;
- reorganisation and review of the risk function within the Distribution Arm with the aim of strengthening the responsibility of business divisions in segments having lower risk intensity;
- further alignment with SG principles and methodology;
- update of key risk models to reflect the latest observations of portfolio development while maintaining sufficient margins across the entire business cycle; and
- participation in Asset Quality Review and in other regulatory exercises launched by the European Central Bank in connection with its takeover of the supervisory role and monitoring the financial stability of euro zone banks, starting from November 2014.

Credit risk management tools

Credit risk assessment and monitoring

Client credit risk is managed on the basis of comprehensively assessing clients' risk profiles from quantitative (financial) and qualitative viewpoints using advanced scoring and rating models along with individual approval by competent risk or business managers. 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 internal credit limits for the client and transaction have been first duly established.

All KB scoring, rating, Loss Given Default (LGD) and Exposure at Default (EAD) models are back-tested twice annually and any deterioration triggers corrective measures.

Credit fraud prevention

The Bank uses an automated system for detecting individual credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated into the Bank's main applications. Upgrade of anti-fraud tools and processes was ongoing during 2014 (and will continue in 2015), as was their extension to Group level.

Classification

The Bank classifies all its assets originating from financing activities into five categories according to Czech National Bank Decree No. 163/2014 Coll. while taking into account both quantitative criteria (payment discipline, financial statements) and qualitative criteria (in-depth client knowledge, client's behaviour and history). The contagion principle is implemented in classifying co-applicants and guarantors in relation to defaulted receivables.

Real estate valuation

In compliance with Czech regulations and the Basel rules, the valuation and monitoring of real estate collaterals accepted by the Bank as security for corporate and retail loan exposures is delegated to a dedicated independent 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 and regularly revalues residential real estates in order to react adequately to developments in market prices. Commercial real estates are revalued individually in accordance with Basel III rules.

Recovery activities

In 2014, the Bank's recovery activities were influenced by changes in the legal environment, especially promulgation of the new Civil Code and changes in the Insolvency Act.

The inflow of clients into recovery has been relatively stable, influenced mainly by slowly recovering macroeconomic conditions and improvement in clients' financial situations. Komerční banka recorded an increasing number of cases resolved through insolvency, fully in line with the growing number of insolvencies in the Czech Republic during 2014.

Given the size of the portfolio 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.

Risk concentration management

The Bank's credit concentration risk is actively managed as a part of overall credit risk management. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. A system of internal limits is established so that the Bank complies with regulatory limits set in respect to concentration risk.

Provisioning and its adequacy

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

Since 2013, the provisioning approach has been gradually harmonised with SG standards. Harmonisation is focused on both the Corporate and Retail segments. Komerční banka also has implemented regular back-testing of provisioning models to carefully monitor their quality and to identify in a timely manner any potential deterioration.

Market risk

Capital markets risks management

The Capital Markets Risks Department is responsible for managing market risk and counterparty risk on market transactions in KB Group's capital markets activities. This department reports directly to the Bank's Chief Risk Officer and is totally independent of business units. It operates within the framework of Société Générale Group's Market Risk Division, as methodologies for measuring risks and control procedures are aligned with the best practices of Société Générale.

Market risk management methods for the trading portfolio

Several types of measures are used for assessing risks in the Bank's trading portfolio:

- Value-at-Risk (VaR) is calculated using historical scenarios with a 99% confidence level and 1-day time horizon. Accuracy of the VaR model is back-tested on a daily basis.
- The impacts of low-probability events not covered by VaR is assessed using various stress-testing methods and scenarios.
- Volume and sensitivity metrics are used to measure exposure to all risk factors (e.g. FX, interest rate, basis, flight-to-quality, commodities, and credit spread risks).

Market risk limits are approved by the Chief Risk Officer after being validated by SG's Market Risk Division.

The Bank uses enhanced valuation techniques for derivatives while taking into account whether a given derivative is concluded with or without collateral agreement and thus reflecting the cost of liquidity.

Komerční banka is not exposed to volatility risk on its market book, as all option derivatives are traded on a back-to-back basis.

Counterparty risk on capital markets activities

A market transaction may be concluded with a counterparty only on validated products and if approved limits exist for this counterparty. Counterparty limits for financial and capital markets operations are monitored on a daily basis. Any breach of such limit is immediately reported to the relevant level of management within the Bank.

The measurement of counterparty risk arising from derivative products is based on the Credit Value at Risk (CVaR) indicator. This indicator is calculated using Monte Carlo simulation while taking into account netting and collateral effect. With a 99% confidence level, CVaR quantifies the potential future replacement costs of a transaction with a client in case of such client's default.

Financial risks

In addition to credit risk and non-financial risks, the Group is exposed to risks related to changes in interest and exchange rates 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 areas of foreign exchange and interest rates are typically based on the requirement to minimise the impact on earnings. KB's Asset and Liability Management (ALM) Department methodically oversees the processes for asset and liability management within all the individual entities of KB Group. The respective transactions are subject to approval by the Assets and Liabilities Committee (ALCO). ALCO, whose membership includes, among others, members of the Bank's senior management, approves rules and methods used in managing the aforementioned risks. It also 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.

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 tools and supports the Bank's business network in valuing transactions, setting client rates, and determining exchange rate spreads. 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. In that manner, margins and financial stability are preserved even despite possible changes in market conditions.

Interest rate risk in the banking book

Interest rate risk constitutes the risk of possible financial loss or negative 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 banking book and market book. Transactions executed with clients through the branch network typically fall within the banking book while operations on the interbank market belong in the market book. Interest rate risk is measured and managed separately for the banking and market books. With regard to interest rate risk in the banking book, the parent company (i.e. Komerční banka) and Modrá pyramida are the most significant members of the Group. The Group manages its banking book 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 banking book risk and not at all to speculate on interest rate changes. To this end, the Group has established prudent limits, which were not exceeded in 2014. 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.

As of 31 December 2014, securities were for the most part held by the Group in the available-for-sale (AFS) and held-to-maturity (HTM) portfolios. In both cases, the Group does not acquire these securities with the intention to sell them before maturity. The reason for choosing the AFS portfolio consists in rather practical constraints arising from the principles of accounting treatment (as a bond in the HTM portfolio cannot be hedged against interest rate risk). The current state of the portfolio is a consequence of revising the accounting recognition of certain debt securities held in the AFS portfolio. This was initiated by the Group in January 2014 in relation to those bonds it intends to hold until their maturity in order to assess whether all regulatory and accounting requirements, as well as internal limits, are satisfied for reclassification of the selected debt securities into the HTM portfolio. Doing so would limit volatility in the volume of regulatory capital otherwise stemming from the new Basel III regulatory concept. Basel III changes treatment of the fair revaluation difference accounted for in the equity account. The regulators newly include the revaluation difference into the regulatory capital, which means that the reported volume of regulatory capital may be unexpectedly influenced not only due to worsening of the credit quality of the issues but also because of movements in market interest rates. Interest rate derivatives (used for hedging risk in the banking 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.

Foreign exchange risk in the banking book of KB Group

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 banking 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 Group's banking book in 2014 was less than 0.18% of the Group's capital, and thus it 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. Komerční banka 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.

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. KB has been applying the Advanced Measurement Approach (AMA) to operational risk management 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. Since 2012, the process of risk self-assessment has been 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 events. During 2014, Komerční banka Group recorded 843 operational risk events in a final amount of CZK 115 million, which in a year-on-year comparison represents a slight decrease in both the volume as well as the number of losses. Co-operation within consolidated operational risk management has been deepened among KB Group companies. Effective from 1 January 2014, the French Prudential Supervisory Authority (as a regulatory supervisor of SG group) approved use of the AMA approach in Modrá pyramida. The AMA approach is therefore used already in four Group companies. In addition to the Bank itself, these include two non-banking entities, SGEF and ESSOX, as well as Modrá pyramida.

Business continuity

Business continuity management consists in developing the Bank's structures, procedures and resources intended to cope with extraordinary situations in order to reduce potential damaging impacts these may have on the Bank; protect the entity's employees, clients, assets and activities; and enable it to continue providing basic services and thus to protect the Bank's reputation, business assets, brands, products, processes and know-how while limiting the impact on KB's financial situation and strength. KB has developed banking business continuity plans for all main vital and critical processes. These plans are regularly updated and tested. The system is subject to regular reviews by external and internal auditors, as well as regulatory authorities.

Information security

The goal of information security management is to maintain the confidentiality, integrity, availability and credibility of information by applying the risk management process. Sound information security management gives confidence to interested parties that information security risks are properly managed.

During 2014, the Bank focused on minimising information security risks by implementing advanced security measures while also improving KB staff's security awareness. As KB was nevertheless subjected to concentrated attacks by hackers, several security controls were implemented to reduce cybercrime risks and leakage of sensitive information.

Compliance risk

A potential breach of regulatory rules, including standards of ethical conduct to which the Bank has made a commitment, might cause not only financial losses (penalties, compensations for damage caused, etc.) as well as litigation with regulatory institutions and clients, but it might also damage KB's reputation, thereby amplifying the financial losses. The Bank minimises compliance risk by setting up appropriate processes and rules within its management and control system and by thoroughly supervising compliance with these rules and processes. The Compliance Department is an important part of the Bank's management and control system. It conducts a number of activities from monitoring regulatory developments, through co-ordinating the implementation of new regulations into internal rules, processes and systems, and to subsequent control and consultation activities. In minimising compliance risk, contributions are nevertheless necessary from other specialised control and supportive departments, as is the involvement of the entire distribution network and all employees within their everyday working duties.

KB has defined principles and processes for the compliance function, for preventing risks of money laundering and financing of terrorism, and for 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. Moreover, Komerční banka has established rules on ethical behaviour for employees, and it provides advisory supporting compliance in all KB Group companies.

The most important activities of the Compliance Department in 2014 were related to implementing pertinent local and international regulations. These mainly comprised EU regulation and a directive on prudential requirements (CRR and CRD IV) which also required changes to the Banking Act and CNB decrees governing this area, an EU directive on deposits insurance, and new EU regulation on crisis management for banks. In the capital markets area, the key regulation related to OTC derivatives, central counterparties and trade repositories (EMIR). One of the important projects involved implementing the U.S. Foreign Account Tax Compliance Act (FATCA), which imposes new requirements on know-your-client procedures and reporting. A new directive on mortgages came into effect in 2014, and it will be progressively implemented into the KB environment over the following two years.

In addition to completing implementation of the aforementioned regulations, the main task in 2015 will be to implement EU regulations in the areas of payment services (e.g. the EU directive on payment accounts, amendments to the EU directive on payment services), personal data protection, and regulatory changes in the capital markets area.

Legal risk

Managing legal risk consists in minimising the uncertainty associated with enforcement and interpretation of legal acts, agreements, regulations and laws. In addition to standard legal functions in the various areas such as contract, banking and corporate law, the main tasks of KB's lawyers during 2014 consisted in implementing the new Civil Code and the new Act on Business Corporations into KB documentation and processes and settlement of so-called fee disputes (see details below).

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 2014, the Bank was a party to legal proceedings as a plaintiff in 9 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 508.5 million. The Bank was a bankruptcy creditor with a claim exceeding CZK 50 million in 37 bankruptcy proceedings. The total amount of claims filed in relation to these proceedings was CZK 12.6 billion.

As of 31 December 2014, the Bank was a party to legal proceedings as a defendant also in 9 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 595.4 million.

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 36 – Commitments and contingent liabilities.

In 2014, Komerční banka faced demands from a larger number of persons for refunding of loan administration fees, which they considered the Bank was not legally entitled to charge. The Bank utilised its procedural rights in order to prove that the fee complies with the contract and applicable law. All such legal disputes were settled in favour of the Bank as of the closing date of this annual report. Furthermore, at the beginning of 2015, ESSOX faced demands from a larger number of persons for refunding of fees for the conclusion of the consumer loan agreement and for setting the level of interest of the respective loans at the CNB's discount rate as the claimants considered that disclosure of the parametres of the contract in the contracts‘ documentation was not in accordance with Appendix 3 of the Consumer Credit Act. ESSOX will utilise all of its procedural rights in order to prove that it complied with the Consumer Credit Act when concluding the consumer loan agreements. There was no legally binding decision made in these legal disputes, as of the closing date of this annual report.

Internal audit

The main tasks of KB Internal Audit include to assess the functionality and effectiveness of risk management, control processes and the Bank's corporate governance, as well as contribute to improving the overall organisation's operational effectiveness.

KB Internal Audit is integrated into the organisation of the global division of Internal Audit (DCPE) within 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 important activities of the Group, including fulfilment of all regulatory requirements. Internal Audit's engagements are driven by the annual audit plan prepared mainly on the basis of assessments as to the Bank's risks and priority areas (such as embargoes and sanctions). In 2014, audit plan fulfilment was affected by several external reviews performed within the Bank by regulatory bodies – two inspections by the Czech National Bank focusing on information security and risk management areas, and Assets Quality Review (AQR) performed by the European Central Bank – as well as by the need to respond to the immediate needs of the Bank. In total, 75 audits (including 15 special investigations) were carried out, 20 of which (including 1 special investigation) were performed in KB Group subsidiaries. The 55 audits performed within the Bank covered both the distribution network and head office units, as well as selected companies providing KB with important services (outsourcing). In total, 320 recommendations addressing issues identified by audit engagements were implemented within KB Group during 2014, of which 26 were given high priority. The Bank significantly reduced the number of long-term unresolved recommendations. As of the year's end just 13 recommendations – mainly related to project activities – had been outstanding for more than 18 months.

In its regular report to KB's Board of Directors, the Audit Committee and Supervisory Board, Internal Audit evaluated the Bank's internal control system as functioning and efficient, albeit with a few exceptions in the information security area where further attention is needed. A review of the remuneration system in KB, mainly focused on the fulfilment of CRD IV requirements, was performed for the third time, in 2014 covering also KB subsidiaries.

The plan for 2015 drew upon outcomes from a risk assessment that was performed using a methodology shared across the entire SG Group.

Capital and liquidity

Regulatory framework

Komerční banka is subject to supervision by the Czech National Bank (CNB), and, since November 2014, the Société Générale Group is supervised by the European Central Bank.

As true for the banking industry as a whole, Komerční banka, too, was exposed to a tightening regulatory environment during 2014. In the European Union, the new Basel III capital framework came into force in January 2014 through Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation, or "CRR") and by Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive 4, or "CRD IV"). CRD IV was transposed into Czech law by an amendment to the Banking Act and publication of Czech National Bank Decree No. 163/2014 Coll. The new regulation establishes, above all, the newly conceived capital ratios as well as more stringent requirements mainly on regulatory capital, liquidity, risk-weighted exposures and overall corporate governance.

The Basel III rules did not change the processes of capital adequacy management, but they were reflected in those processes' parameters, particularly with regard to implementing an additional combined capital buffer above the 8% minimum required capital. In 2014, the Bank was obliged to maintain a mandatory capital conservation buffer of 2.5% and a systemic risk buffer of 2.5%. No counter-cyclical buffer was applied. The total regulatory capital requirement in Pillar I thus reached 13.0% of risk-weighted assets. In Pillar II, the Bank was mandated to keep a 2.5% buffer for systemic risk and a specific capital buffer of 3.4%. Therefore, the total capital requirement in Pillar II reached 13.9%, which, in view of the Pillar II's structure, means a 0.9% increase over Pillar I.

Information about consolidated capital and risk-weighted assets for calculating capital adequacy (in CZK million)

Consolidated capital

	31 December 2014
Total capital (Tier 1) = Common Equity Tier 1 (CET1)	**63,095**
paid up share capital entered in the commercial register	19,005
share premium	359
own shares	-726
other reserve funds	4,670
retained earnings for the previous periods	47,445
profit of the current period	12,985
unusable profit*	-11,783
accumulated other comprehensive income (OCI)	21,137
Adjustments to CET1	**-29,997**
gains/(losses) on hedging instruments	-15,920
accumulated profit/loss from changes in the fair value of liabilities to changes in credit risk	0
unrealised gains/(losses) on the AFS portfolio**	-5,233
additional value adjustment	-265
goodwill from consolidation	-3,606
goodwill other than from consolidation	-146
other intangible assets (besides goodwill)	-3,533
deductible items due to an insufficient coverage of expected credit losses	-1,295
Total additional capital (Tier 2)	**0**
Total capital	**63,095**

Consolidated risk weighted assets

	31 December 2014
Total risk weighted assets	**384,186**
for credit risk	**319,184**
for credit risk pursuant to the Standardised Approach in IRB	68,624
for credit risk pursuant to the IRB Approach	250,559
for settlement risk	**0**
for position, foreign exchange and commodity risks	**18,411**
for operational risk	**42,872**
for credit valuation adjustment	**3,719**

* Capital adequacy ratio as of 31 December 2014 assuming retained earnings adjusted for Board of Directors' dividend proposal (90.7% payout ratio).
** Only part of the adjustment related to securities remaining in the AFS portfolio would be recognised in the regulatory capital from 2015.

Development of capital and risk-weighted assets

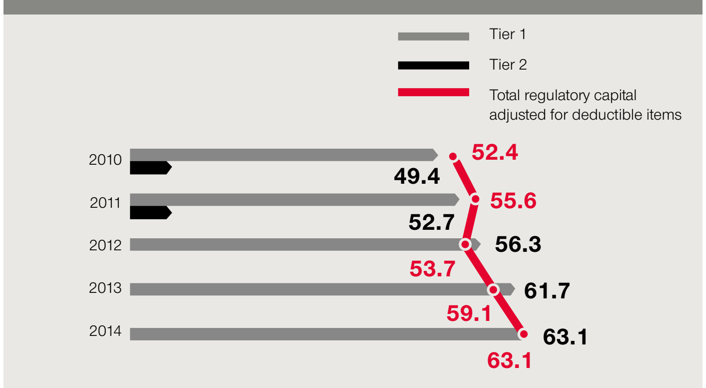
Total shareholders' equity is comprised of the following main balances: share capital, reserve funds and retained earnings. KB's consolidated shareholders' equity expanded year over year by 13.4% to CZK 109.5 billion. It paid out CZK 8.7 billion in dividends during May, and that was more than offset by the generation of net profit and revaluation gains on the AFS portfolio and cash flow hedges (which represent primarily reinvestment of client deposits). Revaluation gains were due to decreased market yields in comparison with the end of 2013. As of 31 December 2014, KB held in treasury 238,672 of its own shares constituting 0.63% of registered capital. These shares had been acquired in the previous year at a cost of CZK 726 million. The Bank did not acquire its own shares during 2014. The acquisition of its own shares had been authorised by the General Meeting, particularly for purposes of managing KB's capital adequacy.

Development of consolidated regulatory capital (CZK billion)*

	2010	2011	2012	2013	2014
Tier 1	49.4	52.7	56.3	61.7	63.1
Tier 2	6.0	6.0	0.0	0.0	0.0
Total regulatory capital adjusted for deductible items	52.4	55.6	53.7	59.1	63.1

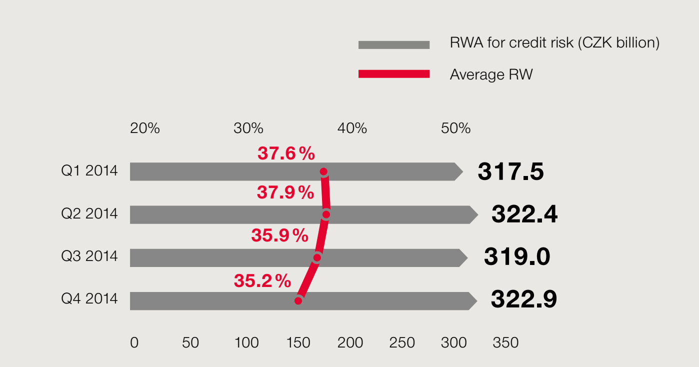
* According to Basel II methodology in 2010–2013, Basel III since 2014. Tier 1 is composed solely of Core Tier 1 equity (Common Equity Tier 1).

Development of consolidated regulatory capital* (CZK billion)



Consolidated regulatory capital for calculating capital adequacy stood at CZK 63.1 billion as of 31 December 2014. This amount included that part of the current year's profit expected to be retained in accordance with the Board of Directors' proposal to pay out dividends equal to 90.7% of attributable net profit. KB Group's regulatory capital was composed solely of Core Tier 1 equity. Capital adequacy (as well as the Core Tier 1 capital ratio under Basel III standards) stood at 16.4%.

Evolution of average risk weights and risk weighted assets for credit risk of KB Group (according to Basel III)+



KB Group uses two advanced approaches for calculating risk-related capital requirements: the "Advanced Internal Ratings-Based" (AIRB) approach for credit risk (except for KB SK, which uses the Standardised Approach) and the "Advanced Measurement Approach" (AMA) for operational risk.

The volume of risk-weighted assets (RWA) stood at CZK 384.2 billion as of 31 December 2014, compared to CZK 373.8 billion as of 31 December 2013 (calculated according to Basel III in 2014 and Basel II in 2013). RWA for credit risk (including credit valuation adjustments) constituted 84%, operational risk 11% and market risk 5% of the total balance.

Growth in exposure across all segments during 2014 was offset by reductions in risk weights. The Group's average risk weight decreased to 35.2% as of 31 December 2014 compared to 37.8% as of 31 December 2013. That improvement was due to positive developments in the risk profile for the segments Large Corporations, Small and Medium Enterprises, Retail Consumer Finance and Retail Small Business. This positive development outweighed the effect from implementing Basel III requirements at the beginning of 2014 (which led to increases in risk weights).

Capital management

The Bank manages its capital adequacy to ensure its sufficient level while allowing for organic business growth and for potentially adverse macroeconomic developments. Under the applicable Basel III regulation of capital adequacy, in addition to the usual reporting of the capital adequacy ratio (so-called Pillar 1) regulatory demands comprise also fulfilling conditions for evaluating required economic capital, stress testing and capital planning (so-called Pillar 2, or Internal Capital Adequacy Assessment Process). 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 there being very similar levels of necessary economic and regulatory capital.

The aggregate impact on KB's capital ratios from the transition to Basel III was comparatively small, which was due to the relative simplicity of KB's capital structure. From a regulatory perspective, that structure comprises only capital of the very highest quality, so-called Core Tier 1. Moreover, many changes in capital requirements offset each other. The Group also implemented measures to limit the potential volatility of regulatory capital according to Basel III. Most especially, it reclassified certain debt securities to the portfolio of financial assets held to maturity from the portfolio of financial assets available for sale.

Given the fact that Basel III capital requirements (and particularly the required capital buffers) are still developing, the Bank is continuously assessing the impact of their changes in the process of capital planning. As the national supervisory authority, CNB oversees KB's compliance with capital adequacy requirements on standalone and consolidated bases. During 2014, the Bank met all regulatory requirements. On a regular basis, KB also reports to CNB on its system of internal capital adequacy assessment.

Stress testing

As an essential part of its risk management under Pillar 2, KB regularly simulates hypothetical macroeconomic scenarios involving potential adverse external macroeconomic conditions on the basis of which it estimates impacts upon its financial result and the risk profile of the Bank's business in a medium-term horizon. It subsequently generates expectations for the development of RWA (i.e. capital requirements) and financial results. The results of stress testing are among the inputs considered in determining the Bank's dividend policy. Furthermore, client behaviour and its effect on the deposit base are modelled on the basis of stress scenarios such that any possible outflow of liquidity would be very securely covered.

The results of stress testing in 2014 confirmed that KB would meet its capital adequacy obligations even in case of unexpected adverse development of the Czech economy.

Liquidity and funding

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 its stable financial results, as well as the level of capital adequacy it has achieved. As a result, it has an excellent loans-to-deposits ratio of 74.7% (or 70.5% if assets of clients in Transformovaný fond of KB Penzijní společnost are included). KB also would meet the currently anticipated 3% required leverage ratio. This indicator confirms Komerční banka's solid position and its adequate room for further business growth.

Funding of KB Group

Client deposits in the volume of CZK 615 billion (not including client assets in the Transformed Fund and other payables to clients) comprise a crucial part (approximately 64%) of the Group's total liabilities and shareholders' equity. Current accounts made up the largest proportion of client deposits within the Group (68%). 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 2014 outside KB Group only to a minimal extent, and new issuance totalled just CZK 1.5 billion in nominal value. As of the end of 2014, the total nominal amount of mortgage bonds and other debt securities placed outside KB Group reached CZK 20.9 billion.

Development of the Group's volume of deposits (CZK million)*

2010	2011	2012	2013	2014
535,682	560,701	572,569	624,611	676,122

* Excluding repo operations with clients

Development of the Group's volume of deposits* (CZK billion)

Liquidity 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 adding to the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management. 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 and clients' use of financing are modelled (including under stress scenarios) in order to maintain a very high certainty of covering possible outflows of funds. Sufficient liquidity is managed using a system of limits. To achieve these, KB uses on- and off-balance sheet transactions on the interbank market. The Group is prudent in its strategy and uses medium- and long-term instruments which allow it to stabilise both volumes and associated costs while at the same time reflecting changes in costs when setting prices.

The Group maintains high liquidity at all times. It covered all its liabilities during 2014 from its internal sources without any problems, and the use of secondary funding (e.g. issuing securities) remained limited. As of 31 December 2014, the Group was not drawing liquidity from central banks. The Group's liquidity cushion is a combination of investments in government bonds and reverse repo operations with the CNB.

With the introduction of Basel III regulation, two new measures were implemented: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both these regulatory indicators are simplified versions similar to those used by KB Group to measure its 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 estimated levels of LCR and NSFR indicators have long been well above the required 100%.


NA PARTNERSTVÍ ZÁLEŽÍ
ng
KB
KB
Komerční banka,
generální partner
Národní galerie
v Praze
ng

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The National Gallery in Prague is one of the most important Czech cultural institutions. We are therefore honoured that our mutual co-operation will support activities with great importance not only for society today but also for future generations.

KATEŘINA ŠUŠÁKOVÁ
Deputy Executive Director,
Marketing and Communication

Supporting Czech art

Komerční banka is a stable and long-term partner of Czech art and culture. As part of this strategy, the Bank in 2014 became general partner of the National Gallery in Prague. For more than 200 years, the gallery has used its world-class collection to bring the general public unique cultural experiences. The National Gallery's partnership with Komerční banka is its first immensely important step on the path to cultivating relationships with patrons of the arts. Co-operation with the private sector will enable the gallery to carry out an ambitious international exhibition programme.

As part of the partnership, the National Gallery offers conceptual co-operation in caring for Komerční banka's art collection, which includes more than 3,500 works of art from such artists of European renown as Karel Malich, Jan Merta and Antonín Střížek. In return, Komerční banka will allow the National Gallery to draw upon this rich collection of art in organising short- and long-term exhibitions.

1 Press conference about co-operation between Komerční banka and the National Gallery

2 Albert Le Dirac'h, Chairman of the Board of Directors of Komerční banka in friendly conversation with Jiří Fajt, General Director of the National Gallery in Prague

3 Trade Fair Palace, main building of the National Gallery

4 Nostitz Palace, medieval art exhibition

Employees

Key data on employees

Average recalculated number of employees during year	2014	2013
KB Group	8,520	8,604
Komerční banka	7,624	7,706
Subsidiaries	896	898

Actual number of employees as of end of year		
KB Group	8,573	8,703
Komerční banka	7,668	7,777
- of which in Slovakia	39	36
- of which in Czech Republic	7,629	7,741
- of which at headquarters	3,369	3,413
- of which in the distribution network	4,259	4,328

Age structure of employees (KB, Czech Republic)		
<30	1,352	1,428
31–40	2,210	2,334
41–50	2,369	2,307
50+	1,697	1,650

Employees by type of employment contract		
- Full-time	95%	95%
- Part-time	5%	5%

Employees by period of employment		
- Permanent employment	85%	85%
- Other employment (temporary, limited assignment, other)	15%	15%

Employees' qualifications		
- University	42%	41%
- Secondary school	55%	56%
- Other education	3%	3%

Proportion of men and women (KB, Czech Republic)		
- Men	32%	32%
- Women	68%	68%

Proportion of women in leadership positions (including team leaders)	52%	54%
Number of employees on maternal and parental leave	760	765
Illness rate	2.47	2.51
Number of employees with disabilities	83	82

Komerční banka'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 upon trust, respect, mutual communication, equal opportunity, and the offer of interesting professional and career development.

The Czech Republic is characterised by relatively low levels of unemployment. During 2014, the situation on the country's labour market showed favourable trends of decreasing unemployment and rising new jobs creation, which development compared favourably to the previous year. Although most job openings at Komerční banka met with strong interest because of KB's excellent reputation as an employer, it did remain difficult to fill certain positions requiring specific knowledge, skills and experience.

Working environment and 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 education and professional experiences, but it also offers opportunities to a broad range of talents.

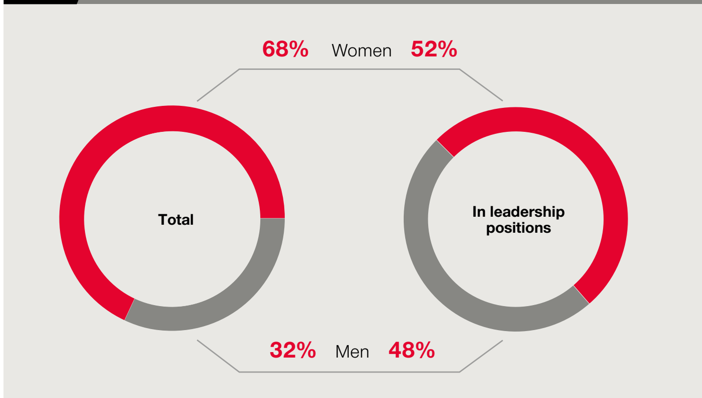
Work-life balance

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 adjustment in working hours or unpaid leave is evaluated individually, taking into account the type of business operation, character of the work performed, and the required competencies.

Gender diversity

KB perceives raising awareness and education of employees as a way to promote a better balance between men and women in leading positions. It supports the development of female employees through sharing positive examples and experiences by means of mentoring and networking. 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.

Proportion of men and women (KB, Czech Republic)



Employees on maternal and parental leave

Approximately 10% of colleagues (760 employees) were on maternal or parental leave, which share remains stable. Komerční banka makes it a priority 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.

Employees with disabilities

During 2014, the Bank had on staff 83 employees with disabilities. Human resources specialists are trained to support the employment of people with disabilities, and the same topic is part of the managerial training that focuses on team diversity. Access is barrier-free to the new headquarters building in Prague – Stodůlky, and that extends the range of working opportunities. Employees with disabilities are granted one additional day off per quarter.

Principles of employee remuneration

Komerční banka fulfilled its commitments during 2014 to employees in relation to basic wages and provision of employment benefits under the Collective Agreement concluded for the period from 1 March 2013 to 31 December 2016. In accordance with the change in law ensuing from Capital Requirements Directive IV, Komerční banka also revised the principles of remuneration for specified persons.

In the area of employee benefits, the Bank has been favouring employees with disabilities and in the age category 55+. For all employees, KB renewed the collective risk life insurance and prolonged the validity of banking benefits. The Group's employees had the opportunity to subscribe for shares under the Global Employee Share Ownership Programme of the Société Générale Group. In co-operation with the OZP occupational health insurer of bank, insurance company and construction company employees, KB organised for its employees, among other events, Health Days with OZP. This event focused on prevention, such as through screening of pigment spots, vision testing as well as massage.

Training and employees development

KB Group designs a broad offer of educational programmes and courses for its employees. On average, each employee spent 6.9 days of the year in training. Optional training opportunities were attended by 76% of colleagues. In 2014, the Bank focused especially on developing those employees having direct contact with clients within the branch network, as well as managers and participants in the Strategic Talent Management programme.

The M'Academy managerial academy is directed to long-term individualised skills development in the areas of managing and developing people, effective collaboration, team-building, strategic thinking, change implementation, flexibility and innovation. More than 400 people participated in the Strategic Talent Management development programme for key and talented employees. The programme newly includes so-called co-development, a development platform wherein participants bring their own topics and resolve them together with others while building upon their different views and experiences.

In 2014, KB also introduced for all employees the new Moje Vitalita (My Vitality) programme oriented to maintaining ability to work over the long term. As traditionally, additional integration and developmental programmes were dedicated to new employees (StartinG), new university graduates (ConnectinG and ConnectinG+) and future top managers (ChallenginG).

Finding and attracting talent

Komerční banka continued during 2014 in its co-operation with universities and student organisations. Students ranked KB in second place in the survey of Top Employers. Czech students had the opportunity to vote for the first time also in the Universum global survey, wherein Komerční banka was ranked 12th among 100 employers and received the title of honorary partner for its more than ten years of co-operation with the AIESEC organisation. Furthermore, Komerční banka deepened its collaboration with the career centre at Masaryk University in Brno by participating in the Assessment Centre test run and Job Academy conferences. KB also joined forces with the competence centres of the Faculty of Informatics and Statistics at the University of Economics, Prague.

Corporate social responsibility

Responsibility is the basis of every partnership and it is also our priority in relating to our clients, employees, shareholders and the broader society. Corporate social responsibility is consistent with Komerční banka's fundamental values, even as the Bank's business strategy regards this to be a condition for long-term success.

Corporate social responsibility is developed in the economic, environmental and social areas. Examples of how the principles of social responsibility are applied within the economic area can be seen in KB's responsible risk management and transparent dealings with clients, investors and suppliers.

In the environmental area, the Bank has long focused upon proper waste management and creating conditions for waste separation within its facilities. In conducting its activities, KB concerns itself with a number of key issues. For example, it supports commercial projects directed to renewable energy production and for its own use purchases Green Energy from renewable sources.

In the social area, KB's responsibility begins inside the company – in the relationships with its employees. Komerční banka also participates in society as a whole by supporting culture, education, health care and assistance to those who are disadvantaged socially or due to health reasons.

Corporate governance and organisation, internal control

Komerční banka employs a clear and transparent governance structure, fortified with strong and independent control functions. The Bank's governance structure is defined in the company's Articles of Association. With its six members and presiding chairperson, the Board of Directors is responsible for directing the business of the company. Control functions at the highest level are conducted by the Supervisory Board and the Audit Committee, and these are bolstered within KB by Internal Audit and a comprehensive, formalised system of so-called first-level controls. Responsible risk management operates within Komerční banka as an independent function.

Ethics

Komerční banka recognises that only by taking an ethical approach to how it does business and provides banking services can it hope to maintain and improve its position on the competitive banking market over the long term. The requirements for ethical and professional conduct apply not only to the Bank as an entity, but to every employee individually. The entire KB Group has for a number of years been implementing 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**).

Ombudsman

In 2004, Komerční banka became the first financial institution to establish a position of independent ombudsman. Should KB's clients not be satisfied with how their complaints were resolved by a branch or the Complaint Management Department, they can address them to the ombudsman. JUDr. Joseph Franciscus Vedlich, LLM has been in this position since 2009. The institution of the independent ombudsman can be utilised by clients across a total of seven companies within KB Group.

The ombudsman was contacted by 192 Komerční banka Group clients during 2014. Mr Vedlich resolved 43 cases which fell within his competence in accordance with the Charter of the Ombudsman. The remaining cases were resolved directly by Komerční banka or the respective company within the Group.

Measures against corruption

KB has implemented strict rules for the conduct of its employees, and these protect the Bank against corrupt practices. Not only does KB's Anti-Corruption Policy stipulate rules of conduct for its employees, it also prescribes certain obligations of suppliers and intermediaries by adopting anti-corruption clauses. The clauses are integral parts of all newly signed contracts and are annexed to existing contracts heretofore not containing them.

The objective of these measures is to minimise the risk of corruption within KB and on the part of its suppliers or intermediaries, thereby protecting the Bank from the risk of damaging its good name.

Measures against money laundering and financing of terrorism

Komerční banka exerts maximum effort to obstruct its being misused for purposes of money laundering or financing of terrorism. To this end, rules, methods and controls are applied in accordance with legal regulations, international standards, and the requirements of the Société Générale financial group. These rules and methods are continuously validated and updated, and employees' knowledge of them is developed through regular training and testing.

When entering into business relationships with clients, Komerční banka rigorously applies the "know your client" process. 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 entities or those whose transactions do not meet standards of transparency or bear high reputation risk. The Bank will not conduct any transaction indicating risk of money laundering or financing of terrorism.

Supplier relations

In its relationships with suppliers, the Bank maintains proven procedures giving consideration to the environment as well as to social and human rights. The upholding of these procedures and principles is monitored, and the Bank co-operates with its suppliers to improve upon them. In managing its supplier relations, the Bank follows what the strategy of Société Générale terms an Ethical Sourcing Programme. Upon signing a contract, all KB suppliers commit to adhere to the principles of this programme and Komercní banka reserves the right to initiate an independent audit at the supplier with regard to its meeting the obligations under the social responsibility policy.

Many of the Bank's key suppliers are also subject to certification under the EcoVadis system in the area of corporate social responsibility. This provides the Bank additional information as to the behaviour of its suppliers in relation to the environment and society.

Philanthropy and social engagement

Volunteering

Each year, Komerční banka organises a number of projects wherein the employees of the entire Group may participate as volunteers. The focus is on helping those in need and improving the environment. In addition to activities arranged centrally, numerous units at KB participate in various volunteer activities.

Blood donations

In co-operation with hospitals, Komerční banka organises blood drives at its premises. The first such collection took place in 2008, and the employees showed great interest from the very start. That interest continues to this day. In collaboration with the General Teaching Hospital in Prague, approximately 70 litres of blood were donated by 157 colleagues during 2014. Since 2008, KB's employees have donated 526 litres of blood.

Auction of employees' photographs

Another project in which the employees participate is an auction of photographs. The employees are authors as well as buyers of the photographs at an internal auction. In 2014, the colleagues had for the first time an opportunity to purchase a calendar containing the best images collected since 2010, when the project was launched. The proceeds are dedicated to charitable purposes through KB's Jistota Foundation. In 2014, employees contributed CZK 107,000 in this manner, and the Jistota Foundation doubled that amount. The employees approved donations to three entities: Linka bezpečí – a helpline for endangered children, APLA – an organisation assisting people with autism, and SOS Children's Villages.

Cycling to work

Teams from Komerční banka took part in the Bike to Work event for the fourth year. Thirty-nine teams joined the green spring kilometres competition promoted by the Auto*Mat initiative. A total of 153 employees pedalled altogether 37,506 km in May. In using this environmentally friendly mode of transport, they decreased carbon dioxide production by 4.1 tonnes. KB Group had the second largest competing group in the whole Czech Republic. On this occasion, Modrá pyramida organised a campaign among its employees, in order to help the Černí koně (Black Horses) society to help handicapped cyclists. Modrá pyramida decided to double the amount raised from the donations. The Black Horses used the received CZK 202,000 to acquire a handbike, electrohandbike and a special tandem bicycle.

Citizen Commitment Games

Société Générale celebrated its 150th anniversary during 2014. In honour of this occasion, the SG Group held Citizen Commitment Games and an accompanying charity collection. Both sport and charity components drew participants from the entire Société Générale Group. In the Czech Republic, employees collected more than CZK 243,000. The funds were then directed to the Okamžik ("blink of an eye") association for helping visually impaired people. Komerční banka participants in the games and collection together totalled 258.

Movember

In November, KB joined for the first time the Movember initiative aimed at supporting prostate cancer research. Some male employees manifested their participation by growing their moustaches, which are symbolic of the event. Moreover, both men and women contributed financially. Within the Bank, some CZK 90,000 was raised and will go to funding research against this insidious illness. Across the Czech

Republic, KB's team ranked seventh and it raised the second highest amount among banks.

Financial inclusion

Financial literacy

Each year, Komerční banka employees train children and adolescents in the area of financial literacy, both at secondary schools and children's homes. In co-operation with Accenture and with support from KB's Jistota Foundation, the Bank continued during 2014 in educating mainly young people who are leaving children's homes and beginning their working lives. Approximately 40 children from five children's homes were trained directly within KB's premises. The programme was concluded with a contest wherein the young people employed their newly acquired knowledge in practice.

Debt Advisory Centre

Komerční banka has been a partner of the Debt Advisory Centre since its establishment in 2008 and appointed its two representative to the Centre's Executive Board. The 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 and to assist the clients in filing for bankruptcy. The Advisory Centre's activities also include to promote financial and legal awareness when taking loans.

In 2014, the Bank supported the Advisory Centre with a donation of CZK 1,873,860. These funds were used in providing advisory and ensuring the Advisory Centre's operation. The Centre assisted 11,176 clients during 2014.

Sponsoring

With its main focuses on culture, amateur sport and education, Komerční banka is a long-term partner of institutions, projects and events important for all of society. In selecting events to support, it gives preference to those making exceptional human, societal or artistic contributions.

KB's largest sponsorship project is its all-around support for the artistic activities of the National Theatre, which has gone on for the past 12 years. In September 2014, KB became partner of the largest collection of fine arts works in the Czech Republic which is managed by the National Gallery in Prague. Its support will also enable the opening of new exhibitions.

Also in the cultural area, Komerční banka supported the extraordinary comeback of the legendary musical group Lucie in its Lucie 2014 tour. As has become a tradition, support was continued also for the French Film Festival. Among the most important film festivals in the Czech Republic, it presents the best films produced or co-produced in France.

Sponsoring of amateur sport focuses especially upon projects that bring joy and entertainment to the largest number of participants. Therefore, KB has decided to continue its long-standing support of floorball as the main partner of the Czech Floorball Union. Measured by the size of its membership base, this sport is already the second most popular in the Czech Republic. A Czech sport phenomenon is firefighting sport. This physically demanding sport appeals to spectators and corresponds perfectly to the Partnership Matters slogan. That is why the Bank began its support of the Czech Championship in firefighting sport already in 2012.

Support for the Prague Zoo – one of the best zoos in the world – has continued since 2005. The Prague Zoo participates in initiatives to save numerous endangered species. Foremost among these is the rare Przewalski's horse. In 2014, KB provided support especially for implementing the Return of the Wild Horses project.

Komerční banka Jistota Foundation

The Jistota Foundation has been supporting projects in the areas of social and health care services for over 20 years while focusing on senior citizens and children. In 2014, it supported 99 projects, mainly through financial support from the Bank and its associated companies but also thanks to employee initiatives. In addition to their donating money, the employees also constitute the Foundation's management and supervisory boards. The Foundation's donations in 2014 exceeded CZK 9 million.

Support of baby boxes has been among the Jistota Foundation's traditional projects. It agreed with the Babybox – Statim civic association on renovation of boxes installed during 2008 in Ústí nad Labem and Pelhřimov. During 2014, the contribution for maintenance and modernisation of baby boxes totalled CZK 542,000.

The Foundation also has been providing support to hospices. Continuing a long-term project, it contributed to purchase of hospital beds in co-operation with the company Linet, thereby helping nine

hospices with a total contribution of CZK 500,000. The Foundation newly commenced co-operation with the Association of Hospice Palliative Care Providers and agreed to develop a new project in support of mobile hospices.

In its second year, the appeal going by the name "Matters of the Heart, or We'll Help You to Help" was again successful. The Foundation thus supports charity initiatives in which KB Group employees volunteer during their free time. Employees nominated in 2014 a total of 37 projects, from which the Foundation selected 15 winning projects and supported these with CZK 1,248,600.

The traditional golf tournament organised by the Foundation, which in 2014 took place at Čertovo Břemeno, raised CZK 255,000. The Foundation topped up that total to CZK 400,000. The amount raised was divided between Vyšší Hrádek, p.s.s., which provides resident social services to people with mental handicaps, and the Sluneční domov ("Sunlit Home") civic association. They used the funds to reconstruct a shelter and a respite centre building.

For the first time, the Foundation donated to the Bílý kruh bezpečí organisation, which supports victims and witnesses of crimes. A grant of nearly CZK 130,000 went to provide equipment for the central helpline. The Jistota Foundation also granted more than CZK 360,000 to the SOS Children's Villages Association to cover necessary repairs to the roof over one of its homes.

Other KB Group companies also raised money for the Jistota Foundation during 2014. Totalling CZK 650,000, these funds enabled the Foundation to support the following organisations and activities: Kaleidoskop (a civic association for people with personality disorders), Domov Paprsek Olšany (providing residential social services for the handicapped), Centrum 83 (a provider of social services), Smíšek (providing activities for children affected by social exclusion), the František home for seniors, and the organisation of the Blind Football Cup tournament.

Environment
Komerční banka is active in protecting the environment even beyond its legal obligations. It strives continually to implement measures reducing the impact of the Bank's activities on the environment. Examples include reducing paper consumption, managing waste output and energy consumption, as well as monitoring travel costs.

Since 2009, employees have been able to separate recyclable and dangerous waste at their workplaces. For five years already, KB has been part of the Green Company project which is directed to environmental protection. The project includes, for example, collection of electronic waste (including bulk company electronic waste) from the Group operations as well from the employees' private activities, its transportation and environmentally friendly liquidation.

KB regularly calculates the volume of CO_2 emissions it produces and is always mindful of its activities' environmental impacts. For its fleet, KB acquires only low-emission cars. The Bank has implemented smart management systems into many buildings to reduce energy consumption. One of these is the head office building in Prague – Stodůlky, which was the first building in Prague to be awarded a BREEAM certificate and to which a large part of KB's central functions are gradually being located.

Moreover, since 2011, Komerční banka has been purchasing all its electricity from renewable sources (so-called Green Energy). Wherever possible, it uses environmentally efficient equipment and technology. LED light bulbs and motion detectors to control lighting have become standard at KB.

Stakeholder engagement
Representatives of Komerční banka participate in activities through a number of groups and associations aiming to promote development of their respective markets (e.g. the Czech Banking Association, Slovak Banking Association, Capital Market Association, among others), the professionalism of its members (e.g. CFA Society Czech Republic, ACCA), and business relations between countries (several international chambers of commerce), as well as to facilitate the popularization of economics (e.g. Czech Economic Society). KB's employees help students to acquire new skills and experiences in co-operation with a number of colleges, universities and student organisations. For its more than ten-year long co-operation with AIESEC, KB was awarded a Partner of Honour title by the Czech branch of this international student association. In the last year, KB also worked together with the Career Centre of Masaryk University in Brno by participating at Assessment Centre rehearsals and at the Jobs Academy conference, as well as with competence centres of the Faculty of Information Technologies of the University of Economics in Prague.

1

We are honoured to have been able also in 2014 to support athletes with physical disabilities and thus contribute to their quality of life. One must admire what they are able to achieve and their determination in the face of their disabilities. In many respects, they are models for the rest of us.

SYLVA FLORÍKOVÁ
Chairperson of the Executive Board of Jistota Foundation

Admiring the achievements of athletes with disabilities

There are some circumstances in life we cannot influence, but we need not accept fate without a fight. Komerční banka admires and supports people who despite serious disability achieve excellence in sport. KB's Jistota Foundation has been co-operating since 2012 with the Wheelchair Athletics civic association. In 2014, it donated CZK 350,000 to the association.

This gift helped facilitate a training camp for the national team and trainees as well as the 16th annual KB Czech Cup in Wheelchair Athletics. At the beginning of July 2014, the association organised the Czech National Championship, traditionally part of the international Czech Open in Olomouc. Junior competitors participated during August in the IWAS World Junior Games, which were held in Stoke Mandeville, England, birthplace of the Paralympic Games.

1 Mirka Obrová – shot put training – SC Nymburk

2 National team and trainees group training – SC Nymburk

3 End of season and announcing results. From left: trainer Ondra, youngest athlete Adélka Sekyrová, trainer Martina and dog Adélka.

4 Sharing experiences and knowledge after an afternoon training session – SC Nymburk

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/cs/archiv/agenda-byvaleho-fnm/sprava-majetku/kodex-spravy-a-rizeni-spolecnosti-corpor/kodex-spravy-a-rizeni-spolecnosti-zaloze-14620.**

Komerční banka's Board of Directors respects the aforementioned principles of corporate governance, including the newly introduced European rules unifying corporate governance codes of best practice at the European level, and reflects the new rules in its internal procedures and regulations. There were no fundamental changes during 2014 which would adversely influence the aforementioned standards of the Bank's corporate governance. The Bank will continue to respect the principles of corporate governance, which best correspond with the Bank's business model as well as the interests of the Bank and its shareholders.

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 2014 (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 (custody account)	5.33
Nortrust Nominees Limited (custody account)	4.77

Shareholder structure of Komerční banka as of 31 December 2014 (according to the extract from the issuers' register taken from the Central Securities Depository)

	Number of shareholders	Proportion in number of shareholders (%)	Proportion of share capital (%)
Number of shareholders	**43,294**	**100.00**	**100.00**
of which: legal entities	676	1.56	97.63
private individuals	42,618	98.44	2.37
Legal entities	**676**	**100.00**	**97.63**
of which: from the Czech Republic	118	17.46	1.24
from other countries	558	82.54	96.39
Private individuals	**42,618**	**100.00**	**2.37**
of which: from the Czech Republic	38,160	89.54	2.22
from other countries	4,458	10.46	0.15

The General Meeting is 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.
A quorum of the General Meeting shall be constituted 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 invitation to the General Meeting, which contains proposed resolutions and their justification and further information about the conditions of shareholders' participation, execution of shareholder rights and the main information from the financial statements. At least 30 days prior to the General Meeting, the General Meeting shall be convened by means of a public notice calling the General Meeting posted on the Bank's website **www.kb.cz**, on the notice board in the Bank's registered office and on the website at **www.londonstockexchange.com**, as well as published in the Mladá

Fronta DNES daily newspaper. All documents relating to corporate governance are published on the Bank's website. 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 of Directors or a person designated by 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.

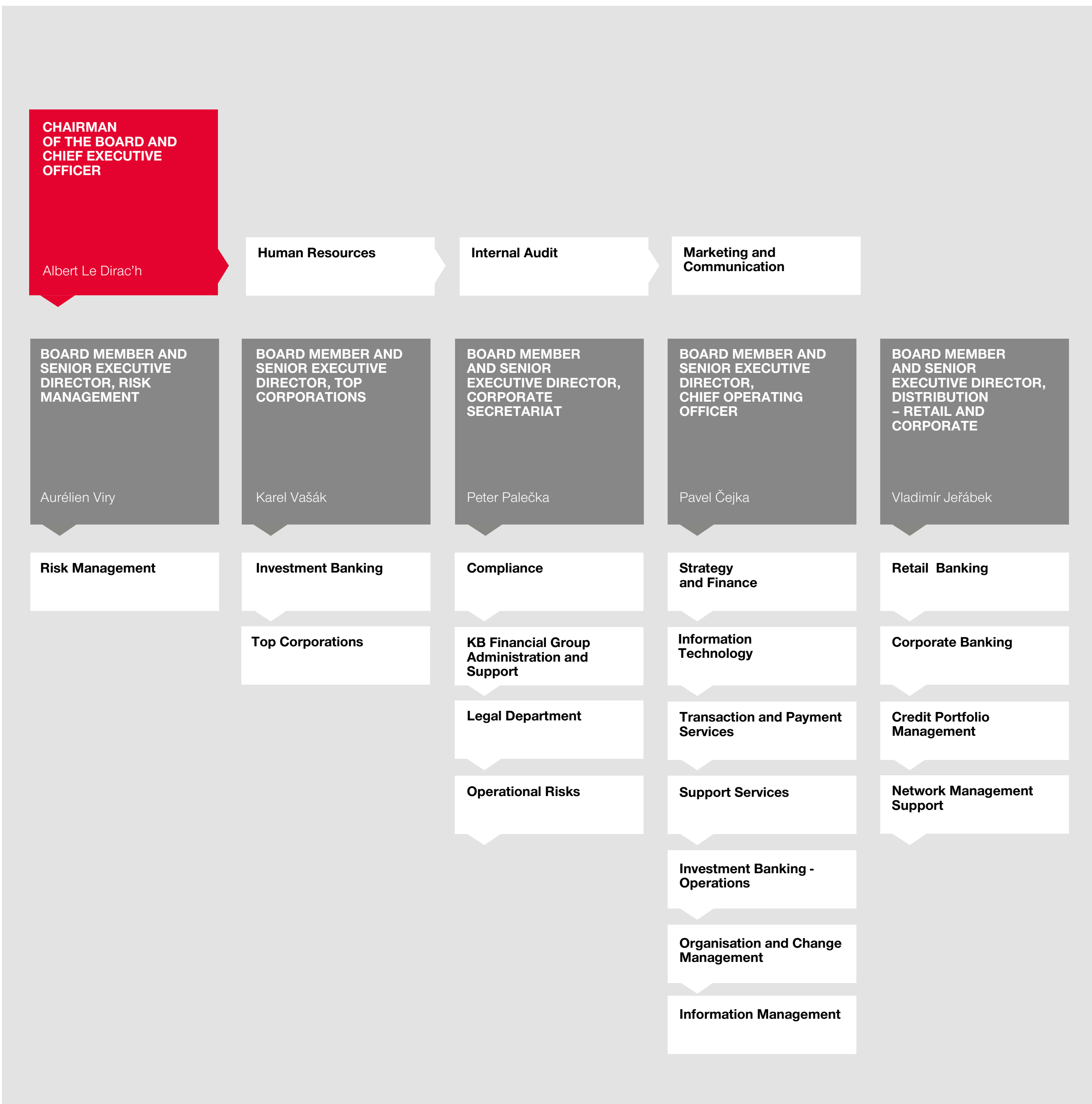
All persons registered in the list of attending shareholders and present at the General Meeting at the time of calling a vote are entitled to vote, unless otherwise stipulated by law. The sequence of voting corresponds to the order on the General Meeting's agenda. The casting of votes shall be carried 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 upon 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 upon 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 changes to the Articles of Association, with the exception of a change in consequence of an increase in the registered capital by the authorized Board of Directors or a change made on the basis of other legals circumstance;
b) decide upon a change in the amount of the registered capital, except that, unless it is reduced to cover a loss, the registered capital may be reduced only upon prior approval of the Czech National Bank;
c) elect and remove members of the Supervisory Board; elect and remove members of the Audit Committee;
d) approve the Board of Directors' reports regarding the Bank's business activities and the state of its property, at least once per accounting period;
e) decide upon the possibility of setting off a monetary claim of the Bank against a claim to be used for payment of the issue price including the draft of the relevant contract for set-off;
f) decide upon a change in the class or type of the shares;
g) decide to issue convertible or priority bonds of the Bank;
h) decide to modify the rights attached to individual classes of the shares;
i) approve the regular financial statements, extraordinary financial statements, consolidated financial statements and, as established by law, interim financial statements;
j) decide upon distribution of profit or other of the Bank's funds or coverage of a loss;
k) approve the service contracts with the members of the Supervisory Board and of the Audit Committee;
l) decide on transformation of the Bank, unless the act regulating transformations of companies and co-operatives establishes otherwise, provided that a prior consent of the Czech National Bank has been given where so required by law;
m) decide to wind 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 to file for admitting the participation securities of the Bank to trading in the European regulated market or for excluding these securities from trading in the European regulated market;
p) approve the transfer or pledging of an establishment or such part thereof entailing a substantial change to the existing structure of the establishment or a substantial change to the business activities of the Bank;
q) charge the Board of Directors to decide upon an increase in the registered capital under the conditions specified by law;
r) decide to acquire the Bank's shares into treasury in accordance with the applicable provisions of the Act on Business Corporations;
s) decide upon elimination or restriction of 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 Act on Business Corporations;
t) approve the acquisition or disposal of assets, when the law so requires;
u) decide upon appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
v) convey principles and instructions to the Board of Directors of the Bank with the exception of instructions regarding the business management of the Bank unless provided to the Board of Directors upon its request; and approve principles and convey instructions to the Supervisory Board with the exception of instructions regarding the statutory duty to check the competence of the Board of Directors;
w) provide its consent regarding a contract for settlement of a loss caused by a breach of the duty of due care on the part of a member of a body of the Bank;
x) decide upon suspending the service of a member of a body of the Bank who declares a conflict of interest under the Act on Business Corporations, or prohibit a member of a body of the Bank from entering into a contract which is not in the Bank's interest;
y) decide upon other matters which, according to the generally binding legal regulations or the Articles of Association, are a part of the powers of the General Meeting.

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

Organisational chart of Komerční banka (as of 31 December 2014)



Principle resolutions of Komerční banka's Annual General Meetings held in 2014

At an extraordinary General Meeting held on 28 January 2014, 243 shareholders holding shares with nominal value representing 81.45% of the Bank's share capital were present in person or through their representatives. The General Meeting approved changes in the Articles of Association, in order to conform to the new legislation in force from 1 January 2014, the new Civil Code and the Act on Business Corporations and Co-operatives.

At the regular General Meeting held on 30 April 2014, 464 shareholders holding shares with nominal value representing 78.52% 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 property for the year 2013 as well as the annual financial statements of Komerční banka for the year 2013, decided to distribute profit for 2013 in the total amount of CZK 13,122,881,288.56, and decided to pay out dividends in the amount of CZK 230 per share. The Annual General Meeting also:

- approved the consolidated financial statements for the year 2013;
- approved the service contracts of members of the Supervisory Board and members of the Audit Committee;
- 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 2014.

Board of Directors

The Board of Directors is the corporate body which manages the Bank's activities. The Board of Directors is charged with business management, including to ensure the 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, ensure its compliance with legal regulations, 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 ensure the establishment, maintenance and implementation of the management and control system so as to ensure the adequacy of information and communication in conducting the Bank's operations.

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 satisfy the conditions established in legal regulations for serving as a member of the Bank's Board of Directors and who are elected for a four-year term by an absolute majority of all Supervisory Board members at the recommendation of the Nominating Committee. The Nominating Committee ensures the trustworthiness, adequate professional qualifications and experience of the members of the Board of Directors. The professional qualifications, trustworthiness 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 made against them by any regulatory body. No bankruptcy, receivership or liquidation was declared in relation to the stated persons during the past 5 years.

Composition of the Board of Directors

Albert Le Dirac'h
Chairman of the Board of Directors (since 2 August 2013)

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)

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 8 October 2013)

Aurélien Viry
Member of the Board of Directors (since 1 January 2011, re-elected on 2 January 2015)

Albert Le Dirac'h
Graduated in management studies from the University of Rennes. Between 1979 and 1980, he worked in the Insurance National Group. He has worked in the Société Générale Group since 1980, first as an inspector in the SG Inspection department and from 1987 as deputy director and later as director of the Back Office within the Capital Markets Department. From 1995 until 1999, he was Head of Human Resources Management. From 1999 to 2006 he was CEO and a member of the Board of Directors of SGBT Luxembourg. Between 2001 and 2007 he served as Chairman of the Supervisory Board at SG Private Banking Belgium and from 2006 to 2008 as Deputy Head of Human Resources of SG Group. From 2008 to 2012, he was Chairman of the Board of Directors and CEO of Société Générale Morocco headquartered in Casablanca. The Board of Directors of Komerční banka elected Mr Albert Le Dirac'h as Chairman of the

Board of Directors and Chief Executive Officer of Komerční banka with direct responsibility for management of the Human Resources, Internal Audit and Marketing and Communication departments, as well as the Strategic Plan. Mr Le Dirac'h is also a member of the supervisory boards of SGEF and Komerční pojišťovna and 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 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, Transaction and Payment Services, Information Technology, Organisation and Change Management, Support Services, Information Management 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 KB Penzijní společnost and a member of the statutory body of Bastion European Investments. In addition, he is a member of the Board of the National Theatre.

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 agricultural 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 banka'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 boards of KB Penzijní společnost and Modrá pyramida.

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 chairman of the audit committee of Modrá pyramida.

Karel Vašák (Charles Karel Vasak)
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 1994 in its international distribution network at a London branch, where he was responsible for French corporate clients. Subsequently, in the years 1994 to 1998 he assumed the position of Vice-Director of Société Générale in New York responsible for the International Desk and from 1998 to 2001 was responsible for the Human Resources department in Société Générale New York and London. From 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 Investment Banking.

Aurélien Viry
Graduated in finance and accounting from ESCP Europe Paris and holds a DECF in reporting and finance. His career at Société Générale began in 1990 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 Viry is also a member of the supervisory boards of SGEF and ESSOX.

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 20 regular and 2 extraordinary (unscheduled) meetings in 2014 and held seven remote votes in accordance with the Bank's Articles of Association. The average meeting length was 2 hours and 20 minutes and with an average participation of 92%. A quorum of the Board of Directors shall be constituted if an absolute majority of the Board members are 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.

In 2014, the Board of Directors discussed the annual financial results of KB Group for the year 2013, as well as KB's consolidated financial statements, separate financial statements, and their footnotes as of 31 December 2013 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 2013, 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, the conditions for acquiring the Bank's own shares, proposal for appointment of the external auditor and other matters falling within the competence of the General Meeting. Moreover, it approved the Bank's Annual Report for 2013 and Half-yearly Report for 2014.

The Board of Directors regularly reviewed the quarterly financial results of KB Group. 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. Based on the test of solvency, it decided on the payment of dividends for the year 2013. It also discussed capital management policy, 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 2014. It further approved the issuance conditions for 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 on a monthly basis. At the same time, it monitored sector analyses, discussed the limits of market risks, and, within its competence, 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. Moreover, it approved changes in the organisation and management of "retail collection" and dealt with issues on risk management supervision across the entire Group.

In the operational risks area, the Board of Directors discussed the regular quarterly reports and dealt with issues on insurance policy. 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 yearly report for 2013 and the quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2013 annual evaluation report on KB's system against money laundering and the financing of terrorism. It continued to oversee execution of measures assumed in connection with inspection by the Czech National Bank and included in the system of corrective measures. It was informed on new regulations impacting the Bank and needing to be implemented as well as their expected development during 2014. For example, it discussed implementation of the anti-corruption policy and the impact of the directive on capital management adopted by the European Commission.

In the area of 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 2014 and was regularly informed of all actions carried out by Internal Audit. 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 monitored the status of individual projects relating to information security and appointed a person designated for handling classified information. It also discussed the results of risk mapping, based upon which the annual internal audit plan for 2015 and a strategic plan for the period 2015–2019 were established and approved. 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). The Board of Directors also discussed the Bank's strategic direction for the next year, and in this context it implemented the Transformation Programme.

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.

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 discussed optimisation of the portfolio of buildings for KB's head office. The new appendix to the collective agreement was approved and there was discussion concerning an action plan adopted based on results of the SG Barometer employee satisfaction survey.

The Board of Directors, as the founder, also discussed the orientation of Komerční banka's Jistota Foundation and it was informed of the Foundation's activities. It discussed sponsoring strategy and it approved contractual documentation related to co-operation with the European Investment Bank.

Great attention was further devoted to corporate governance issues in the context of new developments in Czech legislation and in the context of corporate governance adopted by the parent company Société Générale. The Board was informed about regulatory changes ensuing from the amendment to the Banking Act and their impacts in connection with re-codification of the Civil Code and the new Act on Business Corporations. The Board of Directors evaluated its own activities in 2013 and submitted its report on those activities for this period to the Supervisory Board. The Board of Directors approved the distribution of competences among individual members, the updated rules of procedure as well as the proposal for amendment of the Bank's Articles of Association related to the new legislation effective from 1 January 2014.

Committees established by the Board of Directors

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 in 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. The committee does not have decision-making powers but proposes recommendations to higher approval authorities. It is an advisory body to the Chief Executive Officer.

List of Members of the Directors' Committee	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Director, Top Corporations
Peter PALEČKA	Member of the Board of Directors, Senior Executive Director, Corporate Secretary
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Libor LÖFLER	Executive Director, Strategy and Finance
Pavel JIRÁK	Executive Director, Human Resources
Petr KALINA	Executive Director, Support Services
Slawomir KOMONSKI	Executive Director, Investment Banking
Karel BERAN	Executive Director, Project Organisation and Management
Yvon PUYOU	Executive Director, Information Technology
Sylva FLORÍKOVÁ	Executive Director, Internal Audit
Patrice BEGUE	Executive Director, Marketing and Communication
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Yann DUMONTHEIL	Executive Director, Retail Banking
Iveta OCÁSKOVÁ	Executive Director, Corporate Banking
Jiří ŠPERL	Executive Director, Strategic Planning

Additional members of the Enlarged Directors' Committee	Position
Katarína KURUCOVÁ	Branch Manager of Komerční banka, a.s., pobočka zahraničnej banky in Slovakia
Pavel RACOCHA	CEO, KB Penzijní společnost
David FORMÁNEK	CEO, Modrá pyramida
Miloslav KUKLA	CEO, Factoring KB
Renaud STERN	CEO, ESSOX
Reinhold KNÖDL	CEO, SGEF
Stéphane CORBET	CEO, Komerční pojišťovna
Albert RECULEAU	CEO, Investiční kapitalová společnost KB, a.s.
Pavel FOŘT	CEO, ALD Automotive, s.r.o.
Libor KOŠÍČEK	CEO, PEMA Praha, spol. s r. o.
Secretary of the Committee: Lenka ŘEHÁKOVÁ	

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. Each member of the committee has one vote. If a consensus is not reached, the committee acts based on the decision of its chairperson.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Karel BERAN	Executive Director, Project Organisation and Management
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Director, Top Corporations
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Patrice BEGUE	Executive Director, Marketing and Communication
Libor LÖFLER	Executive Director, Strategy and Finance
Yvon PUYOU	Executive Director, Information Technology
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Secretary of the Committee: Aleš VEJVODA	

Watch Provision List Committee (WPLC)

The Watch Provision List Committee makes and proposes decisions regarding provisions. The Committee is responsible for clients' inclusion into or removal from the Watch Provision List, used for rating clients according to the CNB classification system and for determining the appropriate amount of provisions. The Committee decides on three levels. Each member of the WPLC expresses an opinion on proposals regarding each discussed case. A consensus of all regular members at the respective level is sought so that the final decision assumed by that level reflects the joint position of the risk management and business units. If a consensus is not reached (i.e. if at least one of the regular members does not concur), then the case is moved up to the next WPLC level. If within WPLC Level 3 a consensus is not reached, then the final decision is made by the Chief Executive Officer. A higher level WPLC is entitled to review and change any decision of a lower level WPLC.

Members – LEVEL 3	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Director, Top Corporations
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Libor LÖFLER	Executive Director, Strategy and Finance

Members – LEVEL 2	Position
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Dušan ORDELT	Manager of Credit Risk Approval
Lukáš HORÁČEK	Manager of Loan Consulting
Miloslav SODOMKA	Deputy Senior Executive Director, Top Corporations
Agnes HENN	Deputy Manager of Corporate Credit Portfolio Management

Members – LEVEL 1 Pilsen	Position
Alena VACÍKOVÁ	Manager of Regional Credit Risk Assessment

Members – LEVEL 1 Hradec Králové	Position
Jiří DĚDEK	Manager of Regional Credit Risk Assessment
Alena SLÍPKOVÁ	Regional Credit Manager

Members – LEVEL 1 Ostrava	Position
Lubomír ANDRLA	Manager of Regional Credit Risk Assessment
Miroslav SKLENÁŘ	Regional Credit Manager

Members – LEVEL 1 Brno	Position
Markéta RIESNEROVÁ	Manager of Regional Credit Risk Assessment
Petr LUKÁŠEK	Regional Credit Manager

Members – LEVEL 1 Prague	Position
Petr PLAŠIL	Risk manager
Stanislav CHALUPA	Regional Credit Manager
Secretary of the Committee: Blanka KOLÁŘOVÁ	

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee makes and proposes decisions regarding asset and liability management in KB. Each member of the committee has one vote. If a consensus is not reached, the committee acts based upon a simple majority of those members present.

Members	Position
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Libor LÖFLER	Executive Director, Strategy and Finance
Lukáš VOBORSKÝ	Manager of Capital Markets Risks
Slawomir KOMONSKI	Executive Director, Investment Banking
Ivan VARGA	Manager of Treasury and Institutional Sales
Tomáš FUCHS	Manager of ALM
Secretary of the Committee: Tomáš FUCHS	

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 in accordance with its statutes. A consensus of all members is sought. If a consensus is not reached, the committee acts based upon a simple majority of the members present, and, in the event of a tie, the chairperson has the deciding vote.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Director, Top Corporations
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Patrice BEGUE	Executive Director, Marketing and Communication
Radek BASÁR	Deputy Executive Director, Marketing and Communication
Yann DUMONTHEIL	Executive Director, Retail Banking
Iveta OCÁSKOVÁ	Executive Director, Corporate Banking
Libor LÖFLER	Executive Director, Strategy and Finance
Slawomir KOMONSKI	Executive Director, Investment Banking
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Jiří ŠPERL	Executive Director, Strategic Planning
Yvon PUYOU	Executive Director, Information Technology
Karel BERAN	Executive Director, Project Organisation and Management
Tomáš DOLEŽAL	Manager of Operational Risk
Jana HANUŠOVÁ	Advisor to CEO for KB and SG Group Synergies
Secretary of the Committee: Hana KEITA RIZMANOVÁ	

Credit Risk Management Committee (CRMC)

The Credit Risk Management Committee makes and proposes decisions regarding credit risk management principles and their implementation. A decision may be taken if at least 50% of all members are present. A consensus of all members is sought. If a consensus is not reached, the committee acts based upon a simple majority of those members present having voting rights. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Leoš SOUČEK	Deputy Senior Executive Director, Risk Management
Lenka DVOŘÁKOVÁ	Manager of Credit Portfolio Management
Radek BASÁR	Deputy Executive Director, Marketing and Communication
Miloslav SODOMKA	Deputy Executive Director, Top Corporations
Guillaume CHAMBON	Deputy Executive Director, Strategy and Finance
Yvon PUYOU	Executive Director, Information Technology
Tomáš DOLEŽAL	Manager of Operational Risk
Dušan ORDELT	Manager of Credit Risk Approval
Lukáš VOBORSKÝ	Manager of Capital Markets Risks
Pavel PROCHÁZKA	Manager of Asset Valuation and Recovery
Jan ŠEVČÍK	Manager of Supervision and Measurement
Ida BALUSKOVÁ	Deputy Executive Director, Internal Audit in KB and CEN Region
Secretary of the Committee: Petr ZDENĚK	

Investment Banking New Product Committee (IB NPC)

The Investment Banking New Product Committee makes and proposes decisions on new investment banking products in accordance with its statutes. 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. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer. If a product is not launched into the market within six months of approval, then the decision is void and the product must be resubmitted to the Committee for new approval.

Members	Position
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Director, Top Corporations
Lukáš VOBORSKÝ	Manager of Capital Markets Risks
Dušan ORDELT	Manager of Credit Risk Approval
Michaela DINGOVÁ	Manager of Investment Banking Services
Bohumil ČUČELA	Manager of Accounting and Reporting
Tomáš HORA	Head of Investment Products
Tomáš SLABOCH	Manager of IT Application Services
Tomáš CHOUTKA	Manager of Compliance
Jakub DOSTÁLEK	Manager of Tax
Tomáš FUCHS	Manager of ALM
Tomáš DOLEŽAL	Manager of Operational Risk
Secretary of the Committee: Michaela DINGOVÁ	

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 in accordance with its statutes. 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. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer. If the product is not launched to the market within six months of approval, then the decision is void and the product must be resubmitted to the Committee for new approval.

Members	Position
Leoš SOUČEK	Deputy Senior Executive Director, Risk Management
Patrice BEGUE	Executive Director, Marketing and Communication
Tomáš DOLEŽAL	Manager of Operational Risk
Yann DUMONTHEIL	Executive Director, Retail Banking
Iveta OCÁSKOVÁ	Executive Director, Corporate Banking
Yvon PUYOU	Executive Director, Information Technology
Radek BASÁR	Deputy Executive Director, Marketing and Communication
Martin KADORÍK	Deputy Executive Director, Transaction and Payment Services
František KUBALA	Deputy Executive Director, Project Organisation and Management
Jan ŠEVČÍK	Manager of Supervision and Measurement
Guillaume CHAMBON	Deputy Executive Director, Strategy and Finance
Miloslav SODOMKA	Deputy Executive Director, Top Corporations
Secretary of the Committee: Marcela KRÁLOVÁ	

Operational Risk Committee (ORC)

The Operational Risk Committee makes and proposes decisions regarding operational risks and safety. For a decision to be taken, at least 50% of all members must be present. A consensus of all members is sought. If a consensus is not reached, the committee acts based upon a simple majority of those members present having voting rights. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Peter PALEČKA	Member of the Board of Directors, Senior Executive Director, Corporate Secretary
Tomáš DOLEŽAL	Manager of Operational Risk
Tomáš CHOUTKA	Manager of Compliance
Karel ŠTOIDL	Deputy Executive Director, Support Services
Martin PARUCH	Deputy Senior Executive Director, Distribution – Retail and Corporate, Manager of Network Management Support
Guillaume CHAMBON	Deputy Executive Director, Strategy and Finance
Martin KADORÍK	Deputy Executive Director, Transaction and Payment Services
Ondřej HERCOG	Head of IT Security and Operational Risk Management
Sandra DORILLEAU	Manager of Risk Supervision and Prevention
David KUBĚJ	Manager of Investment Banking Global Strategy and Development
Jiří MIFEK	Manager of HR Services Centre
Martin BERDYCH	Manager of Legal Services
Zuzana MELICHAROVÁ	Head of Top Corporations Business Divisions Support
Aleš VEJVODA	Manager of Project Portfolio Management
Milan TŮMA	Manager of Internal Audit
Radek BASÁR	Deputy Executive Director, Marketing and Communication
Michaela DINGOVÁ	Manager of Investment Banking Services
Petr NOVÁK	Manager of Information Management
Secretary of the Committee: Dušan PAMĚTICKÝ	

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. Each member of the Committee has the right to express his or her opinion and recommendation for the case at hand. Decisions are made based on a consensus of all members.

Members	Position
Peter PALEČKA	Member of the Board of Directors, Senior Executive Director, Corporate Secretary
Tomáš CHOUTKA	Manager of Compliance
Tomáš DOLEŽAL	Manager of Operational Risk
Sylva FLORÍKOVÁ	Executive Director, Internal Audit
Secretary of the Committee: Eliška SALABOVÁ	

Information Security Committee (InfoSecCom)

The Security Committee approves the strategy for information security and the security of KB's information systems, approves KB's security management and proposes a portfolio of priority security projects. A decision may be taken if more than 50% of all of all permanent members with voting rights are present. All decisions must be adopted by a majority of votes of those members present. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Karin GUBALOVÁ	Head of Information Security
Yvon PUYOU	Executive Director, Information Technology
Yann BOUVIER	Manager of IT Security
Tomáš DOLEŽAL	Manager of Operational Risk
Tomáš CHOUTKA	Manager of Compliance
Vladimír ČESKÝ	Manager of Internal Audit

Members	Position
Karel BERAN	Executive Director, Organisation and Change Management
Tomáš FÍLA	Manager of Operational Services
Petr NOVÁK	Manager of Information Management
Martin PARUCH	Deputy Senior Executive Director, Distribution – Retail and Corporate, Manager of Network Management Support
Mojmír PROKOP	Manager of Distribution Channels and Customer Intelligence
Zuzana MELICHAROVÁ	Head of Product Support Top Corporations
David KUBĚJ	Manager of Investment Banking Global Strategy and Development
Michaela DINGOVÁ	Manager of Investment Banking Services
Jiří VANĚK	Manager of Risk Management Information Systems
Petr ŠILHAVÝ	Manager of Profitability Analysis
Jiří MIFEK	Manager of HR Services Centre
Karel ŠTOIDL	Deputy Executive Director, Support Services
Secretary of the Committee: Karin GUBALOVÁ	

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. It is an advisory body to the Chief Executive Officer.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Leoš SOUČEK	Deputy Senior Executive Director, Risk Management
Jean Luc PARER	Representative of SG - IBFS
Giovanni Luca SOMA	Representative of SG - IBFS
Alain CONUS	Representative of SG - IBFS
Bernard HUBERT	Representative of SG - RISQ
Secretary of the Committee: Leoš SOUČEK	

Business Management Committee (BusCom)
The Committee was established in order to manage businesses other than retail banking. A decision may be taken if more than 50% of all members are present. Consensus is sought, and voting is not required. If there are differences of opinion, the chairperson calls for a vote. In case of a tie vote, the decision is made by the chairperson of the Committee.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Director, Top Corporations
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Aurélien VIRY	Member of the Board of Directors, Senior Executive Director, Risk Management
Libor LÖFLER	Executive Director, Strategy and Finance
Secretary of the Committee: Hana KEITA RIZMANOVÁ	

Card Committee (CCO)
The Committee was established in order to manage KB's business activities related to payment cards, including card acquisitions, all activities associated with ATMs, and activities associated with issuing cards to KB Group clients. A consensus of all members is sought. If a consensus is not reached, each member of the committee has one vote and the committee acts based upon a simple majority of the members present. In the event of a tie, the chairperson has the deciding vote.

Members	Position
Albert Le DIRAC'H	Chairman of the Board of Directors, Chief Executive Officer
Pavel ČEJKA	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director, Distribution – Retail and Corporate
Karel VAŠÁK	Member of the Board of Directors, Senior Executive Director, Top Corporations
Libor LÖFLER	Executive Director, Strategy and Finance
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Patrice BEGUE	Executive Director, Marketing and Communication
Secretary of the Committee: Monika TRUCHLÍKOVÁ	

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 Nominating 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 member of a Board of Directors as specified by the Civil Code, Act on Business Corporations and Banking Act may become members of the Board of Directors. The Nominating Committee ensures the trustworthiness, adequate professional qualifications and experience of the members of the Board of Directors. The Nominating Committee also assesses the balance of competences and experience as well as diversity in the Board's overall composition.

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. Such decision is carried if approved by an absolute majority of its members. The Supervisory Board's decision is based on a proposal from the Supervisory Board's Nominating Committee.

Information about special competences of the Board of Directors under the law regulating legal relations of corporations and co-operatives

The Board of Directors of Komerční banka is the corporate 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 competences to:

a) convene the General Meeting and implement its resolutions;
b) submit to the General Meeting for its approval the annual, extraordinary and consolidated financial statements and the interim financial statements along with a proposal for the distribution of profit (which must be available to the shareholders for inspection at least 30 days prior to the date of the General Meeting) or a proposal for coverage of a loss;
c) submit to the General Meeting proposals for amendments to and changes of 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 on the state of the Bank's property at least once for each accounting period, as well as the annual report;
e) decide upon granting and revoking powers of procuration;
f) decide upon the appointment, removal and compensation of selected managers of the Bank;
g) approve acts in connection with the realisation of security instruments for the Bank's claims whose price exceeded CZK 100,000,000 as of the date of the claim's origin if the presumed realisation price thereof is lower than 50% of the security instrument's price ascertained upon entering into the loan agreement;
h) submit to the Supervisory Board for its information quarterly and half-yearly financial statements;
i) decide upon acts which are beyond the scope of the Bank's usual business relationships;
j) define and regularly evaluate the Bank's overall strategy, including the setting of the principles and targets for its fulfilment and ensuring the continued and effective operation of the internal control system;
k) approve the Bank's annual plans and budgets;
l) enter into a contract with an auditor for performing the statutory audit or, as the case may be, for the provision of additional services;
m) inform the Supervisory Board of the General Meeting date no later than within the period specified by the Act on Business Corporations for the General Meeting to be convened;
n) decide upon the issue of bonds of the Bank 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 registered capital if so authorised by the General Meeting;
p) enter into collective agreements;
q) decide upon providing loans or securing debts to persons or entities having a special relationship to the Bank pursuant to the Banking Act;
r) approve the charter and subject of the internal audit, as well as the strategic and periodic plan of Internal Audit's activities;
s) decide about paying out a share in profit based upon fulfilment of conditions established by generally binding legal regulations;
t) approve and regularly evaluate the security principles of the Bank, including the security principles for information systems;
u) decide upon establishing other funds and the rules governing the creation and usage thereof;
v) prepare the report on relations among related entities pursuant to the Act on Business Corporations;
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 once annually;
z) approve and regularly evaluate the risk management strategy, the strategy relating to the capital and to capital adequacy, and the strategy for the information systems' development;
za) approve and regularly evaluate the principles of the internal control system, including principles aiming to prevent the occurrence of any possible conflict of interest and principles related to compliance; 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 proper conduct of the Bank's accounting, including the proper administrative and accounting processes;
c) exercise employer's rights;
d) exercise rights in respect to the Bank's property interests flowing from the Bank's ownership holdings;
e) approve the acquisition or disposal of the Bank's fixed assets exceeding CZK 30,000,000 in value as a single case or as a total of related cases; and
f) approve the business continuity plan.

The Board of Directors was not authorised to make a decision on increasing registered capital. Based on the consent of the General Meeting held on 30 April 2014, 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 Acquisition of Treasury Shares chapter of this annual report.

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.

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 by a regulatory authority. No bankruptcy, receivership or liquidation was declared in relation to the stated persons in the past 5 years.

Composition of the Supervisory Board

Jean-Luc Parer
Chairman of the Supervisory Board (appointed as a substitute member of the Supervisory Board from 27 September 2012 until 24 April 2013 and thereafter elected by the General Meeting; elected Chairman as from 1 May 2013)

Giovanni Luca Soma
Vice-Chairman of the Supervisory Board (since 1 May 2013)

Laurent Goutard
Member of the Supervisory Board (since 1 May 2013)

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 Jelínek
Member of the Supervisory Board elected by KB's employees (since 1 June 2013)

Petr Laube
Independent Member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005, on 30 April 2009 and on 1 May 2013)

Dana Neubauerová
Member of the Supervisory Board elected by KB's employees (since 29 May 2009, re-elected on 1 June 2013)

Karel Přibil
Member of the Supervisory Board elected by KB's employees (since 29 May 2009, re-elected on 1 June 2013)

Jean-Luc Parer
Graduate of the Business School HEC Paris and a Master's Graduate of Law. He began working at Société Générale in 1980 in the Inspection Department. From 1991 to 2001, he was head of structured financing within the Investment Banking Division. From 2001 to 2003, he participated in the development of the Debt Finance Department, and from 2003 to 2005 he was responsible for supervising activities in the debt capital markets. In 2005, he became Deputy Director of Debt Finance, and in 2008 he was appointed Director of Capital Markets and Finance. In 2009, he became Director of Global Finance. Since 2012, he has been a member of the Executive Committee of the Société Générale Group, serving as head of the International Banking Division and, since 2013, Head of the International Banking and Financial Services Division. Since 2012, he also has been a member of the Supervisory Board and of the Audit Committee of Komerční banka. Since 2013, he has been Chairman of the Supervisory Board of KB.

Giovanni Luca Soma
MBA graduate of the University of Turin, Italy, and a graduate of LUISS University with a degree in business economics. Also holding qualifications to work as a certified auditor and as a certified public accountant. From 1984 to 1989, he was the manager of Arthur Young Consulting in Rome, Italy. From 1989 to 1994, he worked with Deloitte & Touche Consulting in Milan, Italy. Between 1994 and 1997, he served as Sales and International Services Director of Hyperion Software Inc. Between 1997 and 1998, he served as managing director of GE Capital Insurance and subsequently, between 1998 and 1999, as Corporate Sales Director for Italy in GE Capital. From 1999 to 2000, he served as CEO of Dial Italia (Barclays Group). Between 2000 and 2005 he served as CEO of ALD Automotive Italy, between 2006 and 2008 as Group Regional Director and Deputy CEO of the ALD Automotive Group France, and between 2008 and 2011 as CEO of the ALD Automotive Group France. Between December 2012 and September 2013, he was Deputy Head of the Group's International Retail Banking Department and a member of the Group's Management Committee. He currently serves as CEO of SG Consumer Finance, France (since 2010), and as Deputy Head of IBFS, International Banking and Financial Services (since December 2012). Since 2013, he has been a Member and Vice-Chairman of the Supervisory Board of Komerční banka.

Laurent Goutard
Graduate of four-year economics studies at the University of Paris-Dauphine and of the Paris Institute of Political Studies, faculty of public services, with a major in economics. In 1986, he joined Société Générale, working first at the General Inspection and then, between 1993 and 1996, as Deputy Managing Director for Large Corporations at the Paris–Opera Branch. Between 1996 and 1998, he was Director of the Corporate Banking Division on the French territory. From 1998 to June 2004, he was a Member of the Board of Directors and Chief Executive Officer, later the Chairman of the Board of Directors of Société Générale Marocaine de Banques. In 2004, he became Vice-Chairman of the Board of Directors and in 2005 Chairman of the Board of Directors and CEO of Komerční banka. He served in that position until 2009 when he became French Network Director and Delegated Director for Retail Banking of Société Générale in France. Since 2011, he has served as French Network Director and Director for Retail Banking of Société Générale in France. Since 2013, he has been a Member of the Supervisory Board of Komerční banka.

Pavel Jelínek
Completed studies at the Secondary School of Economics in Chrudim. In 1993, he began working in Komerční banka in various positions in cash processing (as a warden, ATM operator, cashier, deputy manager of cash section). Beginning in 2002, he was commercial clerk, and later he was a relationship manager for individuals, a relationship manager for small businesses and a team leader. Until the end of 2013, he was relationship manager for top small business clients, and since 2014 he has been a relationship manager for corporations. He has been a member of trade unions at KB since joining the Bank. Since 1994, he has represented employees as chairman of the union's local unit in Pardubice, and at the same time he has been a member of the all-company committee of trade unions at KB. Since 2011, he has been a member of the union's negotiating team for collective negotiation with the employer. Since 2013, he has been a Member 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 its chief executive officer and Chairman of the Board of Directors in 1992. From 2007 to April 2008, he was the Chairman of the Board of Directors of SSŽ. Since 2008, he has been a Member of the Supervisory Board of Komerční banka.

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, A.G. 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 SG&A 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
Completed studies at 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 a services department. From June 1998 to 2002, she worked as a commercial clerk for 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 union's local unit in Havlíčkův Brod from 1990 to June 2008. Since 2009, she has been 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 doctoral 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 a property administration specialist. From 1 March 2006, 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 union's headquarters unit 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 from INSEAD in Fontainebleau. From 1984 to 1994, he worked first as manager of customer relations and deputy director for corporate clients of Crédit Lyonnais La Défense and subsequently as Deputy to the CEO of Crédit Lyonnais Belgium. From 1994 to 1996, he served as CEO at Banca Jover in Spain and from 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. A quorum of the Supervisory Board shall be constituted 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 2014, the Supervisory Board held four regular meetings. The average meeting length was 65 minutes. The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2013 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 2013 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities for 2013 compiled 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 2013 to 31 December 2013 any damages resulting from the contracts and agreements made with related entities.

During 2014, the Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's internal control systems, concluding that the internal control systems are functional and effective. Moreover, it examined the 2013 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 2014 was submitted for discussion to the Supervisory Board.

The Supervisory Board discussed remuneration of the members of the Board of Directors and decided on the amounts of bonuses, the payment of which is subject to the principles (scheme) of deferred bonuses. The Supervisory Board also discussed developments in the areas of employee demographics, sickness rate and overtime and the results of the SG Barometer employee satisfaction survey. It discussed 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 2013 also was presented to the Supervisory Board. It approved the new wording of the contracts of members of the Board of Directors and discussed a proposal for re-election of a member of the Board of Directors.

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 actions of the 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 2015 and the strategic plan for 2015–2019. It was informed on changes resulting from the amendment to the Banking Act.

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 a quorum is constituted if a simple majority of all members of the committee are present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members.
The committee held four regular meetings in 2014 and conducted one remote vote in accordance with the Bank's Articles of Association. 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 KB's 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 it provided information in relation to updating the remuneration principles. The Committee proposed re-election of members of the Board of Directors. It also discussed the new service contracts for members of the Board of Directors. The committee was informed on the progress of collective bargaining.

In September 2014, the Supervisory Board transformed the existing Remuneration and Personnel Committee into two separate committees, the Nominating Committee and the Remuneration Committee. Further, it established the Risk Committee. At the same time, it appointed members to these committees and approved their statutes. The Supervisory Board also agreed to amend its Rules of Procedure.

Composition of the Nominating Committee

Jean-Luc Parer
Chairman of the Nominating Committee (from 25 September 2014)

Giovanni Luca Soma
Member of the Nominating Committee (from 25 September 2014)

Bořivoj Kačena
Independent Member of the Nominating Committee (from 25 September 2014)

Composition of the Remuneration Committee

Jean-Luc Parer
Chairman of the Remuneration Committee (from 25 September 2014)

Giovanni Luca Soma
Member of the Remuneration Committee (from 25 September 2014)

Bořivoj Kačena
Independent Member of the Remuneration Committee (from 25 September 2014)

Composition of the Risk Committee

Petr Laube
Independent Member and Chairman of the Risk Committee (from 25 September 2014)
Jean-Luc Parer
Member of the Risk Committee (from 25 September 2014)

Giovanni Luca Soma
Member of the Risk Committee (from 25 September 2014)

The Risk Committee elected its chairman and discussed the report on the Bank's credit risk profile.

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, 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 performing 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 or from third parties 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, re-elected on 30 April 2013)

Jean-Luc Parer
Member of the Audit Committee (appointed as a substitute member of the Audit Committee from 27 September 2012 to 24 April 2013 and thereafter elected by the General Meeting as from 25 April 2013)

Giovanni Luca Soma
Member of the Audit Committee (since 25 April 2013)

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. A quorum of the Audit Committee shall be constituted 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 the Chairman and Vice-Chairman of the Audit Committee.

The Audit Committee held seven regular meetings in 2014. The average meeting length was 1 hour and 15 minutes. The committee performed its monitoring activities and worked closely within the Bank, especially with 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 2013, the consolidated and separate financial statements and notes thereto as of 31 December 2013 prepared under International Financial Reporting Standards (IFRS), and the proposal for distribution of net profit for 2013. 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 2014. KB Group's budget for 2014 was presented to the committee for discussion. The committee also regularly discussed Internal Audit's reports 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 2013 yearly report and also discussed the 2013 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism. The committee discussed the Management Letter prepared by the external auditor, Ernst & Young Audit, s.r.o., and a document concerning the evaluation activities of the external auditor. It was informed about the external auditor's plan in compiling the financial statements for

2014. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2015, and the strategic plan for 2015–2019.

The Audit Committee regularly discussed at its meetings the Group's financial results for each quarter. Attention was also devoted to the capital adequacy of the Bank and the Group. In this context, the committee discussed the Bank's capital management strategy.

The committee was regularly informed about the Bank's functioning in the internal control area and the development of all associated risks. It was provided information about the credit risk profile of the Bank. It was also regularly apprised as to progress regarding corrective actions taken in the area of information security.

Emoluments and benefits to the Board of Directors and Supervisory Board

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. Komerční banka has concluded service contracts with all members of the Board of Directors, and these were approved by the Supervisory Board. The contracts are concluded for the period of a member's service on the Board of Directors. The contracts provide no benefits upon termination of appointment. Certain Board members also have concluded contracts to serve as supervisory board members within the Bank's subsidiaries. In the latter cases, their responsibilities are as stated in the descriptions of functions within the subsidiaries reported in the Composition of the Board of Directors section. Chairman of the Board of Directors Albert Le Dirac'h 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.

Principles of remuneration for members of the Board of Directors

The remuneration of the members of the Board of Directors is in accordance with the EU's Capital Requirements Directive IV and its transposition into the Czech law by CNB Decree No. 163/2014 Coll. 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 on the amounts of remuneration based upon a proposal from the Supervisory Board's Remuneration Committee.

The remuneration of the members of the Board of Directors consists of fixed and variable parts. The fixed remuneration is paid monthly and its amount reflects experience and responsibilities of the respective member of the Board of Directors. The variable part of the remuneration (annual bonus) is not claimable, reflects the performance of the member of the Board during the year, and is closely linked with the results of the Bank. During the evaluation, the Supervisory Board and its Remuneration Committee assess all relevant financial and business indicators, including the development of net profit, net banking income, costs and market shares.

The variable part is paid with significant postponement composed from deferred part and another retention of a part of non deferred part. As a result, payment of 70 % of variable remuneration is postponed.
The variable part is structured as follows:

a) The non-deferred part constitutes 60% of the total amount of the annual bonus, of which 30% is paid in March of the year when the bonus was granted (year N), and the remaining 30% is transformed into a nonmonetary instrument linked to the price of KB shares. This part is paid after a deferral period of nine months.

b) The deferred part constitutes 40% of the total amount of the annual bonus. The payment of the deferred part is distributed within three years. The first payment takes place in March of the year following the year when the bonus was granted (year N+1). The remaining two parts are again transformed into the non-monetary instruments linked to the price of KB shares. They vest in March of the years N+2 and N+3, respectively, and always are paid after a deferral period of nine months. The payment of the deferred part is made on a straight-line basis over three years (i.e. one-third is paid in each year). The settlement (payment) of the part of the bonus linked to the KB share price is in cash.

The reference price of the non-monetary instrument is determined as an arithmetic mean of the daily closing prices for KB shares on the Prague Stock Exchange (PSE) in the 20 days preceding the record date. The record date for determining the initial reference price of the non-monetary instrument was 13 March 2014, at which date the number of non-monetary instruments granted to members of the Board of Directors was computed. The next record date for determining the final amount to be paid as a respective part of the annual bonus according to the number of non-monetary instruments granted was 15 December 2014. Both record dates were fixed by the Remuneration and Personnel Committee of the Supervisory Board.

The annual bonus shall be forfeited in part or in full in the case that the member of the Board exposes the Bank to a level of risk which is not acceptable for the Bank, or that his or her conduct causes substantial damage to the Bank, or that he or she seriously violates the Bank's internal regulations (e.g. the Code of Conduct) or legal regulations. The bonus also may not be paid out in the case that it was granted upon the basis of intentionally incorrect or misleading information.

In addition to the compensation stated above, members of the Board of Directors with Czech citizenship are entitled to receive the following additional considerations:

- contributions to pension savings (in second or third pillar),
- supplementary health care (Santé Silver Card),
- capital life insurance,
- risk life insurance, and

- additional consideration provided to employees of the Bank according to the Collective agreement and internal regulations of the Bank approved by the Supervisory Board.

Members of the Board of Directors temporarily delegated to the Czech Republic are entitled to receive the following additional considerations:

- supplementary health care (Santé Silver Card)
- considerations relating to long-term stay abroad (such as covering the cost of moving and transport at the beginning and end of the delegation, cost of accommodation, insurance including health and social insurance, travelling expenses within approved budget, tuition fees for children),
- additional consideration provided to employees of the Bank according to the Collective agreement and internal regulations of the Bank approved by the Supervisory Board.

The Bank provides the members of the Board of Directors for the performance of their duties and for private use with: corporate car, contribution to fuel consumption, mobile telephone with unlimited voice and data tariff, personal computer.

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 the 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 a 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 who 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.

Komerční banka has service contracts with all members of the Supervisory Board approved by the General Meeting and entered into on 30 April 2014. The contracts are made for the term of office of each Supervisory Board member. The contracts do not provide any benefits upon the termination of service. 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 the Supervisory Board

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, Komerční banka releases information on all monetary and in-kind income received during the 2013 financial reporting period by members (including former members) of the Board of Directors and the Supervisory Board from Komerční banka and from entities controlled by the Bank. The data are published in the structure reflecting the Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):

(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;
(D) any significant remuneration paid for special services outside the scope of the usual functions;
(E) remuneration paid to former members of the Board of Directors or Supervisory Board in connection with the termination of their activities; 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 emoluments paid in 2014 to members of Komerční banka's Board of Directors and the Supervisory Board, including emoluments paid in 2014 to former members as deferred payments, 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 – monetary and in-kind emoluments received in 2014, in CZK (8 current and former members)

A	B	C	D	E	F	Total
30,892,388	820,349	22,628,598	0	0	7,611,651	61,952,986

Supervisory Board – monetary and in-kind emoluments received in 2014, in CZK (9 current and former members)

A	B	C	D	E	F	Total
4,839,336	63,809	264,644	310,000	0	131,601	5,609,390

Additional explanatory note to the table Remuneration paid to the members of the Board of Directors, Supervisory Board and Directors' committee during the years 2013 and 2014

(in Note 37 to the Separate Financial Statements and Note 38 to the Consolidated Financial Statements; the table is identical in both notes)

The above mentioned table provides an overview of the value of cash received and benefits consumed (remuneration) in the respective year by the members of defined groups of KB's representatives (hereafter "members"). Notably, the summary presented in the table includes remuneration received during the year as a whole even by persons who became members during the year or ceased to be members during the year. This typically leads to increase in the overall reported value of remuneration in periods of greater membership turnover, as both incoming and outgoing members' remuneration is included on a full-year basis. In 2014, the yearly average number of members included in the sum of total remuneration rose by 1.5 in comparison with 2013 (due to appointments to the Directors' Committee during the year).

Furthermore, the reported values reflect the Bank's implementing a new compensation scheme for employees whose professional activities have a material impact on the Bank's risk profile, as detailed in Note 3.5.12 Employee benefits to the Consolidated Financial Statements and Note 3.5.11 to the Separate Financial Statements. In the new scheme, among other effects, payment of a part of remuneration awarded in a respective year is deferred into the following three years and is subject to fulfilment of predefined conditions. The new scheme was substantially extended to additional personnel in 2012, thereby leading in the following three years to increases in total cash payments as the deferred parts of remuneration from previous years are gradually paid out.

Adjusting for the overlapping inclusion of full-year remuneration of incoming and outgoing members, and recognising all remuneration in the year in which it was awarded rather than paid, the value of total remuneration and benefits to members of the Board of Directors amounted to CZK 61.3 million in 2014, compared to CZK 63.3 million in 2013 (−3.1% year over year for six members in both years), that to members of the Supervisory Board totalled CZK 5.6 million in 2014 compared to CZK 5.5 million in 2013 (+1.3% year over year for nine members in both years), and that to members of the Directors' Committee amounted to CZK 86.2 million in 2014 compared to CZK 83.1 million in 2013 (+3.7% while the average number of members on the Director's Committee who are not members of the Board of Directors increased by 14.3% to 12 in 2014 from 10.5 in 2013). In the opinion of the management, this adjusted summary better describes underlying trends in the remuneration of these groups of representatives.

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 2014 by members of the Board of Directors and the Supervisory Board and related persons, as well as information on options and similar investment instruments whose values are connected to the price of KB shares and which were concluded by or on behalf of the listed persons.

31 December 2014	Shares	Options
Members of the Board of Directors in 2014 (total)	3,800	0
Members of the Supervisory Board in 2014 (total)	2,949	0
Related 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 shares or of voting rights would become more complicated. The Bank 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. The Bank 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

According to the Bank's Articles of Association, decisions on amendments to the Articles of Association are within the powers of the General Meeting. Proposed resolutions for amendments to the Articles of Association and their justification are provided in the invitation to the General Meeting. Proposed changes in the Articles of Association are available for shareholders' inspection at no charge at the Bank's headquarters and on its website for the period established for convening of the General Meeting. The Bank shall notify its shareholders of these rights in the invitation to the General Meeting.

If a shareholder wishes to raise counter-proposals to the proposed changes to the Articles of Association at the General Meeting, the shareholder is obliged to deliver the written wording of such proposal or counter-proposal to the Bank no later than five business days prior to the day of the General Meeting. The Board of Directors shall notify its shareholders of the wording of the counter-proposal along with its viewpoint with regard to it in the manner specified for the convening of the General Meeting.

Decisions on changes in 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 Act on Business Corporations and the Articles of Association. Decisions on changes in the Articles of Association must be recorded by notarial deed containing the approved text of the wording of changes in the Articles of Association. Komerční banka is obliged to report to the Czech National Bank its intention to make changes in the Articles of Association relating to those particulars which must be stated in the Articles of Association based on a requirement set forth by law.

Information on internal control and approach to risks in the process of accounting and preparing financial statements

The Bank uses a number of tools in several areas to ensure true and accurate presentation of facts in the accounting and proper compilation of financial statements. These begin with tools for proper recording of individual transactions, include various controls, and finally involve 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, and establishing 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 those accounting methods employed with IFRS in particular is ensured by an independent department that regularly monitors developments in these standards and other regulatory rules, analyses effects ensuing therefrom, and implements the standards in co-operation with relevant departments. For more information on the rules used, see Notes to the Financial Statements, Note 3 "Principal accounting policies" and Note 41 "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 the account 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 and to 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.

Control over the accuracy of input data is performed especially in the Distribution and Transaction and Payment Services 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 expressly checks the data in the accounting by means of 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.

Report by the Supervisory Board

Throughout 2014, 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 annual (separate) and consolidated financial statements for the period from 1 January 2014 to 31 December 2014, and on the basis of the report of the external auditor, the Supervisory Board reports that the accounts and financial documents were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts and financial documents show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements worked out on their basis present a true and fair view of the Bank's and the Group's accounting and financial situation.

The auditor, company Ernst & Young Audit, s.r.o., performed an audit of the Bank's annual (separate) and consolidated 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 annual (separate) and consolidated financial statements and the distribution of profit for the year 2014 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2014 drawn up under sections 82 and following of the Act on Business Corporations, and states on the basis of the presented documents that, during the accounting period from 1 January 2014 to 31 December 2014, Komerční banka, a.s., did not suffer any injury resulting from any contracts, agreements, other legal acts made or adopted by the Bank or from any influence otherwise exerted by Société Générale.

Prague, 18 March 2015

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

Jean-Luc Parer
Chairman of the Supervisory Board

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 2014, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 2 April 2015

Signed on behalf of the Board of Directors:

Albert Le Dirac'h
Chairman of the Board of Directors
and Chief Executive Officer

Libor Löfler
Member of the Board of Directors
and Senior Executive Director, Chief Operating Officer

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

EY
Building a better working world

(Translation of a report originally issued in Czech.)

INDEPENDENT AUDITOR'S REPORT

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

I. We have audited the consolidated financial statements of Komerční banka, a.s. and its subsidiaries ("the Company") as at 31 December 2014 presented in the annual report of the Company on pages 85 - 167, on which we have issued an audit report, dated 27 February 2015, which is presented on pages 83 - 84. We have also audited the separate financial statements of Komerční banka, a.s. ("the Company") as at 31 December 2014 presented in the annual report of the Company on pages 171 - 251, on which we have issued an audit report, dated 27 February 2015, which is presented on pages 169 - 170 (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 2014. 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.

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

Michaela Kubýová, Auditor
License No. 1810

2 April 2015
Prague, Czech Republic

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditor's Report as of 31 December 2014

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(Translation of a report originally issued in Czech)

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of the Group, see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Michaela Kubýová, Auditor
License No. 1810

27 February 2015
Prague, Czech Republic

CONSOLIDATED STATEMENT OF INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

Consolidated Statement of Income for the year ended 31 December 2014

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

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014

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

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

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

Signed on behalf of the Board of Directors:

Albert Le Dirac'h
Chairman of the Board of Directors
and Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

(CZKm)	Share capital	Capital and reserve funds and retained earnings*	Remeasurement of retirement benefits plan	Cash flow hedging	Translation of a foreign net investment	Available-for-sale financial assets	Total equity	Non-controlling interest	Total equity, including non-controlling interest
Balance as of 31 Dec 2012	**19,005**	**56,383**	**(11)**	**14,271**	**3**	**8,118**	**97,769**	**2,769**	**100,538**
Treasury shares, other	0	111	0	0	0	0	111	1	112
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)	(271)	(9,013)
Transactions with owners	**0**	**(8,631)**	**0**	**0**	**0**	**0**	**(8,631)**	**(270)**	**(8,901)**
Profit for the period	0	12,528	0	0	0	0	12,528	378	12,906
Other comprehensive income for the period, net of tax	0	(14)**	2	(6,090)	2	(1,907)	(8,007)	2	(8,005)
Comprehensive income for the period	**0**	**12,514**	**2**	**(6,090)**	**2**	**(1,907)**	**4,521**	**380**	**4,901**
Balance as of 31 Dec 2013	**19,005**	**60,266**	**(9)**	**8,181**	**5**	**6,211**	**93,659**	**2,879**	**96,538**
Treasury shares, other	0	149	0	0	0	0	149	1	150
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)	(126)	(8,868)
Transactions with owners	**0**	**(8,593)**	**0**	**0**	**0**	**0**	**(8,593)**	**(125)**	**(8,718)**
Profit for the period	0	12,985	0	0	0	0	12,985	376	13,361
Other comprehensive income for the period, net of tax	0	76**	(13)	7,799	1	449	8,312	1	8,313
Comprehensive income for the period	**0**	**13,061**	**(13)**	**7,799**	**1**	**449**	**21,297**	**377**	**21,674**
Balance as of 31 Dec 2014	**19,005**	**64,734**	**(22)**	**15,980**	**6**	**6,660**	**106,363**	**3,131**	**109,494**

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2014

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1 Principal activities

The Financial Group of Komerční banka, a.s. (henceforth the "Group") consists of Komerční banka, a.s. (the "Bank") and 11 subsidiaries and two associated undertakings. The parent company of the Group is the Bank, which is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

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

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

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

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

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2013: 60.35%) of the Bank's issued share capital.

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

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
KB Penzijní společnost, a.s.*	100.0	100.0	Financial services	Prague
Modrá pyramida stavební spořitelna, a.s.	100.0	100.0	Building society	Prague
Protos, uzavřený investiční fond, a.s.	89.64	100.0	Investments	Prague
Factoring KB, a.s.	100.0	100.0	Factoring	Prague
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels
Cataps, s.r.o.	100.0	100.0	Financial services	Prague
KB Real Estate, s.r.o.	100.0	100.0	Support services	Prague
NP 33, s.r.o.	100.0	100.0	Support services	Prague
NV 42, s.r.o.	100.0	100.0	Support services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice

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

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

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

2 Events for the year ended 31 December 2014

Dividends declared in respect of the year ended 31 December 2013
At the General Meeting, held on 30 April 2014, the shareholders approved a dividend for the year ended 31 December 2013 of CZK 230 per share before tax. The dividend was declared in the aggregate amount of CZK 8,742 million and the remaining balance of the net profit was allocated to retained earnings. Moreover, the Group paid out CZK 126 million in dividends to non-controlling owners of SG Equipment Finance Czech Republic s.r.o.

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

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

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

3 Principal accounting policies

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

3.1 Statement of compliance with IFRS

The Consolidated Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union and effective for the annual period beginning on 1 January 2014.

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

The presented Consolidated Financial Statements for the year ended 31 December 2014 are based on the current best estimates. The management of the Group believes that they present a true and fair view of the Group's financial results and financial position using all relevant and available information as of the financial statements date.

3.2 Underlying assumptions of the Consolidated Financial Statements

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

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

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

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

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

3.3 Basis of preparation

3.3.1 Presentation currency
The Consolidated Financial Statements are presented in Czech crowns (hereafter only "CZK"), which constitute the Group's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

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

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

3.3.3 Use of estimates
The presentation of Consolidated Financial Statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the financial statements date and they specifically relate to the determination of:
- fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, hedging derivatives or available-for-sale financial assets (refer to Note 3.5.5);
- the value of intangible assets, except goodwill (refer to Note 3.5.9);
- the amount of impairment of assets (refer to Notes 3.5.5, 3.5.9 and 3.5.10);
- provisions recognised under liabilities (refer to Note 3.5.11);
- the initial value of goodwill for each business combination (refer to Note 3.5.10); and
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7).

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

3.3.4 Basis of consolidation
The Consolidated Financial Statements incorporate the financial statements of the Bank and of its subsidiaries. A subsidiary is an entity over which the Bank has control, i.e. the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated using the full method of consolidation from the date when the Bank obtains control to the date when the Bank ceases to exercise control over such entity.

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

Investments in associates are presented in the Consolidated Financial Statements using the equity method. An associate is an entity in which the Bank has significant influence, i.e. it directly or indirectly owns 20% to 50% of voting rights, but it does not exercise control. Equity accounting involves recognising in the Consolidated Statement of Income and in the Consolidated Statement of Comprehensive Income the Group's share of the associates' profit or loss for the period and comprehensive income for the period. The Group's interest in the associates in the Statement of Financial Position is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

3.4 Adoption of new and revised IFRS

3.4.1 Standards and interpretations not yet adopted by the European Union

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

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

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

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

3.4.2 Standards and interpretations adopted in the current period

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

Standard	Impact/Comments
IAS 27 Separate Financial Statements – revised standard*	The revised standard does not change current requirements related to Separate Financial Statements.
IAS 28 Investments in Associates and Joint Ventures – revised standard*	The revised standard results from the new standard on joint ventures and incorporates the accounting for these. In the Consolidated Financial Statements, joint ventures will be newly consolidated using only the equity method.
IFRS 10 Consolidated Financial Statements – new standard*	The new standard is based on current consolidation requirements stipulated in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. However, this standard presents a revised definition of control – assessing all three elements of control (power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of returns) so that a single control model can be applied to all entities. The conclusion regarding consolidation did not change for most straightforward entities. Although the standard newly sets out a framework for asset manager entities to use when interpreting IFRS 10 to determine whether control exists, IFRS 10 does not provide “bright lines” and requires consideration of many factors and an entity’s judgement.
IFRS 11 Joint Arrangements – new standard*	The new standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures and it improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement and by eliminating a choice of accounting treatment.
IFRS 12 Disclosure of Interests in Other Entities – new standard*	The new standard enhances disclosures to be published about consolidated and unconsolidated entities.

Standard	Impact/Comments
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – amendment: "Transition Guidance"*	The amendments specify that the "date of initial application" in IFRS 10 (as well as IFRS 11 and IFRS 12) means "the beginning of the annual reporting period in which the standard is applied for the first time". It also requires the investor to adjust comparative period(s) retrospectively if the conclusion about consolidation reached at the date of initial application is different when applying IFRS 10 as compared with applying IAS 27/SIC-12. Relief from retrospective application of IFRS 10 applies to an investor's interests in investees that were disposed of during a comparative period, such that consolidation would not occur in accordance with either IAS 27/SIC-12 or IFRS 10 as of the date of initial application.
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – amendment "Investment Entities"	The amendments define an investment entity, introduce an exception to consolidating particular subsidiaries for investment entities and require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce a new disclosure requirements for investment entities.
IAS 32 Financial Instruments: Presentation – amendment "Offsetting Financial Assets and Financial Liabilities"	The amendment newly adds into the application guidance explanation of the criterion that an entity "currently has a legally enforceable right to set off the recognised amounts".
IAS 36 Impairment of Assets – amendment "Recoverable Amount Disclosures for Non-Financial Assets"	The amendment requires additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.
IAS 39 Financial Instruments: Recognition and Measurement – amendment "Novation of Derivatives and Continuation of Hedge Accounting"	The amendment specifies the novation of derivatives and provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument arises as a result of new laws or regulations.

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

3.4.3 Issued standards and interpretations not applied for the current period

The standards and interpretations or their amendments described below are valid. However, they do not apply to the reporting periods beginning on 1 January 2014 and the Group has decided not to early adopt them. The Bank has decided not to early adopt the standards and interpretations which were already adopted by the European Commission.

Concurrently, the Group does not anticipate that their application will significantly impact the Group's financial position and financial performance for the reporting period, with the exception of IFRS 9 Financial Instruments which supersedes the existing standard IAS 39. It introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges. Accounting for macro hedging was separated from the IFRS 9 project. IASB is still working on developing a new macro hedging model; the first discussion paper was issued in April 2014.

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

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

Standard	Summarised content	Effective for reporting period beginning on or after
IFRIC 21 Levies*	This interpretation addresses the accounting for a liability to pay a levy.	1 January 2014
Annual Improvements to IFRS 2010–2012 Cycle*	Annual Improvements amend seven standards in a total of eight points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
Annual Improvements to IFRS 2011–2013 Cycle*	Annual Improvements amend four standards predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)*	The amendment defines principles for recognition of employee contributions within defined benefit plans distinguishing the procedure for contributions the amounts of which are not dependent upon the length of service and for those the amounts of which are so dependent.	1 July 2014
IFRS 14 Regulatory Deferral Accounts – new standard	The interim standard concerns accounting for balances on deferral accounts that arise from rate-regulated activities. IFRS 14 is only applicable to first time adopters of IFRS, which are conducting rate-regulated activities and already recognise balances on regulatory deferral accounts under local (previous) GAAP. Such entities are permitted to continue in applying their previous GAAP accounting policies.	1 January 2016
Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11 Joint Arrangements)	The amendments provide guidance on the accounting for acquisition of interests in existing joint operations in which the activity constitutes a business as defined in IFRS 3 Business Combinations. It also applies to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation on its formation. The amendments require an investor to apply, to the extent of its share, the principles of business combination accounting and disclosures required in IFRS 3 and other IFRS (if not conflicting with IFRS 11), in particular: measuring identifiable assets and liabilities at fair value (beside exceptions in IFRS 3), expensing acquisition-related costs, recognising deferred tax assets and liabilities arising from the initial recognition of assets or liabilities (except for deferred tax liabilities from initial recognition of goodwill), recognising goodwill and its testing for impairment. The scope of the business combination exemption in IFRS 1 has been expanded to include acquisitions of interests in joint operations that are businesses.	1 January 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets)	The amendments prohibit the use of revenue-based depreciation for property, plant and equipment (IAS 16). In case of intangible assets (IAS 38) this depreciation method can be used only in very limited circumstances for intangible rights.	1 January 2016
Agriculture: Bearer Plants (Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture)	The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. They will no longer be considered as one asset together with any agricultural produce growing on bearer plants accounted for under IAS 41. Instead the bearer plants will be separated and will fall within the scope of IAS 16.	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27 Separate Financial Statements)	The amendment allows an entity to account for investments in subsidiaries, associates and joint ventures in its separate financial statements using the equity method (described in IAS 28) as an alternative to the currently allowable accounting either at cost or as a financial asset in accordance with IFRS 9.	1 January 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	The amendment clarifies the accounting treatment for sale or contribution of assets between an investor and its associates or joint ventures. It resolves a current inconsistency between the existing requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures on how to calculate any gain or loss arising from this transaction. The accounting treatment depends on whether the non-monetary assets as subject of the transaction constitute a “business”, as defined in IFRS 3 Business Combinations. If assets constitute a business, the gain or loss is recognised in full, otherwise only to the extent of the unrelated investors’ interests in the associate or joint venture.	1 January 2016
Annual Improvements to IFRS 2012–2014 Cycle	Annual Improvements amend four standards in a total of five points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 January 2016

Standard	Summarised content	Effective for reporting period beginning on or after
Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	The amendments provide changes to IAS 1 to further encourage companies to apply professional judgement in determining what information to disclose and how to structure it in the financial statements. The amendments relate to the following areas: materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies, presentation of items of other comprehensive income arising from equity accounted investments. Given that the amendments clarify existing requirements in IAS 1 that do not directly affect an entity's accounting policies or accounting estimates there is no need under the transitional provisions to disclose the information otherwise required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures)	The amendments to IFRS 10 and IAS 28 clarify application of the consolidation exception to entities in group structures involving investment entities by addressing the following three issues. The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to an intermediate parent entity which is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Amendments to IAS 28 provide similar exception from applying the equity method for entities that are subsidiaries of an investment entity and hold interests in associates and joint ventures. The amendments to IFRS 10 also clarify for a subsidiary that provides services supporting the investment entity's investment activities that only a subsidiary that is not an investment entity itself should be consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 further clarify the application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity. When applying the equity method the non-investment entity may choose to retain the fair value measurement applied by the investment entity associate or joint venture to its interest in subsidiaries.	1 January 2016
IFRS 15 Revenue from Contracts with Customers – new standard	The new standard supersedes current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. It outlines a single comprehensive model for accounting and disclosure of revenue arising from contracts with customers to provide goods or services, regardless of the industry or the type of transaction (except those that are within the scope of other IFRS, such as IAS 17 Leases, IFRS 4 Insurance Contracts, financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investment in Associates and Joint Ventures). It will apply also to the recognition and measurement of gains and losses on the sale of some non-financial assets being not an output of the entity's ordinary activities. Interest and dividend income is excluded from the scope of IFRS 15. The relevant recognition and measurement requirements have been moved to IFRS 9 or IAS 39. The new model consists of the following five steps for revenue recognition: identification of the contract(s) with customers, identification of the performance obligations in the contract, determination of the transaction price, allocation of the transaction price to the separate performance obligations and recognition of revenue when (or as) the entity satisfies a performance obligation (by transferring control of a promised good or service to the customer).	1 January 2017

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	In July 2014, the final version of IFRS 9 was issued, replacing the current IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. It introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges. Accounting for macro hedging was separated from the IFRS 9 project and is part of a separate one (Discussion Paper, April 2014). The new IFRS 9 shall be applied retrospectively except for micro hedge accounting. The classification and measurement of financial assets depends on assessment of both the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The resulting measurement categories are: • amortised cost, • fair value through other comprehensive income, and • fair value through profit or loss. In comparison to IAS 39, the embedded derivatives in financial assets are no longer bifurcated. In respect to financial liabilities, IFRS 9 retains almost all of the existing requirements from IAS 39 except changes in the entity's own credit risk for financial liabilities designated at fair value through profit or loss using the fair value option, which are newly presented in other comprehensive income. The impairment requirements in the new standard are based on an expected credit loss model. For all financial assets in the scope of IFRS 9 that are not accounted for at fair value through profit or loss and excluding also equity instruments, entities are required to recognise from origination throughout the life of an asset either 12-month expected credit losses or lifetime expected credit losses, when credit risk significantly increases since initial recognition. The measurement of expected credit losses reflects a probability-weighted outcome, the time value of money and reasonable and supportable information. In November 2013, new requirements related to general hedge accounting (micro hedge accounting) were added to IFRS 9. These requirements align hedge accounting more closely with risk management, which means that more of an entity's risk management activities may qualify for hedge accounting and more designations of groups of items as the hedged items are possible. The new model does not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness under IAS 39. However, there is only prospective effectiveness test left; it is newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) and replaces the range of 80–125%. As a consequence of the new general hedge accounting rules in IFRS 9, additional hedge accounting disclosure requirements were introduced into IFRS 7 Financial Instruments: Disclosures.	1 January 2018

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

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

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

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency

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

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

3.5.1.2 Transactions and balances translation

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

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

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

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

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

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

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

3.5.2 Recognition of income and expenses

3.5.2.1 Net interest income and similar income

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

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

3.5.2.2 Net fee and commission income

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

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

3.5.2.3 Net profit/(loss) on financial operations
This line includes net profit/loss on financial operations, which means realised and unrealised gains/losses on securities held for trading, security derivatives, currency, interest rate and trading commodity derivatives, foreign exchange transactions, foreign assets and liabilities retranslation to the functional currency, and realised gains/losses on available-for-sale financial assets.

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

3.5.3 Cash and cash equivalents
Cash comprises cash on hand and cash in transit.

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

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

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

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

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

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of asset or liability measured at fair value. The hierarchy of fair values has the following three levels:
- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- *Level 3:* inputs are unobservable inputs for the asset or liability.

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

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

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

3.5.5 Financial instruments

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

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

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

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

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

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

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

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

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

3.5.5.3 "Day 1" profit or loss
When determining whether fair value at initial recognition equals the transaction price, the Group takes into account factors specific to the transaction and to the asset or liability.

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

3.5.5.4 Financial assets and liabilities classification and subsequent measurement
Financial assets and liabilities held by the Group are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Group's intention as of the acquisition date, and pursuant to the Group's financial instrument investment strategy as follows:
I. Financial assets and liabilities at fair value through profit or loss;
II. Held-to-maturity investments;
III. Loans and receivables;
IV. Available-for-sale financial assets;
V. Financial liabilities at amortised cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group may also reclassify a non-derivative trading asset out of the *'Financial assets at fair value through profit or loss'* portfolio and into the *'Loans and receivables'* portfolio if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain circumstances, the Group may also reclassify financial assets out of the *'Available-for-sale financial assets'* portfolio and into the *'Loans and receivables'* portfolio if they meet the definition of loans and receivables and the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity. The fixed income securities quoted on an active market can be reclassified out of the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio if the Group's intention or ability to hold these securities has changed or upon expiry of the deadline during which securities has not permitted to be classified as securities held-to-maturity. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

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

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

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

If there are no quoted prices in an active market for the financial asset, the Group uses other values that are observable, directly or indirectly, from the markets for its measurement, e.g.

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

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

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

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

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

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

3.5.5.7 Effective interest rate method

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

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

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

3.5.5.8 Renegotiated loans and loans in forbearance

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

3.5.5.9 Impairment of financial assets

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

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

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

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

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

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

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

The future cash flows of financial assets groups that are not individually evaluated for impairment are estimated on the basis of historical loss experience for financial assets with similar credit risk characteristics using the provisioning model. Historical loss experience is adjusted on the basis of current observable data to reflect new loss observations and to have better discrimination ability, i.e. to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

3.5.5.10 Repurchase agreements

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

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

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

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

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

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

3.5.5.11 Derivatives and hedge accounting

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

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

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

Hedging derivatives are derivatives that the Group uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:
- there is compliance with the Group's risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective at inception and throughout the period;
- the effectiveness of the hedge can be reliably measured; and
- changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

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

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

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

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

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

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

Changes in the fair value of a derivative that is designated and qualified as a cash flow hedge and that proves to be highly effective in relation to hedged risk are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and they are transferred to the Statement of

Income and classified as income or expense in the periods during which the hedged assets and liabilities affect the Statement of Income. The ineffective portion of the hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'.*

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

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

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

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

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

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

3.5.5.12 Embedded derivatives
In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if, and only if, all of the following conditions are met:
- the embedded derivative as a separate instrument meets the definition of a derivative;
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- the host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

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

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

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

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

3.5.7 Income tax

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

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

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

3.5.7.2 Deferred income tax

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

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

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

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

3.5.8 Leasing

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

<u>The Group as lessor</u>

Operating leases

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

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

Finance leases

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

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

<u>The Group as lessee</u>

Operating leases

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

Finance leases

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

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

3.5.9 Tangible and intangible assets (except goodwill)

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

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

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

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

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

	2014	2013
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the Group	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facade	30	30
– Roof	20	20
– Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licences – software	5	5
Other rights of use	According to contract	According to contract

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

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

Independent Auditor's Report
Consolidated Financial Statements
Separate Financial Statements
Report on Relations
Securities issued by KB
Other information

3.5.10 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 2010 it represents the excess of the acquisition cost (including acquisition-related costs) for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired from 2010, it represents the difference between the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary's identifiable net assets on one side and the net of the identifiable assets and the liabilities assumed on the other side. Acquisition-related costs are recognised in profit or loss.

Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of possible impairment losses. Once recognised, impairment losses on goodwill are not reversed.

The Group tests goodwill for impairment on an annual basis at 30 September or more frequently if there is indication that the goodwill may be impaired. If the recoverable amount of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying value, the Group recognises an impairment of the cash-generating unit which is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or on a pro-rata basis).

For the purpose of calculating the recoverable amount, the Group calculates value in use as the present value of the future cash flow to be generated by a cash-generating unit from its continuing use in the business. The Group estimates future cash flow on the basis of a medium-term financial plan of the cash-generating unit that is approved by management. Cash flows represent income after tax of cash-generating units available for distribution to owners. The discount rate used is the cost of capital calculated using 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 respective subsidiaries are located in the Czech Republic and their functional currency is the Czech crown, no other premium is added. For the period beyond the medium-term financial plan, the projected cash flows are calculated in perpetuity based on constant cash flows being the net operating income after taxes including a growth rate derived from medium-term financial plan. Key assumptions used in the preparation of the financial plan are consistent with market estimations (GDP, interest rate, inflation) and with past experience.

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

3.5.11 Provisions

Provisions are recognised when and only when:

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

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

Among others, the Group recognises provisions for credit-related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit-related commitments into which the Group enters in the normal course of its business and that are recorded off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit-related commitments are created on the same basis as are allowances for loan portfolios (refer to Note 33).

3.5.12 Employee benefits

3.5.12.1 General

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

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

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

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

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

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

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

3.5.12.2 Deferred bonus payments

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

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

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

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

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

3.5.12.3 Free share plan

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

The shares will be allotted in two tranches:

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

3.5.13 Share capital

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

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

3.5.14 Contingent assets, contingent liabilities and off-balance sheet items

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

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

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

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

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

3.5.15 Operating segments

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

The Group has the following operating segments:

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

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

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

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

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

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

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

3.5.16 Regulatory requirements

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

4 Segment reporting

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

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

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

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

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

5 Net interest income and similar income

Net interest income and similar income comprise the following:

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

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

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

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

6 Net fee and commission income

Net fee and commission income comprises the following:

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

The line *'Others'* includes mainly fees and commissions from trade finance and investment banking. The line comprises fee income arising from trust and other fiduciary activities in the amount of CZK 95 million (2013: CZK 69 million) and fee expense for these services in the amount of CZK 66 million (2013: CZK 44 million).

7 Net profit/(loss) on financial operations

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

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

In the year ended 31 December 2013, the line *'Net realised gains/(losses) on securities available-for-sale'* includes a net gain from the sale of Italian government bonds in the amount of CZK 64 million (refer to Note 18).

A loss of CZK 2,732 million (2013: gain of CZK 1,187 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'.* This amount matches the loss arising from the retranslation of hedged loan receivables, available-for-sale financial assets and issued mortgage bonds reported in the same line.

A gain of CZK 0 million (2013: gain of CZK 1 million) on the fair value of cross currency swaps for foreign currency risk hedging is included in *'Net realised and unrealised gains/(losses) on foreign exchange from trading'.* This amount matches the loss arising from the retranslation of hedged foreign currency assets reported in the same line.

8 Other income

The Group reports *'Other income'* in the amount of CZK 116 million (2013: CZK 121 million). In 2014 and 2013, *'Other income'* was predominantly composed of the property rental income and income from intermediation.

9 Personnel expenses

Personnel expenses comprise the following:

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

* Calculation according to Czech Statistical Office methodology.

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

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

Indexed bonuses
In 2014, the total amount relating to bonuses indexed on the Société Générale share price and the Komerční banka share price recognised in *'Personnel expenses'* was CZK 29 million (2013: CZK: 36 million) and the total amount of CZK 48 million (2013: CZK 40 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Group.
Net income from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 5 million (2013: CZK 9 million).
The total number of Société Générale shares according to which bonuses indexed on the Société Générale share price are calculated is 6,232 shares (2013: 12,461 shares). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 17,310 shares (2013: 15,137 shares).

The changes in the numbers of shares were as follows:

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

Free shares
The share price at the granting date was established to be EUR 34.55 for the first tranche and EUR 33.15 for the second tranche. The total number of free shares granted for both tranches is 319,592 shares (2013: 311,920 shares). For 2014, the total amount relating to the free shares program recognised in *'Personnel expenses'* is CZK 63 million (2013: CZK 52 million) and from the granting date a cumulative amount of CZK 218 million (2013: CZK 155 million) is recognised as *'Share premium'* in equity.

10 General administrative expenses

General administrative expenses comprise the following:

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

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise the following:

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

12 Cost of risk

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

The movements in allowances and provisions were as follow:

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

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

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

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

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

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

Additional information on the provisions for other risk expenses is provided in Note 33.

13 Income taxes

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

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

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

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

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

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

The corporate tax rate for the year ended 31 December 2014 is 19% (2013: 19%). The Group's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax-exempt income or income subject to a final withholding tax rate.

As of 31 December 2014, the Group records unused tax losses in the amount of CZK 1,248 million (2013: CZK 158 million).

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

(CZKm)	1 year	2 years	3 years	4 years	5 years
In the amount of	254	332	304	141	217

Further information about deferred tax is presented in Note 34.

14 Distribution of net profit

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

In accordance with a resolution of the General Shareholders' Meeting, held on 30 April 2014, the aggregate balance of the net profit of CZK 12,906 million for the year ended 31 December 2013 was allocated as follows: CZK 8,742 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. Since 2008, the reserve fund has corresponded to the level required by the Commercial Code and the Bank's Articles of Association (i.e. 20% of the Group's share capital).

Moreover, the Group paid out dividends to non-controlling owners in the total amount of CZK 126 million (2013: CZK 271 million), of which CZK 0 million (2013: CZK 211 million) was paid to the non-controlling owners of ESSOX s.r.o. and CZK 126 million (2013: CZK 60 million) was paid to the non-controlling owners of SG Equipment Finance Czech Republic s.r.o.

15 Earnings per share

Earnings per share of CZK 343.78 (2013: CZK 331.68 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 12,985 million (2013: CZK 12,528 million) by the number of shares in issue, that is, 38,009,852, decreased by the average number of treasury shares held by the Group during the period 238,672 pieces (2013: 238,672 pieces).

16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

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

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

17 Financial assets at fair value through profit or loss

As of 31 December 2014 and 2013, the *'Financial assets at fair value through profit or loss'* portfolio includes only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Group has not designated any financial assets as *'Financial assets at fair value through profit or loss'.*

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

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

Trading securities comprise the following:

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

* Acquisition cost for shares, participation certificates and emission allowances; amortised acquisition cost excluding coupon for debt securities.

The Group's portfolio of trading securities includes treasury bills issued by the Czech Ministry of Finance at fair value of CZK 3,969 million (2013: CZK 10,406 million).

As of 31 December 2014, the portfolio of trading securities includes securities at fair value of CZK 13,839 million (2013: CZK 9,504 million) that are publicly traded on stock exchanges and securities at fair value of CZK 6,369 million (2013: CZK 11,274 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Emission allowances at fair value comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Emission allowances		
– Other currencies	1,443	381
Total emission allowances	**1,443**	381

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

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

Debt trading securities at fair value comprise the following:

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

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

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

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

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

Of the debt securities issued by state institutions in the Czech Republic, CZK 9,786 million (2013: CZK 6,063 million) consist of securities eligible for refinancing with the CNB.

18 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

(CZKm)	31 Dec 2014 Fair value	31 Dec 2014 Cost*	31 Dec 2013 Fair value	31 Dec 2013 Cost*
Shares and participation certificates	**2**	**2**	2	2
Fixed income debt securities	54,576	49,377	118,595	108,872
Variable yield debt securities	22,862	22,308	22,603	22,222
Total debt securities	**77,438**	**71,685**	141,198	131,094
Total available-for-sale financial assets	**77,440**	**71,687**	141,200	131,096

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

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

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

(CZKm)	31 Dec 2014	31 Dec 2013
Shares and participation certificates		
– Other currencies	2	2
Total shares and participation certificates available-for-sale	**2**	2

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

(CZKm)	31 Dec 2014	31 Dec 2013
Shares and participation certificates available-for-sale issued by:		
– Non-banking foreign entities	2	2
Total shares and participation certificates available-for-sale	**2**	2

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2013, the Group acquired bonds with a nominal value of CZK 10,705 million, EUR 272 million (CZK equivalent of CZK 7,053 million) and USD 41 million (CZK equivalent of CZK 809 million) i.e.in total CZK equivalent of 18,567 million. This amount comprised bonds issued by state institutions in the Czech Republic in the amount of CZK 10,505 million and bonds of foreign state institutions in the amount of EUR 117 million (a CZK equivalent of CZK 3,039 million), bonds of financial institutions in the Czech Republic in EUR in the amount of EUR 145 million (a CZK equivalent of CZK 3,757 million) and in CZK in the amount of CZK 200 million, and bonds of financial institutions in other countries with a nominal value of EUR 10 million (a CZK equivalent of CZK 258 million) and USD 41 million (a CZK equivalent of CZK 809 million). During the year ended 31 December 2013, the Group had regular repayment of debt securities at maturity in the aggregate nominal amount of CZK 8,888 million and EUR 75 million (a total CZK equivalent of CZK 10,810 million), of which CZK 7,888 million were issued by state institutions in the Czech Republic, CZK 1,922 million by foreign state institutions and CZK 1,000 million by financial institutions in other countries.

During the year ended 31 December 2013, the Group sold Italian government bonds in the nominal amount of CZK 7,470 million. The net gain from the sale was CZK 64 million (refer to Note 7).

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

19 Assets held for sale

As of 31 December 2014, the Group reported *'Assets held for sale'* at a carrying amount of CZK 63 million (2013: CZK 84 million) mainly comprising of equipment which was obtained by taking possession of leasing collateral.

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20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Current account with other banks (refer to Note 36)	838	1,710
Debt securities	11,977	10,055
Loans and advances to banks	12,108	12,631
Advances due from the CNB (reverse repo transactions)	20,000	87,001
Term placements with other banks	14,775	14,338
Total amounts due from banks, gross	**59,698**	125,735
Allowances for amounts due from banks (refer to Note 12)	0	0
Total amounts due from banks, net	**59,698**	125,735

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

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

Securities acquired as loans and receivables

As of 31 December 2014, the Group maintains in its portfolio bonds at an amortised cost of CZK 11,977 million (2013: CZK 10,055 million) and a nominal value of CZK 11,622 million (2013: CZK 9,898 million), of which CZK 5,817 million (2013: CZK 5,863 million) is comprised of bonds issued by the parent company, Société Générale S. A., and acquired by the Group under initial offerings and normal market conditions in 2006 and 2010. The bond with the nominal value of CZK 3,227 million (2013: CZK 3,273 million) is denominated in EUR, bears floating interest and will mature in 2026. During the year ended 31 December 2014, there was a partial repayment of the nominal value of this bond in the amount of EUR 2.9 million, an equivalent of CZK 82 million (2013: EUR 2.7 million, an equivalent of CZK 77 million). Additionally, the Group holds in this portfolio securities with a nominal value of CZK 2,910 million (2013: CZK 1,410 million) and EUR 79 million (2013: EUR 70 million) issued by financial institutions in the Czech Republic and CZK 705 million (2013: CZK 705 million) issued by foreign financial institutions, i.e. a total CZK equivalent to CZK 5,805 million (2013: CZK 4,035 million).

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

During the year ended 31 December 2013, the Group acquired bonds with a nominal value of EUR 70 million (equivalent to CZK 1,811 million) issued by financial institutions in the Czech Republic.

21 Loans and advances to customers

Loans and advances to customers comprise the following:

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

* This item also includes loans granted to individual entrepreneurs.

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

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

As of 31 December 2014, the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	474,888	216,804	258,013	0	474,817	0%
Watch	9,689	3,535	6,154	(971)	8,718	16%
Substandard	6,955	3,942	3,013	(1,696)	5,259	56%
Doubtful	1,493	568	925	(721)	772	78%
Loss	18,319	1,257	17,133	(15,446)	2,944	90%
Total	**511,344**	**226,106**	**285,238**	**(18,834)**	**492,510**	

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

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	453,974	205,790	248,184	0	453,974	0%
Watch	9,570	3,778	5,792	(844)	8,726	15%
Substandard	7,048	3,369	3,679	(1,482)	5,566	40%
Doubtful	2,048	674	1,374	(943)	1,105	69%
Loss	18,425	1,148	17,277	(15,251)	3,174	88%
Total	**491,065**	**214,759**	**276,306**	**(18,520)**	**472,545**	

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

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

The majority of loans, more than 89% (2013: more than 87%), were provided to entities on the territory of the Czech Republic.

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

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

* The nominal value of the collateral is determined based on internal rules of the Group (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of declining market prices, the risk of insolvency, etc.
*** The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 10% of total pledges on real estate (2013: 11%).

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

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

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

Loans and advances to customers – renegotiated and in forbearance

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

* This item also includes loans granted to individual entrepreneurs.

Finance lease
Within the Group, ESSOX s.r.o. and SG Equipment Finance Czech Republic s.r.o. engage in providing lease services. Assets leased under lease arrangements at ESSOX s.r.o. primarily include new passenger and utility vehicles with an average lease instalment period of 72 months (2013: 67 months) and technology with an average lease instalment period of 37 months (2013: 41 months). At SG Equipment Finance Czech Republic s.r.o., leased assets primarily include trucks, tractors and buses with an average lease instalment period of 65 months (2013: 67 months), agricultural vehicles and machines with an average lease instalment period of 57 months (2013: 56 months), machine technology with an average lease instalment period of 61 months (2013: 60 months), air transport equipment with an average lease instalment period of 92 months (2013: 98 months), hardware and software technology with an average lease instalment period of 52 months (2013: 53 months) and real estate with an average lease instalment period of 12 years (2013: 12 years).

Loans and advances to customers – leasing

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

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

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

As of 31 December 2014, the provisions recognised against uncollectible lease receivables amount to CZK 295 million (2013: CZK 828 million).

Trade finance losses
During 1999, the Group incurred losses relating to loans, letters of credit and guarantees provided to a foreign client of the Group. As of 31 December 2014, the Statement of Financial Position included loans to this client in the amount of CZK 1,593 million (2013: CZK 1,390 million) which were fully provided for. The increase in the balance between 2013 and 2014 arises from a foreign exchange rate difference. The Group did not report any off-balance sheet receivables from this client in 2014 and 2013. The Group is continuing to take action in all relevant jurisdictions to recover its funds.

22 Held-to-maturity investments

Held-to-maturity investments comprise the following:

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

* Amortised acquisition cost excluding coupon.

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

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

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

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

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

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

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

* Amortised acquisition cost excluding coupon.

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

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

During 2013, the Group acquired bonds with a nominal value of CZK 760 million issued by state institutions in the Czech Republic. During 2013, there were no redemptions at maturity.

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Prepayments and accrued income	481	377
Settlement balances	338	405
Receivables from securities trading	18	22
Other assets	3,146	2,476
Total prepayments, accrued income and other assets	**3,983**	3,280

As of 31 December 2014, the item *'Other assets'* included receivables of CZK 718 million (2013: CZK 713 million) from the state budget consisting of contributions to participants in the construction savings scheme and to holders of pension insurance policies, provisions for operating receivables for other debtors in the amount of CZK 255 million (2013: CZK 240 million) and in particular also advances provided and receivables for other debtors.

24 Investments in associates and non-controlling interests in subsidiaries

Investments in associates comprise the following:

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

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

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

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

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

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

(CZKm) Associates	Assets	Liabilities	Operating income	Profit
				31 Dec 2013
Komerční pojišťovna, a.s.	41,252	38,813	571	424
Czech Banking Credit Bureau, a.s.	32	28	109	3

Movements in share of associated undertakings:

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

The main financial information about the subsidiaries with non-controlling interests is as follows:

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

* Non-controlling interest of SG Equipment Finance Czech Republic s.r.o. subsidiary amounts to 49.9%.
** Non-controlling interest of ESSOX s.r.o. subsidiary amounts to 49.1%.

Movements in non-controlling interests:

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

Additional information about the Group's equity investments is presented in Notes 1 and 2.

25 Intangible assets

The movements in intangible assets were as follows:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
Cost					
As of 1 January 2013	8,916	2,390	76	678	12,060
Additions	842	145	0	979	1,966
Disposals/transfers	(287)	(37)	(8)	(1,008)	(1,340)
Foreign exchange rate difference	0	2	0	0	2
As of 31 December 2013	9,471	2,500	68	649	12,688
Additions	751	192	0	1,128	2,071
Disposals/transfers	(63)	(32)	(12)	(958)	(1,065)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**10,159**	**2,660**	**56**	**819**	**13,694**
Accumulated amortisation and allowances					
As of 1 January 2013	(6,381)	(1,713)	(53)	0	(8,147)
Additions	(793)	(289)	(17)	0	(1,099)
Disposals	288	36	8	0	332
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(2)	0	0	(2)
As of 31 December 2013	(6,886)	(1,968)	(62)	0	(8,916)
Additions	(923)	(201)	(3)	0	(1,127)
Disposals	64	31	12	0	107
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**(7,745)**	**(2,138)**	**(53)**	**0**	**(9,936)**
Net book value					
As of 31 December 2013	2,585	532	6	649	3,772
As of 31 December 2014	**2,414**	**522**	**3**	**819**	**3,758**

* Internally generated assets comprise mainly of software.

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

26 Tangible assets

The movements in tangible assets were as follows:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
Cost					
As of 1 January 2013	357	12,116	5,412	304	18,189
Reallocation from/to assets held for sale	0	23	0	0	23
Additions	1	295	254	570	1,120
Disposals/transfers	0	(152)	(317)	(597)	(1,066)
Foreign exchange rate difference	0	1	2	0	3
As of 31 December 2013	358	12,283	5,351	277	18,269
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	0	160	313	472	945
Disposals/transfers	0	(1)	(485)	(473)	(959)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**358**	**12,442**	**5,179**	**276**	**18,255**
Accumulated depreciation and allowances					
As of 1 January 2013	0	(5,810)	(4,385)	0	(10,195)
Reallocation of accumulated depreciation of assets held for sale	0	14	0	0	14
Additions	0	(363)	(297)	0	(660)
Disposals	0	144	304	0	448
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(1)	(3)	0	(4)
As of 31 December 2013	0	(6,016)	(4,381)	0	(10,397)
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	0	(358)	(305)	0	(663)
Disposals	0	1	469	0	470
Impairment charge	0	0	1	0	1
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**0**	**(6,373)**	**(4,216)**	**0**	**(10,589)**
Net book value					
As of 31 December 2013	358	6,267	970	277	7,872
As of 31 December 2014	**358**	**6,069**	**963**	**276**	**7,666**

* Internally generated assets comprise mainly of software.

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

27 Goodwill

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

(CZKm)	31 Dec 2014	31 Dec 2013
Modrá pyramida stavební spořitelna, a.s.	3,388	3,388
ESSOX s.r.o.	163	163
SG Equipment Finance Czech Republic s.r.o.	201	201
Total goodwill	**3,752**	3,752

28 Financial liabilities at fair value through profit or loss

As of 31 December 2014 and 2013, the *'Financial liabilities at fair value through profit or loss'* portfolio includes only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Group has not designated any other financial liabilities as *'Financial liabilities at fair value through profit or loss'.*

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

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

29 Amounts due to banks

Amounts due to banks comprise the following:

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

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

30 Amounts due to customers

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

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

The fair value of securities and treasury bills used as collateral for repurchase loans received from customers was CZK 25,673 million (2013: CZK 24,461 million), of which CZK 7,630 million (2013: CZK 2,515 million) were securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'.* The carrying amount of associated liabilities was CZK 7,697 million (2013: CZK 2,571 million).

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

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

31 Securities issued

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

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

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

During the year ended 31 December 2014, the Group repurchased mortgage bonds with aggregate nominal volume of CZK 1,333 (2013: CZK 641 million) million and increased the nominal volume in issue by CZK 1,500 million (2013: CZK 3,447 million).

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

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2014 CZKm	31 Dec 2013 CZKm
HZL Komerční banky, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% of the value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	610	1,910
HZL Komerční banky, a.s., CZ0002000664	4.40%	CZK	21 Oct 2005	21 Oct 2015	11,072	11,191
HZL Komerční banky, a.s., CZ0002001753	Rate of the interest swap sale in CZK for 10 years plus 150 bps	CZK	21 Dec 2007	21 Dec 2037	8,162	6,544
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,009	1,011
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,731	1,761
Total debt securities					**22,584**	22,417

Six-month PRIBOR was 41 bps as as of 31 December 2014 (2013: 48 bps).
Three-month PRIBID was 4 bps as of 31 December 2014 (2013: 5 bps).
The value of the interest rate swap CZK sale average for ten years as of 31 December 2014 was 87 bps (2013: 207 bps).

32 Accruals and other liabilities

Accruals and other liabilities comprise the following:

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

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 19 million (2013: CZK 21 million).

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

33 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Provisions for contracted commitments (refer to Note 12 and 37)	646	573
Provisions for other credit commitments (refer to Note 12)	702	571
Provision for restructuring (refer to Note 9)	0	0
Total provisions	**1,348**	1,144

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

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

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

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

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

(CZKm)	Retirement benefits plan	Provisions for loyalty and jubilee bonuses	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance as of 1 January 2013	**160**	**2**	**362**	**10**	**534**
Additions	10	1	75	0	86
Disposals	(12)	0	(30)	(10)	(52)
Accrual	4	0	0	0	4
Remeasurement	(2)	0	0	0	(2)
Foreign exchange difference	0	0	3	0	3
Balance as of 31 December 2013	**160**	**3**	**410**	**0**	**573**
Additions	9	1	116	0	126
Disposals	(11)	(1)	(66)	0	(78)
Accrual	4	0	0	0	4
Remeasurement	16	0	0	0	16
Foreign exchange difference	0	0	5	0	5
Balance as of 31 December 2014	**178**	**3**	**465**	**0**	**646**

34 Deferred tax

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

Net deferred tax assets are as follow:

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

Net deferred tax liabilities are as follow:

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

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

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

35 Share capital

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

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

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Companies and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The exclusion of voting rights can occur only on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

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

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

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

Global depository receipts ("GDRs") were issued for shares of the Bank administered by The Bank of New York Mellon and which are held on its asset account at the Central Securities Depository. In principle, GDRs bear the same rights as do shares of the Bank and they may be reconverted into shares. One GDR represents one-third of one share of the Bank. The GDRs program was launched at the end of June 1995. In issuing the first tranche, the Bank marked its entry into the international capital markets; a second tranche followed in 1996. From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as of 31 December 2014 was 167,442 pieces (2013: 183,747 pieces).

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

Name of the entity	Registered office	Ownership percentage
Société Générale S.A.	29 Bld Haussmann, Paris	60.35
Chase Nominees Limited	25 Bank Street, Canary Wharf, London	5.33
Nortrust Nominees Limited	155 Bishopsgate, London	4.77

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

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

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

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

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

Tthe Group regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Group's profit or have implications resulting in deterioration in the Group's transactions' risk profile.

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

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

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

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

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

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

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

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

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

37 Commitments and contingent liabilities

Legal disputes
The Group conducted a review of legal proceedings outstanding against it as of 31 December 2014. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 302 million (2013: CZK 285 million) for these legal disputes (refer to Note 33). The Group has also recorded a provision of CZK 58 million (2013: CZK 49 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2014, the Group conducted a review of legal proceedings filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

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

Capital commitments
As of 31 December 2014, the Group had capital commitments of CZK 279 million (2013: CZK 266 million) in respect of current capital investment projects.

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

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

Financial commitments and contingencies comprise the following:

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

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Group issued the guarantee and taking into account the collateral obtained. As of 31 December 2014, the Group recorded provisions for these risks in the amount of CZK 702 million (2013: CZK 571 million). Refer to Note 33.

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

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

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

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

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

* The nominal value of the collateral is determined based on internal rules of the Group (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling of the collateral, the risk of declining market prices, the risk of insolvency, etc.
*** The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

In accordance with Act No. 427/2011, the Supplementary Pension Saving Act and in accordance with the Statutes of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the "Fund") created after 1 January 2013, the Group guarantees at least zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, the Group is required to contribute to the Fund assets necessary to adjust the difference at latest within 30 days after the end of the quarter in which such fact was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

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

38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2014, the Group was controlled by Société Générale S.A., which owns 60.35% of its issued share capital.

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

Amounts due to and from the Group companies
As of 31 December 2014, the Group had deposits of CZK 1,049 million (2013: CZK 475 million) due to the associate Komerční pojišťovna, a.s. The positive fair value of financial derivatives in relation to the associate Komerční pojišťovna, a.s. amounted to CZK 2,217 million (2013: CZK 1,698 million) and the negative fair value to CZK 1 million (2013: CZK 2 million). Komerční pojišťovna, a.s. held the Bank's mortgage bonds in amortised cost of CZK 806 million.

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

Amounts due to and from the Société Générale Group entities

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

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

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

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

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

As of 31 December 2014, the Group also carried off-balance sheet exposures to Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 267,213 million (2013: CZK 221,835 million) and CZK 258,694 million (2013: CZK 209,495 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2014 and 2013, the Group also carried other amounts due to and from Société Générale Group entities which are not significant.

During the year ended 31 December 2014, the Group had total income of CZK 26,264 million (2013: CZK 20,225 million) and total expenses of CZK 29,716 million (2013: CZK 22,861 million) in relation to Société Générale Group entities. That income includes interest income from debt securities issued by Société Générale Group, income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise expenses those of interbank deposits, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

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

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

(CZKm)	2014	2013
Remuneration to the Board of Directors members*	59	52
Remuneration to the Supervisory Board members**	6	5
Remuneration to the Directors' Committee members***	85	66
Total	**150**	123

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

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

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

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

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

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

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

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

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

40 Movements in the revaluation of hedging instruments in Equity

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

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

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

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

Unrealised gains from Available-for-sale financial assets recognised in the equity of the Transformovaný fond KB Penzijní společnosti, a.s. in the amount of CZK 1,427 million as of 31 December 2014 (31 December 2013: CZK 971 million) were included within the available-for-sale reserve. When Available-for-sale financial assets are disposed of, the gain or loss on the disposal is posted to the statement of income. In accordance with Czech law, 85% of the total pension fund profit for the year is distributed to pension plan holders.

42 Risk management and financial instruments

(A) Credit risk

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

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

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

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

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

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

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

(b) Ratings for banks and sovereigns

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

(c) Ratings for individual clients

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

(d) Internal register of negative information

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

(e) Credit bureaus

The evaluation of data from credit bureaus is one of the principal factors impacting the assessment of applications for client funding, and especially so in the retail client segments. Among other things, the Group focused during the year on optimising the rules for reflecting information from credit bureaus in the approval process.

(f) Credit fraud prevention

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

Credit concentration risk

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

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

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

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

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

The Group's maximum credit exposure as of 31 December 2013:

	Total exposure			Applied collateral		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**37,217**	**x**	**37,217**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**37,133**	**x**	**37,133**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**18,249**	**x**	**18,249**	**0**	**x**	**0**
Available-for-sale financial assets	**141,200**	**x**	**141,200**	**0**	**x**	**0**
Amounts due from banks	**125,735**	**1,770**	**127,505**	**87,898**	**298**	**88,196**
Loans and advances to customers	**491,627**	**134,338**	**625,965**	**214,759**	**13,102**	**227,861**
– Individuals	218,079	16,774	**234,853**	151,384	1,523	**152,907**
of which: mortgage loans	148,563	6,626	**155,189**	120,991	1,441	**122,432**
consumer loans	21,429	2,254	**23,683**	2,709	6	**2,715**
constructions savings scheme loans	40,515	1,029	**41,544**	27,009	68	**27,077**
– Corporates**	272,986	117,564	**390,550**	63,375	11,579	**74,954**
of which: top corporate clients	109,108	70,879	**179,987**	29,027	6,338	**35,365**
– Debt securities	461	x	**461**	0	x	**0**
– Other amounts due from customers	101	x	**101**	0	x	**0**
Revaluation differences on portfolios hedge items	**7**	**x**	**7**	**0**	**x**	**0**
Held-to-maturity investments	**4,200**	**x**	**4,200**	**0**	**x**	**0**
Total	**855,368**	**136,108**	**991,476**	**302,657**	**13,400**	**316,057**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

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

Classification of receivables
The Group classifies its receivables arising from financial activities into five categories in accordance with CNB regulation No. 163/2014. The Standard and Watch categories represent non-default while Substandard, Doubtful and Loss represent default. The classification reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The classification of individuals reflects also the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel III principles.

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

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

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

All significant, individually material impaired credit exposures (i.e. classified as Substandard, Doubtful or Loss according to the CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committee or, by recovery specialists. For individually material impaired uncovered credit exposures in the category Watch, the provisioning rate used is established within the Société Générale Group and is calculated based on the average probability of default and LGD for the unsecured part of the receivable.

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

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

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

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2014, the Group reported the following loans not past due and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	**Loans not past due**	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days to 1 year**	**Over 1 year**	**Total**	**Total**
Banks								
– Standard	57,993	0	0	0	0	0	0	57,993
– Watch	1,705	0	0	0	0	0	0	1,705
Total	**59,698**	**0**	**0**	**0**	**0**	**0**	**0**	**59,698**
Customers								
– Standard	470,565	4,163	136	16	8	0	4,323	474,888
– Watch	628	31	768	7	0	0	806	1,434
Total	**471,193**	**4,194**	**904**	**23**	**8**	**0**	**5,129**	**476,322**

As of 31 December 2013, the Group reported the following loans not past due and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	**Loans not past due**	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days to 1 year**	**Over 1 year**	**Total**	**Total**
Banks								
– Standard	124,719	0	0	0	0	0	0	124,719
– Watch	1,016	0	0	0	0	0	0	1,016
Total	**125,735**	**0**	**0**	**0**	**0**	**0**	**0**	**125,735**
Customers								
– Standard	449,133	4,743	75	23	0	0	4,841	453,974
– Watch	1,028	16	78	26	0	0	120	1,148
Total	**450,161**	**4,759**	**153**	**49**	**0**	**0**	**4,961**	**455,122**

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

Loan collateral

The Group uses collateral as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Group's business lines.

The Group has fully implemented in its internal system the rules for assessing collateral's eligibility according to CNB regulation No. 163/2014. In compliance with the CNB validation, the Group uses the Advanced Internal Ratings-Based (AIRB) approach. For clients of the Slovak branch, the Group uses the Standardised (STD) approach for assessing of collateral eligibility.

The recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Group uses independent valuations performed or supervised by a dedicated specialised department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB regulation No. 163/2014.

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

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

In 2014, together with the principal activity involving real estate valuation, the Group focused especially upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Group monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estates depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, revaluation is performed regularly.

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

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

Credit risk hedging instruments
The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

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

As of 31 December 2014, the Group posted a credit exposure of CZK 23,437 million (2013: CZK 19,798 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement costs at market rates as of 31 December 2014 for all outstanding agreements. The netting agreement is taken into account where applicable.

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

(B) Market risk

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

Products generating market risk
Products that are traded by the Group and generate market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, forward rate agreements, interest rate futures and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash and carry positions in emission allowances.

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

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

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

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

The VaR for a one-day horizon with a confidence level of 99% was CZK -17 million as of 31 December 2014 (2013: CZK -19 million). The average VaR was CZK -23 million in 2014 (2013: CZK -17 million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Exceedances should not occur more frequently than 1% of days within a given period. In 2014, none of the daily losses (actual or hypothetical) exceeded the 99% VaR although in several cases the loss was very close to the calculated VaR. Work on a project for improving the accuracy of the VaR calculation by implementing a more sophisticated VaR model is presently underway in co-operation with Société Générale, and its implementation is planned for the first quarter of 2015.

In addition, the Group performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to all open positions in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO_2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Greek crisis in 2010) or from a hypothetical crisis that could negatively influence the positions.

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

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

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

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

The indicator of the Group's sensitivity to a change in market interest rates is measured upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 1% p.a. It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates occurred. As of 31 December 2014, the CZK interest rate risk sensitivity was CZK -682 million (2013: CZK -1,014 million), the EUR sensitivity was CZK -57 million (2013: CZK -141 million), the USD sensitivity was CZK -77 million (2013: CZK -5 million) and for other currencies it was CZK -66 million (2013: CZK -49 million) for the hypothetical assumption of a 1% change in market interest rates. The Group is limited by this indicator and the level of the limit is determined to be approximately 2% of capital.

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

(C) Financial derivatives

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

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

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

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

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

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining maturity as of 31 December 2014:

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

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

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	96,214	307,568	149,697	553,479
Interest rate forwards and futures*	46,893	1,521	0	48,414
Interest rate options	270	5,854	749	6,873
Total interest rate instruments	**143,377**	**314,943**	**150,446**	**608,766**
Foreign currency instruments				
Currency swaps	134,039	1,450	58	135,547
Cross currency swaps	15,576	36,069	35,448	87,093
Currency forwards	27,210	4,198	48	31,456
Purchased options	32,709	15,816	0	48,525
Sold options	33,459	16,122	0	49,581
Total currency instruments	**242,993**	**73,655**	**35,554**	**352,202**
Other instruments				
Forwards on emission allowances	832	15	0	847
Commodity forwards	1,296	0	0	1,296
Commodity swaps	10,055	1,619	0	11,674
Commodity cross currency swaps	3,635	268	0	3,903
Purchased commodity options	236	239	0	475
Sold commodity options	236	239	0	475
Total other instruments	**16,290**	**2,380**	**0**	**18,670**
Total	**402,660**	**390,978**	**186,000**	**979,638**

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

Financial derivative instruments designated as hedging are as follow:

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

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

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

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

(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Cross currency swaps for cash flow hedging	8,595	33,408	7,782	49,785
Cross currency swaps for fair value hedging	0	348	0	348
Currency swaps for fair value hedging	207	0	0	207
Forwards on stocks for cash flow hedging	4	28	0	32
Interest rate swaps for cash flow hedging	91,931	214,830	163,044	469,805
Interest rate swaps for fair value hedging	0	2,218	25,503	27,721
Interest rate swaps for portfolio fair value hedging	0	4,200	7,350	11,550
Total	**100,737**	**255,032**	**203,679**	**559,448**

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

	31 Dec 2014			31 Dec 2013		
(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
Floating cash flows hedged	**(387)**	**(1,681)**	**(1,566)**	(470)	(2,236)	(2,072)

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

During 2014, the Group recorded the following hedges:

1. Interest rate risk hedging:
   a. The fair values of long-term loans provided and of investments into long-term government securities classified into the *'Available-for-sale financial assets'* portfolio are hedged by interest rate swaps and cross currency swaps, respectively;
   b. The fair values of issued long-term mortgage bonds classified into the *'Securities issued'* portfolio are hedged by interest rate swaps;
   c. The fair values of a portfolio of savings accounts from retail clients are hedged by a portfolio of interest rate swaps;
   d. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients with variable interest rates, respectively, are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis);
   e. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and short-term liabilities to clients are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis).

2. Foreign exchange risk hedging:
   a. In selected material cases, the Group hedges the future cash flows of firm commitments arising from the Group's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Group. The hedging instrument consists of foreign currency assets (e.g. securities) or foreign currency liabilities (client deposits), respectively;
   b. The Group hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent on the foreign exchange rate developments and selected foreign currency liabilities (e.g. short-term liabilities traded on the interbank market).

3. Share price risk hedging:
   a. A portion of the bonus of selected Group employees is paid in cash equivalents of the Société Générale S.A. share price. The risk of change in the Société Générale S.A. share price is hedged at the Société Générale level. Hedging instruments are forwards on stocks;
   b. A portion of the bonus of selected Group employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Group hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.

4. Hedging of an investment in a foreign subsidiary:
   a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term client liabilities).

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

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

(D) Interest rate risk

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

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

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

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

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

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

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	5,892	0	0	0	38,513	**44,405**
Financial assets at fair value through profit or loss	5,529	10,412	3,374	1,463	16,355	**37,133**
Positive fair values of hedging financial derivatives	0	0	0	0	18,249	**18,249**
Available-for-sale financial assets	10,199	7,701	56,909	66,391	0	**141,200**
Assets held for sale	0	0	0	0	84	**84**
Amounts due from banks	117,560	1,077	4,973	1,152	973	**125,735**
Loans and advances to customers, net	209,961	74,546	167,242	18,135	3,205	**473,089**
Revaluation differences on portfolios hedge items	0	0	0	0	7	**7**
Held-to-maturity investments	0	194	3,114	892	0	**4,200**
Current tax assets	0	0	0	0	82	**82**
Deferred tax assets	0	0	5	0	31	**36**
Prepayments, accrued income and other assets	2	713	0	0	2,565	**3,280**
Investments in subsidiaries and associates	0	0	0	0	1,084	**1,084**
Intangible assets	0	0	0	0	3,772	**3,772**
Tangible assets	0	0	0	0	7,872	**7,872**
Goodwill	0	0	0	0	3,752	**3,752**
Total assets	**349,143**	**94,643**	**235,617**	**88,033**	**96,544**	**863,980**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss	1,196	0	0	0	16,334	**17,530**
Negative fair values of hedging financial derivatives	15	69	335	378	11,465	**12,262**
Amounts due to banks	41,204	2,602	2,743	0	3,131	**49,680**
Amounts due to customers	95,391	19,783	29,283	3,386	501,315	**649,158**
Revaluation differences on portfolios hedge items	0	0	0	0	(218)	**(218)**
Securities issued	1,910	0	19,502	1,005	0	**22,417**
Current tax liabilities	1	12	0	0	731	**744**
Deferred tax liabilities	0	0	21	21	3,454	**3,496**
Accruals and other liabilities	330	1	0	0	10,897	**11,228**
Provisions	0	0	0	0	1,144	**1,144**
Total liabilities	**140,048**	**22,467**	**51,884**	**4,790**	**548,253**	**767,442**
Statement of Financial Position interest rate sensitivity gap as of 31 Dec 2013	**209,095**	**72,176**	**183,733**	**83,243**	**(451,709)**	**96,538**
Derivatives*	448,170	281,393	274,484	251,019	0	**1,255,066**
Total off-balance sheet assets	**448,170**	**281,393**	**274,484**	**251,019**	**0**	**1,255,066**
Derivatives*	549,057	272,436	300,123	136,784	0	**1,258,400**
Undrawn portion of loans**	(4,596)	(1,820)	6,003	413	0	**0**
Undrawn portion of revolving loans**	(336)	(8)	195	149	0	**0**
Total off-balance sheet liabilities	**544,125**	**270,608**	**306,321**	**137,346**	**0**	**1,258,400**
Net off-balance sheet interest rate sensitivity gap as of 31 Dec 2013	**(95,955)**	**10,785**	**(31,837)**	**113,673**	**0**	**(3,334)**
Cumulative interest rate sensitivity gap as of 31 Dec 2013	**113,140**	**196,101**	**347,997**	**544,913**	**93,204**	**X**

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

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

Average interest rates as of 31 December 2014 and 2013 were as follows:

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

Note: The above table sets out the average interest rates for December 2014 and 2013 calculated as a weighted average for each asset and liability category.

The 2W REPO rate announced by the CNB remained at the level of 0.05% throughout 2014. Czech crown money market rates (PRIBOR) declined by as much as 0.09% (12M). The market spreads decreased by as much as 0.04% (6M) during 2014 and stagnated on the level of 15–36 basis points (1D–1Y). Interest rates in the derivatives market decreased by 15 to 121 basis points (2–10Y).

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

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

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

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

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

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

(E) Liquidity risk

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

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

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

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

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

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

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	37,280	0	0	0	0	7,125	**44,405**
Financial assets at fair value through profit or loss	0	2,270	9,649	4,998	3,480	16,736	**37,133**
Positive fair values of hedging financial derivatives	0	0	0	0	0	18,249	**18,249**
Available-for-sale financial assets	0	5,717	6,943	60,945	61,514	6,081	**141,200**
Assets held for sale	0	0	6	0	0	78	**84**
Amounts due from banks	33,268	74,830	482	6,437	2,972	7,746	**125,735**
Loans and advances to customers, net	4,988	58,079	52,682	131,455	208,944	16,941	**473,089**
Revaluation differences on portfolios hedge items	0	0	0	0	0	7	**7**
Held-to-maturity investments	0	73	249	3,003	875	0	**4,200**
Current tax assets	0	0	59	0	0	23	**82**
Deferred tax assets	0	0	0	5	0	31	**36**
Prepayments, accrued income and other assets	64	125	829	0	0	2,262	**3,280**
Investments in subsidiaries and associates	0	0	0	0	0	1,084	**1,084**
Intangible assets	0	0	0	0	0	3,772	**3,772**
Tangible assets	0	0	0	0	0	7,872	**7,872**
Goodwill	0	0	0	0	0	3,752	**3,752**
Total assets	**75,600**	**141,094**	**70,899**	**206,843**	**277,785**	**91,759**	**863,980**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss	1,196	0	0	0	0	16,334	**17,530**
Negative fair values of hedging financial derivatives	0	0	0	0	0	12,262	**12,262**
Amounts due to banks	21,537	7,795	1,420	13,329	5,599	0	**49,680**
Amounts due to customers	499,220	60,734	23,086	27,225	2,747	36,146	**649,158**
Revaluation differences on portfolios hedge items	0	0	0	0	0	(218)	**(218)**
Securities issued	0	6	105	14,761	7,545	0	**22,417**
Current tax liabilities	0	8	733	1	0	2	**744**
Deferred tax liabilities	0	58	173	251	21	2,993	**3,496**
Accruals and other liabilities	8,938	814	206	12	0	1,258	**11,228**
Provisions	111	123	181	128	4	597	**1,144**
Equity	0	0	0	0	0	96,538	**96,538**
Total liabilities	**531,003**	**69,538**	**25,904**	**55,707**	**15,916**	**165,912**	**863,980**
Statement of Financial Position liquidity gap as of 31 Dec 2013	**(455,403)**	**71,556**	**44,995**	**151,136**	**261,869**	**(74,153)**	**0**
Off-balance sheet assets*	27,501	127,241	97,686	107,411	43,336	0	**403,175**
Off-balance sheet liabilities*	35,046	148,674	153,889	142,887	47,469	14,663	**542,628**
Net off-balance sheet liquidity gap as of 31 Dec 2013	**(7,545)**	**(21,433)**	**(56,203)**	**(35,476)**	**(4,133)**	**(14,663)**	**(139,453)**

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

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 31 December 2014.

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

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

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss (except derivatives)	1,196	0	0	0	0	0	**1,196**
Amounts due to banks	21,547	7,825	1,493	13,590	5,643	0	**50,098**
Amounts due to customers	499,318	61,107	23,296	29,618	3,691	36,146	**653,176**
Securities issued	0	93	838	17,057	8,615	0	**26,603**
Current tax liabilities	0	8	733	1	0	2	**744**
Deferred tax liabilities	0	58	173	251	21	2,993	**3,496**
Accruals and other liabilities	8,938	814	206	12	0	1,258	**11,228**
Provisions	111	123	181	128	4	597	**1,144**
Total non-derivative financial liabilities	**531,111**	**70,028**	**26,920**	**60,657**	**17,974**	**40,996**	**747,686**
Other loans commitment granted	5,590	9,341	37,783	14,051	1,278	14,409	**82,452**
Guarantee commitments granted	1,852	11,813	17,979	19,260	2,498	254	**53,656**
Total contingent liabilities	**7,442**	**21,154**	**55,762**	**33,311**	**3,776**	**14,663**	**136,108**

(F) Foreign exchange position

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

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

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

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	42,660	1,280	220	245	**44,405**
Financial assets at fair value through profit or loss	33,537	3,359	162	75	**37,133**
Positive fair values of hedging financial derivatives	16,862	1,172	215	0	**18,249**
Available-for-sale financial assets	108,492	29,861	2,847	0	**141,200**
Assets held for sale	84	0	0	0	**84**
Amounts due from banks	97,245	21,129	6,100	1,261	**125,735**
Loans and advances to customers, net	383,092	80,611	9,047	339	**473,089**
Revaluation differences on portfolios hedge items	7	0	0	0	**7**
Held-to-maturity investments	4,006	194	0	0	**4,200**
Current tax assets	82	0	0	0	**82**
Deferred tax assets	30	6	0	0	**36**
Prepayments, accrued income and other assets	3,045	203	21	11	**3,280**
Investments in subsidiaries and associates	1,084	0	0	0	**1,084**
Intangible assets	3,772	0	0	0	**3,772**
Tangible assets	7,865	7	0	0	**7,872**
Goodwill	3,752	0	0	0	**3,752**
Total assets	**705,615**	**137,822**	**18,612**	**1,931**	**863,980**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	15,933	1,397	147	53	**17,530**
Negative fair values of hedging financial derivatives	10,706	1,439	117	0	**12,262**
Amounts due to banks	11,023	35,304	3,324	29	**49,680**
Amounts due to customers	576,178	61,825	8,572	2,583	**649,158**
Revaluation differences on portfolios hedge items	(218)	0	0	0	**(218)**
Securities issued	22,417	0	0	0	**22,417**
Current tax liabilities	736	8	0	0	**744**
Deferred tax liabilities	3,495	1	0	0	**3,496**
Accruals and other liabilities	9,528	1,356	239	105	**11,228**
Provisions	866	215	46	17	**1,144**
Equity	96,456	82	0	0	**96,538**
Total liabilities	**747,121**	**101,627**	**12,445**	**2,787**	**863,980**
Net FX position as of 31 Dec 2013	**(41,506)**	**36,195**	**6,167**	**(856)**	**0**
Off-balance sheet assets*	1,087,308	360,240	79,749	13,172	**1,540,469**
Off-balance sheet liabilities*	1,050,240	395,095	86,154	12,198	**1,543,687**
Net off-balance sheet FX position as of 31 Dec 2013	**37,068**	**(34,855)**	**(6,405)**	**974**	**(3,218)**
Total net FX position as of 31 Dec 2013	**(4,438)**	**1,340**	**(238)**	**118**	**(3,218)**

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

(G) Operational risk

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

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

Co-operation within consolidated operational risk management has been deepened among KB Group companies. The AMA approach has been used in four Group companies, of which two are banking entities (Komerční banka, a.s. and Modrá pyramida stavební spořitelna, a.s.) and two non-banking entities (SG Equipment Finance Czech Republic s.r.o. and ESSOX s.r.o.).

(H) Legal risk

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

(I) Estimated fair value of assets and liabilities of the Group

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets at fair value – Level 3:

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

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

43 Offsetting financial assets and financial liabilities

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

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/ liabilities*	Gross amount of financial assets set off by financial liabilities/assets	Net amount of financial assets/ liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	50,976	0	50,976	29,478	11,323	10,175
Negative fair value of derivatives	36,254	0	36,254	29,478	5,327	1,449

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

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

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/ Liabilities*	Gross amount of financial assets set off by financial liabilities/assets	Net amount of financial assets/ liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	34,604	0	34,604	21,599	5,897	7,108
Negative fair value of derivatives	28,596	0	28,596	21,599	6,763	234

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

44 Assets under management

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

45 Post balance sheet events

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

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

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

Separate Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Independent Auditor's Report as of 31 December 2014

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(Translation of a report originally issued in Czech)

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Komerční banka, a.s., which comprise the statement of financial position as at 31 December 2014, 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.

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

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

Michaela Kubýová

Michaela Kubýová, Auditor
License No. 1810

27 February 2015
Prague, Czech Republic

SEPARATE STATEMENT OF INCOME AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

Separate Statement of Income for the year ended 31 December 2014

(CZKm)	Note	2014	2013
Interest income and similar income	5	25,979	26,799
Interest expense and similar expense	5	(8,706)	(9,761)
Dividend income	5	1,602	1,885
Net interest income and similar income		**18,875**	18,923
Net fee and commission income	6	6,370	6,672
Net profit/(loss) on financial operations	7	2,363	3,200
Other income	8	154	157
Net operating income		**27,762**	28,952
Personnel expenses	9	(6,037)	(6,018)
General administrative expenses	10	(4,238)	(4,185)
Depreciation, impairment and disposal of assets	11	(1,568)	(1,587)
Total operating expenses		**(11,843)**	(11,790)
Profit before allowances/provisions for loan and investment losses, other risk and income taxes		**15,919**	17,162
Allowances for loan losses	12	(1,027)	(1,546)
Provisions for other risk expenses	12	(25)	(7)
Cost of risk		**(1,052)**	(1,553)
Profit/(loss) on subsidiaries and associates	13	355	0
Profit before income taxes		**15,222**	15,609
Income taxes	14	(2,426)	(2,486)
Net profit for the period	15	**12,796**	13,123

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

(CZKm)	Note	2014	2013
Net profit for the period	15	**12 796**	13 123
Items that will not be reclassified to Statement of Income			
Remeasurement of retirement benefits plan, net of tax	38	(13)	2
Items that may be reclassified subsequently to Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	39	11,072	(3,425)
– Transfer to net profit/(loss), net of tax	39	(3,358)	(2,989)
Foreign exchange gain/(loss) on translation of a foreign net investment		2	2
Net value gain/(loss) on available-for-sale financial assets, net of tax	40	28	(1,918)
Other comprehensive income for the period, net of tax		**7,731**	(8,328)
Comprehensive income for the period, net of tax		**20,527**	4,795

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

SEPARATE STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014

(CZKm)	Note	31 Dec 2014	31 Dec 2013
ASSETS			
Cash and current balances with central banks	16	152,229	43,831
Financial assets at fair value through profit or loss	17	43,867	38,118
Positive fair value of hedging financial derivatives	41	28,453	18,235
Available-for-sale financial assets	18	34,552	93,555
Assets held for sale	19	0	6
Amounts due from banks	20	54,238	119,661
Loans and advances to customers	21	449,180	423,295
Held-to-maturity investments	22	62,114	194
Current tax assets		130	0
Deferred tax assets	33	61	6
Prepayments, accrued income and other assets	23	2,741	2,173
Investments in subsidiaries and associates	24	26,717	26,220
Intangible assets	25	3,337	3,363
Tangible assets	26	5,147	5,235
Total assets		**862,766**	773,892
LIABILITIES AND EQUITY			
Amounts due to central banks		2	1
Financial liabilities at fair value through profit or loss	27	25,417	18,543
Negative fair value of hedging financial derivatives	41	13,592	11,248
Amounts due to banks	28	54,779	45,946
Amounts due to customers	29	601,412	552,253
Securities issued	30	55,321	48,145
Current tax liabilities		65	708
Deferred tax liabilities	33	4,552	2,703
Accruals and other liabilities	31	10,657	9,513
Provisions	32	1,335	1,130
Total liabilities		**767,132**	690,190
Share capital	34	19,005	19,005
Share premium and reserves		76,629	64,697
Total equity		**95,634**	83,702
Total liabilities and equity		**862,766**	773,892

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

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

Signed on behalf of the Board of Directors:

Albert Le Dirac'h
Chairman of the Board of Directors
and Chief Executive Officer

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

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

(CZKm)	Share capital	Capital and reserve funds and retained earnings*	Remeasurement of retirement benefits plan	Cash flow hedging	Translation of a foreign net investment	Available-for-sale financial assets	Total equity
Balance as of 31 December 2012	**19,005**	**47,939**	**(11)**	**14,709**	**4**	**5,898**	**87,544**
Treasury shares, other	0	105	0	0	0	0	105
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)
Transactions with owners	**0**	**(8,637)**	**0**	**0**	**0**	**0**	**(8,637)**
Net profit for the period	0	13,123	0	0	0	0	13,123
Other comprehensive income for the period, net of tax	0	0	2	(6,414)	2	(1,918)	(8,328)
Comprehensive income for the period	**0**	**13,123**	**2**	**(6,414)**	**2**	**(1,918)**	**4,795**
Balance as of 31 December 2013	**19,005**	**52,425**	**(9)**	**8,295**	**6**	**3,980**	**83,702**
Treasury shares, other	0	147	0	0	0	0	147
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)
Transactions with owners	**0**	**(8,595)**	**0**	**0**	**0**	**0**	**(8,595)**
Net profit for the period	0	12,796	0	0	0	0	12,796
Other comprehensive income for the period, net of tax	0	0	(13)	7,714	2	28	7,731
Comprehensive income for the period	**0**	**12,796**	**(13)**	**7,714**	**2**	**28**	**20,527**
Balance as of 31 December 2014	**19,005**	**56,626**	**(22)**	**16,009**	**8**	**4,008**	**95,634**

* Capital and reserve funds and retained earnings consist of statutory reserve funds in the amount of CZK 3,801 million (2013: CZK 3,801 million), other funds created from profit in the amount of CZK 388 million (2013: CZK 388 million), share premium and purchased treasury shares in the amount of CZK -395 million (2013: CZK -454 million), net profit from the period in the amount of CZK 12,796 million (2013: CZK 13,123 million) and retained earnings in the amount of CZK 40,036 million (2013: CZK 35,567 million).

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

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

(CZKm)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	22,850	23,558
Interest payments	(6,683)	(14,459)
Fee and commission receipts	7,708	7,956
Fee and commission payments	(1,329)	(1,270)
Net income from financial operations	687	7,483
Other income receipts	90	181
Cash payments to employees and suppliers, and other payments	(9,777)	(10,075)
Operating cash flow before changes in operating assets and operating liabilities	**13,546**	13,374
Amounts due from banks	64,950	(67,737)
Financial assets at fair value through profit or loss	(5,706)	14,044
Loans and advances to customers	(26,529)	(27,606)
Other assets	(493)	44
(Increase)/decrease in operating assets	**32,222**	(81,255)
Amounts due to banks	(3,668)	17,513
Financial liabilities at fair value through profit or loss	6,871	(1,366)
Amounts due to customers	49,593	67,326
Other liabilities	846	674
Increase/(decrease) in operating liabilities	**53,642**	84,147
Net cash flow from operating activities before taxes	99,410	16,266
Income taxes paid	(3,184)	(2,451)
Net cash flow from operating activities	**96,226**	13,815
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received	1,603	1,885
Purchase of held-to-maturity investments	(4,785)	0
Maturity of held-to-maturity investments*	4,794	0
Purchase of available-for-sale financial assets	(5,649)	(12,170)
Sale and maturity of available-for-sale financial assets*	8,118	14,238
Purchase of tangible and intangible assets	(1,470)	(1,410)
Sale of tangible and intangible assets	17	33
Purchase of investments in subsidiaries and associates	(224)	(100)
Sale/decrease of investments in subsidiaries and associates	82	77
Net cash flow from investment activities	**2,486**	2,553
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid**	(8,656)	(8,657)
Securities issued	8,753	11,158
Securities redeemed*	(3,264)	(2,526)
Net cash flow from financing activities	**(3,167)**	(25)
Net increase/(decrease) in cash and cash equivalents	**95,545**	16,343
Cash and cash equivalents at the beginning of the year	41,975	25,535
FX differences on cash and cash equivalents at beginning of year	16	97
Cash and cash equivalents at the end of the year (see Note 35)	**137,536**	41,975

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2014

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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 follow:

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

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

The Bank’s ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank’s majority shareholder, holding 60.35% (2013: 60.35%) of the Bank’s issued share capital.

2 Events for the year ended 31 December 2014

Dividends declared in respect of the year ended 31 December 2013
At the General Meeting, held on 30 April 2014, the shareholders approved a dividend for the year ended 31 December 2013 of CZK 230 per share before tax. The dividend was declared in the aggregate amount of CZK 8,742 million and the remaining balance of the net profit was allocated to retained earnings.

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

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

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

3 Principal accounting policies

These Financial Statements are separate. The Consolidated Financial Statements are issued as of the same date. The total consolidated equity is CZK 109,494 million and total consolidated profit is CZK 13,361 million.

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

3.1 Statement of compliance with IFRS

The Separate Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only “IFRS”) as adopted by the European Union and effective for the annual period beginning on 1 January 2014.

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

The presented Separate Financial Statements for the year ended 31 December 2014 are based on the current best estimates.
The management of the Bank believes that they present a true and fair view of the Bank’s financial results and financial position using all relevant and available information as of the financial statements date.

3.2 Underlying assumptions of the Separate Financial Statements

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

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

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

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

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

3.3 Basis of preparation

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

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

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

3.3.3 Use of estimates
The presentation of Separate Financial Statements in accordance with IFRS requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as of the financial statements date and they specifically relate to the determination of:
- fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, hedging derivatives or available-for-sale financial assets (refer to Note 3.5.5);
- the value of intangible assets (refer to Note 3.5.9);
- the amount of impairment of assets (refer to Notes 3.5.5 and 3.5.9);
- provisions recognised under liabilities (refer to Note 3.5.10);
- the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7).

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

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

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

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

3.4 Adoption of new and revised IFRS

3.4.1 Standards and interpretations not yet adopted by the European Union

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

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

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

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

3.4.2 Standards and interpretations adopted in the current period

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

Standard	Impact/Comments
IAS 27 Separate Financial Statements – revised standard*	The revised standard does not change current requirements related to Separate Financial Statements.
IAS 28 Investments in Associates and Joint Ventures – revised standard*	The revised standard results from the new standard on joint ventures and incorporates the accounting for these. In the Consolidated Financial Statements, joint ventures will be newly consolidated using only the equity method.
IFRS 10 Consolidated Financial Statements – new standard*	The new standard is based on current consolidation requirements stipulated in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. However, this standard presents a revised definition of control – assessing all three elements of control (power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of returns) so that a single control model can be applied to all entities. The conclusion regarding consolidation did not change for most straightforward entities. Although the standard newly sets out a framework for asset manager entities to use when interpreting IFRS 10 to determine whether control exists, IFRS 10 does not provide "bright lines" and requires consideration of many factors and the judgement of the entity.

Standard	Impact/Comments
IFRS 11 Joint Arrangements – new standard*	The new standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures and it improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement and by eliminating a choice of accounting treatment.
IFRS 12 Disclosure of Interests in Other Entities – new standard*	The new standard enhances disclosures to be published about consolidated and unconsolidated entities.
IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities – amendment: "Transition Guidance"*	The amendments specify that the "date of initial application" in IFRS 10 (as well as IFRS 11 and IFRS 12) means "the beginning of the annual reporting period in which the standard is applied for the first time". It also requires the investor to adjust comparative period(s) retrospectively if the conclusion about consolidation reached at the date of initial application is different when applying IFRS 10 as compared with applying IAS 27/SIC-12. Relief from retrospective application of IFRS 10 applies to an investor's interests in investees that were disposed of during a comparative period, such that consolidation would not occur in accordance with either IAS 27/SIC-12 or IFRS 10 as of the date of initial application.
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – amendment "Investment Entities"	The amendments define an investment entity, introduce an exception to consolidating particular subsidiaries for investment entities and require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities.
IAS 32 Financial Instruments: Presentation – amendment "Offsetting Financial Assets and Financial Liabilities"	The amendment newly adds into the application guidance explanation of the criterion that an entity "currently has a legally enforceable right to set off the recognised amounts".
IAS 36 Impairment of Assets – amendment "Recoverable Amount Disclosures for Non-Financial Assets"	The amendment requires additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.
IAS 39 Financial Instruments: Recognition and Measurement – amendment "Novation of Derivatives and Continuation of Hedge Accounting"	The amendment specifies the novation of derivatives and provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument arises as a result of new laws or regulations.

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

3.4.3 Issued standards and interpretations not applied for the current period

The standards and interpretations or their amendments described below are valid. However, they do not apply to the reporting period beginning on 1 January 2014 and the Bank has decided not to early adopt them. The Bank has decided not to early adopt the standards and interpretations which were already adopted by the European Commission.

Concurrently, the 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 the existing standard IAS 39. It introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges. Accounting for macro hedging was separated from the IFRS 9 project. The IASB is still working on developing a new macro hedging model; the first discussion paper was issued in April 2014.

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

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

Standard	Summarised content	Effective for reporting period beginning on or after
IFRIC 21 Levies*	This interpretation addresses the accounting for a liability to pay a levy.	1 January 2014
Annual Improvements to IFRS 2010–2012 Cycle*	Annual Improvements amend seven standards in a total of eight points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
Annual Improvements to IFRS 2011–2013 Cycle*	Annual Improvements amend four standards predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 July 2014
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)*	The amendment defines principles for recognition of employee contributions within defined benefit plans distinguishing the procedure for contributions the amounts of which are not dependent upon the length of service and for those the amounts of which are so dependent.	1 July 2014
IFRS 14 Regulatory Deferral Accounts – new standard	The interim standard concerns accounting for balances on deferral accounts that arise from rate regulated activities. IFRS 14 is only applicable to first time adopters of IFRS, which are conducting rate-regulated activities and already recognise balances on regulatory deferral accounts under local (previous) GAAP. Such entities are permitted to continue in applying their previous GAAP accounting policies.	1 January 2016
Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11 Joint Arrangements)	The amendments provide guidance on the accounting for acquisition of interests in existing joint operations in which the activity constitutes a business as defined in IFRS 3 Business Combinations. It also applies to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation on its formation. The amendments require an investor to apply, to the extent of its share, the principles of business combination accounting and disclosures required in IFRS 3 and other IFRS (if not conflicting with IFRS 11), in particular: measuring identifiable assets and liabilities at fair value (beside exceptions in IFRS 3), expensing acquisition-related costs, recognising deferred tax assets and liabilities arising from the initial recognition of assets or liabilities (except for deferred tax liabilities from initial recognition of goodwill), recognising goodwill and its testing for impairment. The scope of the business combination exemption in IFRS 1 has been expanded to include acquisitions of interests in joint operations that are businesses.	1 January 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets)	The amendments prohibit the use of revenue-based depreciation for property, plant and equipment (IAS 16). In case of intangible assets (IAS 38) this depreciation method can be used only in very limited circumstances for intangible rights.	1 January 2016
Agriculture: Bearer Plants (Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture)	The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. They will no longer be considered as one asset together with any agricultural produce growing on bearer plants accounted for under IAS 41. Instead the bearer plants will be separated and will fall within the scope of IAS 16.	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27 Separate Financial Statements)	The amendment allows an entity to account for investments in subsidiaries, associates and joint ventures in its separate financial statements using the equity method (described in IAS 28) as an alternative to the currently allowable accounting either at cost or as a financial asset in accordance with IFRS 9.	1 January 2016

Standard	Summarised content	Effective for reporting period beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	The amendment clarifies the accounting treatment for sale or contribution of assets between an investor and its associates or joint ventures. It resolves a current inconsistency between the existing requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures on how to calculate any gain or loss arising from this transaction. The accounting treatment depends on whether the non-monetary assets as subject of the transaction constitute a “business”, as defined in IFRS 3 Business Combinations. If assets constitute a business, the gain or loss is recognised in full, otherwise only to the extent of the unrelated investors’ interests in the associate or joint venture.	1 January 2016
Annual Improvements to IFRS 2012–2014 Cycle	Annual Improvements amend four standards in a total of five points predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 January 2016
Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	The amendments provide changes to IAS 1 to further encourage companies to apply professional judgement in determining what information to disclose and how to structure it in the financial statements. The amendments relate to the following areas: materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies, presentation of items of other comprehensive income arising from equity accounted investments. Given that the amendments clarify existing requirements in IAS 1 that do not directly affect an entity’s accounting policies or accounting estimates there is no need under the transitional provisions to disclose the information otherwise required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures)	The amendments to IFRS 10 and IAS 28 clarify application of the consolidation exception to entities in group structures involving investment entities by addressing the following three issues. The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to an intermediate parent entity which is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Amendments to IAS 28 provide similar exception from applying the equity method for entities that are subsidiaries of an investment entity and hold interests in associates and joint ventures. The amendments to IFRS 10 also clarify for a subsidiary that provides services supporting the investment entity’s investment activities that only a subsidiary that is not an investment entity itself should be consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 further clarify the application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity. When applying the equity method the non-investment entity may choose to retain the fair value measurement applied by the investment entity associate or joint venture to its interest in subsidiaries.	1 January 2016
IFRS 15 Revenue from Contracts with Customers – new standard	The new standard supersedes current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. It outlines a single comprehensive model for accounting and disclosure of revenue arising from contracts with customers to provide goods or services, regardless of the industry or the type of transaction (except those that are within the scope of other IFRS, such as IAS 17 Leases, IFRS 4 Insurance Contracts, financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investment in Associates and Joint Ventures). It will apply also to the recognition and measurement of gains and losses on the sale of some non-financial assets being not an output of the entity’s ordinary activities. Interest and dividend income is excluded from the scope of IFRS 15. The relevant recognition and measurement requirements have been moved to IFRS 9 or IAS 39. The new model consists of the following five steps for revenue recognition: identification of the contract(s) with customers, identification of the performance obligations in the contract, determination of the transaction price, allocation of the transaction price to the separate performance obligations and recognition of revenue when (or as) the entity satisfies a performance obligation (by transferring control of a promised good or service to the customer).	1 January 2017

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 9 Financial Instruments – new standard	In July 2014, the final version of IFRS 9 was issued, replacing current IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. It introduces a new approach to the classification and measurement of financial assets, new impairment methodology and new hedge accounting rules for micro hedges. Accounting for macro hedging was separated from the IFRS 9 project and is part of a separate one (Discussion Paper, April 2014). The new IFRS 9 shall be applied retrospectively except for micro hedge accounting. The classification and measurement of financial assets depends on assessment of both the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The resulting measurement categories are: • amortised cost, • fair value through other comprehensive income, and • fair value through profit or loss. In comparison to IAS 39, the embedded derivatives in financial assets are no longer bifurcated. In respect to financial liabilities, IFRS 9 retains almost all of the existing requirements from IAS 39 except changes in the entity's own credit risk for financial liabilities designated at fair value through profit or loss using the fair value option, which are newly presented in other comprehensive income. The impairment requirements in the new standard are based on an expected credit loss model. For all financial assets in the scope of IFRS 9 that are not accounted for at fair value through profit or loss and excluding also equity instruments, entities are required to recognise from origination throughout the life of an asset either 12-month expected credit losses or lifetime expected credit losses, when credit risk significantly increases since initial recognition. The measurement of expected credit losses reflects a probability-weighted outcome, the time value of money and reasonable and supportable information. In November 2013, new requirements related to general hedge accounting (micro hedge accounting) were added to IFRS 9. These requirements align hedge accounting more closely with risk management, which means that more of an entity's risk management activities may qualify for hedge accounting and more designations of groups of items as the hedged items are possible. The new model does not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness under IAS 39. However, there is only prospective effectiveness test left; it is newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) and replaces the range of 80–125%. As a consequence of the new general hedge accounting rules in IFRS 9, additional hedge accounting disclosure requirements were introduced into IFRS 7 Financial Instruments: Disclosures.	1 January 2018

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

3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2014
The Bank did not make use of the possibility for the voluntary early application of standards or interpretations in the reporting period beginning 1 January 2014.

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

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

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

3.5.1.2 Transactions and balances translation

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

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

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

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

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

3.5.2 Recognition of income and expenses

3.5.2.1 Net interest income and similar income

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

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

3.5.2.2 Net fee and commission income

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

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

3.5.2.3 Net profit/(loss) on financial operations

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

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

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

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

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

3.5.4 Fair value and hierarchy of fair value

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

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

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

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

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

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

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

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

3.5.5 Financial instruments

3.5.5.1 Dates of recognition and derecognition

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

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

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

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

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

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

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

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

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

3.5.5.3 "Day 1" profit or loss
When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

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

3.5.5.4 Financial assets and liabilities classification and subsequent measurement
Financial assets and liabilities held by the Bank are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Bank's intention as of 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 trading derivatives that are liabilities and are recognised in the Statement of Financial Position in the line *'Financial liabilities at fair value through profit or loss'.*

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

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

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

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

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

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

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

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

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

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

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

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

In the event of the repurchase of its own debt securities, the 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 of the date of their repurchase in the Statement of Income in the line *'Net interest income'* as an adjustment to the interest paid from own bonds.

3.5.5.5 Reclassification of financial assets

The 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 assets at fair value through profit or loss are no longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and are classified into the *'Available-for-sale financial assets'* or *'Held-to-maturity investments'* portfolio.

The Bank may also reclassify a non-derivative trading asset out of the *'Financial assets at fair value through profit or loss'* portfolio and into the *'Loans and receivables'* portfolio if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain circumstances, the Bank may also reclassify financial assets out of the *'Available-for-sale financial assets'* portfolio and into the *'Loans and receivables'* portfolio if they meet the definition of loans and receivables and the Bank has the intention and ability to hold the financial assets for the foreseeable future or until maturity. The fixed income securities quoted on an active market can be reclassified out of the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio if the Bank's intention or ability to hold these securities has changed or upon expiry of the deadline during which securities were not permitted to be classified as securities held-to-maturity. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank assesses all significant impaired credit exposures on an individual basis (i.e. those classified as Substandard, Doubtful or Loss according to the CNB classification). For individually material impaired uncovered credit exposures in the category Watch, the provisioning rate used is established within the Société Générale Group and is calculated based on the average probability of default and LGD for the unsecured part of the receivable. The remaining insignificant impaired exposures are assessed using statistical models based on a collective approach (refer to Note 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 assessing impairment, financial assets are grouped on the basis of the similar credit risk characteristics, i.e. client type, asset type, classification degree, obligor rating, collateral, past-due status and other relevant factors.

The future cash flows of financial assets groups that are not individually evaluated for impairment are estimated on the basis of historical loss experience for financial assets with similar credit risk characteristics using the provisioning model. Historical loss experience is adjusted on the basis of current observable data to reflect new loss observations and to have better discrimination ability, i.e. to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

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

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

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

The Bank is allowed to provide securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and 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'.*

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

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

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

Hedging derivatives are derivatives that the Bank uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:
- there is compliance with the Bank's risk management objective and strategy in undertaking the hedge;
- at inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective at inception and throughout the period;
- the effectiveness of the hedge can be reliably measured; and
- changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:
I. a hedge of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. hedging of a net investment in a foreign operation.

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

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

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

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

Changes in the fair value of a derivative that is designated and qualified as a cash flow hedge and that proves to be highly effective in relation to hedged risk are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and they are transferred to the Statement of

Income and classified as income or expense in the periods during which the hedged assets and liabilities affect the Statement of Income. The ineffective portion of the hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'.*

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

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

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

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

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).

3.5.5.12 Embedded derivatives

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

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

3.5.6 Assets held for sale

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

Assets held for sale are measured at the lower of:

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

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

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

3.5.7 Income tax

3.5.7.1 Current income tax

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

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

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

3.5.7.2 Deferred income tax

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

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

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

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

3.5.8 Leasing

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

<u>The Bank as lessor</u>

Operating leases

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

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

Finance leases

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

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

<u>The Bank as lessee</u>

Operating leases

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

Finance leases

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

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

3.5.9 Tangible and intangible assets

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

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

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

	2014	2013
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5	5
ATMs and selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facade	30	30
– Roof	20	20
– Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licences – software	5	5
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 Statement of Income when they occur.

3.5.10 Provisions

Provisions are recognised when and only when:

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

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

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

3.5.11 Employee benefits

3.5.11.1 General

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

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

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

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

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

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

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

3.5.11.2 Deferred bonus payments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.5.14 Operating segments

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

The Bank has the following operating segments:

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

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

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

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

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

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

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

3.5.15 Regulatory requirements

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

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Net interest income and similar income	9,253	8,962	6,516	6,349	135	123	2,971	3,489	18,875	18,923
Net fee and commission income	4,070	4,395	2,150	2,098	(68)	(41)	218	220	6,370	6,672
Net profit/(loss) on financial operations	842	860	1,116	1,225	355	288	50	827	2,363	3,200
Other income	117	128	7	(11)	132	163	(102)	(123)	154	157
Net banking income	**14,282**	14,345	**9,789**	9,661	**554**	533	**3,137**	4,413	**27,762**	28,952

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

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

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

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

5 Net interest income and similar income

Net interest income and similar income comprise the following:

(CZKm)	2014	2013
Interest income and similar income	25,979	26,799
Interest expense and similar expense	(8,706)	(9,761)
Dividend income	1,602	1,885
Net interest income and similar income	**18,875**	18,923
Of which net interest income and similar income from		
– Loans and advances	14,522	15,006
– Available-for-sale financial assets	1,186	3,026
– Held-to-maturity investments	1,612	6
– Financial liabilities at amortised cost	(3,810)	(4,086)

'Interest income and similar income' includes interest on Substandard, Doubtful and Loss loans due from customers of CZK 319 million (2013: CZK 379 million).

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 8,659 million (2013: CZK 8,761 million) and *'Interest expense and similar expense'* includes interest expense from hedging financial derivatives of CZK 4,896 million (2013: CZK 5,675 million). Net interest income from these derivatives amounts to CZK 3,763 million (2013: CZK 3,086 million). Hedging financial derivatives are used to hedge both the fair value and future cash flows.

'Interest expense and similar expense' includes expense for insurance of deposits in the amount of CZK 805 million (2013: CZK 743 million).

'Dividend income' includes dividends received from subsidiaries and associates of CZK 1,602 million (2013: CZK 1,885 million). Expenses from hedging financial derivatives used to hedge cash flows of a foreign exchange risk of dividends from subsidiaries and associates were CZK 0 million (2013: CZK 3 million).

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2014	2013
Transactions	4,073	4,126
Loans and deposits	1,908	2,328
Others	1,718	1,486
Total fee and commission income	**7,699**	7,940
Transactions	(1,016)	(987)
Loans and deposits	(214)	(186)
Others	(99)	(95)
Total fee and commission expenses	**(1,329)**	(1,268)
Total net fee and commission income	**6,370**	6,672

The line *'Others'* includes mainly fees and commissions from trade finance, investment banking, and distribution of the Group companies' products. The line comprises fee income arising from trust and other fiduciary activities in the amount of CZK 102 million (2013: CZK 91 million) and fee expense for these services in the amount of CZK 12 million (2013: CZK 10 million).

7 Net profit/(loss) on financial operations

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

(CZKm)	2014	2013
Net realised gains/(losses) on securities held for trading	434	(206)
Net unrealised gains/(losses) on securities held for trading	515	68
Net realised gains/(losses) on securities available-for-sale	0	787
Net realised and unrealised gains/(losses) on security derivatives	(347)	293
Net realised and unrealised gains/(losses) on interest rate derivatives	(370)	63
Net realised and unrealised gains/(losses) on trading commodity derivatives	33	27
Net realised and unrealised gains/(losses) on foreign exchange operations	912	893
Net realised gains/(losses) on foreign exchange from payments	1,186	1,275
Total net profit/(loss) on financial operations	**2,363**	3,200

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

A loss of CZK 1,847 million (2013: gain of CZK 1,431 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'.* This amount matches the loss arising from retranslation of hedged loan receivables, available-for-sale financial assets and issued mortgage bonds reported in the same line.

8 Other income

The Bank reports *'Other income'* in the amount of CZK 154 million (2013: CZK 157 million). In both 2014 and 2013, *'Other income'* was predominantly composed of income from services provided to the Group's companies and property rental income.

9 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2014	2013
Wages, salaries and bonuses	4,325	4,282
Social costs	1,712	1,736
Total personnel expenses	**6,037**	6,018
Physical number of employees at the end of the period*	7,668	7,777
Average recalculated number of employees during the period*	7,624	7,706
Average cost per employee (CZK)	**791,858**	781,017

* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 77 million (2013: CZK 77 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 44 million (2013: CZK 44 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include the release and use of a provision for restructuring in the amount of CZK 0 million (2013: CZK 10 million) relating to a project to reorganise the distribution network (refer to Note 32).

Indexed bonuses
In 2014, the total amount relating to bonuses indexed on the Société Générale share price and the Komerční banka share price recognised in *'Personnel expenses'* was CZK 29 million (2013: CZK 36 million) and the total amount of CZK 48 million (2013: CZK 40 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Bank. Net income from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 5 million (2013: CZK 9 million). The total number of Société Générale shares according to which bonuses indexed on the Société Générale share price are calculated is 6,232 shares (2013: 12,461 shares). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 17,310 shares (2013: 15,137 shares).

The changes in the numbers of shares were as follows:

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

Free shares
The share price at the granting date was established to be EUR 34.55 for the first tranche and EUR 33.15 for the second tranche. The total number of free shares granted for the two tranches is 291,640 shares (2013: 277,800 shares). For 2014, the total amount relating to the free shares program recognised in *'Personnel expenses'* was CZK 59 million (2013: CZK 46 million) and from the granting date a cumulative amount of CZK 197 million (2013: CZK 138 million) is recognised as *'Share premium'* in equity.

10 General administrative expenses

General administrative expenses comprise the following:

(CZKm)	2014	2013
Insurance	106	110
Marketing and representation	489	473
Sale and banking products expenses	287	299
Other employees expenses and travelling	122	121
Real estate expenses	1,267	1,161
IT support	874	888
Equipment and supplies	151	154
Telecommunications, postage and data transfer	246	279
External consultancy and other services	568	610
Other expenses	128	90
Total general administrative expenses	**4,238**	4,185

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise the following:

(CZKm)	2014	2013
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,567	1,591
Impairment and disposal of fixed assets	1	(4)
Total depreciation, impairment and disposal of assets	**1,568**	1,587

12 Cost of risk

Allowance for loan losses and provisions for other credit commitments
'Allowances for loan losses' in the total amount of CZK 1,027 million (2013: CZK 1,546 million) include a net loss from allowances and provisions for loan losses in the amount of CZK 1,591 million (2013: CZK 1,820 million), and a net gain from loans written off and transferred in the amount of CZK 564 million (2013: CZK 274 million).

The movements in allowances and provisions were as follow:

(CZKm)	2014	2013
Balance as of 1 January	**(14,795)**	(14,008)
Charge of allowances and provisions for loan losses		
– Individuals	(2,027)	(2,300)
– Corporates*	(5,007)	(5,028)
Release and use of allowances and provisions for loan losses		
– Individuals	1,507	1,701
– Corporates*	3,936	3,807
Impact of loans written off and transferred	1,347	1,252
Foreign exchange rate differences attributable to provisions	(314)	(219)
Balance as of 31 December	**(15,353)**	(14,795)

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

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

(CZKm)	2014	2013
Allowances for loans to banks (refer to Note 20)	0	0
Allowances for loans to customers (refer to Note 21)	(14,650)	(14,223)
Allowances for other loans to customers (refer to Note 21)	(1)	(1)
Provisions for guarantees and other credit-related commitments (refer to Note 32)	(702)	(571)
Total	**(15,353)**	(14,795)

Provisions for other risk expenses
The net loss of *'Provisions for other risk expenses'* of CZK 25 million (2013: CZK 7 million) consists mainly of the charge for provisions of CZK 23 million (2013: CZK 11 million) and the release and use of provisions of CZK 4 million (2013: CZK 4 million) for legal disputes, together with the net costs incurred by the Bank as a result of the outcome of legal disputes of CZK 6 million (2013: CZK 0 million).

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

13 Profit/(loss) on subsidiaries and associates

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

(CZKm)	2014	2013
Balance as of 1 January	**(355)**	(355)
Charge for allowances	0	0
Release and use of allowances	355	0
Balance as of 31 December	**0**	(355)

In the year ended 31 December 2014, the entire impairment on Komerční pojišťovna, a.s. (hereafter only "KP") in the amount of CZK 355 million (2013: 0 million CZK) was released. After years of uncertainty about the new regulatory framework for the insurance and reinsurance industry in the European Union, the Solvency II Directive will come into effect on 1 January 2016. After analysing the impact of Solvency II on KP, it is expected that KP will be able to absorb regulatory capital requirements and to maintain or even increase its current profit distribution. In order to assess the current level of impairment, the recoverable amount of the 49% share owned by the Bank was determined. The recoverable amount was established as value in use based on a discounted cash flows model, where the discount rate corresponds to the cost of equity determined using the Damodaran method on the basis of publicly available data for inflation and interest rates. Cash flows correspond to the expected distribution of KP's profits in future. Refer to Note 24.

14 Income taxes

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

(CZKm)	2014	2013
Tax payable – current year, reported in profit or loss	(2,438)	(2,606)
Tax paid – prior year	23	11
Deferred tax (refer to Note 33)	35	122
Hedge of a deferred tax asset against foreign currency risk	(46)	(13)
Total income taxes	**(2,426)**	(2,486)
Tax payable – current year, reported in equity	8	0
Total tax expense	**(2,418)**	(2,486)

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

(CZKm)	2014	2013
Profit before tax	**15,222**	15,609
Theoretical tax calculated at a tax rate of 19% (2013: 19%)	2,892	2,966
Tax on pre-tax profit adjustments	(51)	4
Non-taxable income	(1,349)	(1,297)
Expenses not deductible for tax purposes	948	936
Tax allowance	(2)	(3)
Hedge of a deferred tax asset against foreign currency risk	46	13
Movement in deferred tax	(35)	(122)
Other	0	0
Income tax expense	**2,449**	2,497
Prior period tax expense	(23)	(11)
Total income taxes	**2,426**	2,486
Tax payable on available-for-sale financial assets reported in equity*	(8)	0
Total tax expense	**2,418**	2,486
Effective tax rate	15.94%	15.93%

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

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

The corporate tax rate for the year ended 31 December 2014 is 19% (2013: 19%). The Bank's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax-exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 33.

15 Distribution of net profit

For the year ended 31 December 2014, the Bank generated a net profit of CZK 12,796 million (2013: CZK 13,123 million). The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 310 per share (2013: CZK 230 per share), which represents a total amount of CZK 11,783 million (2013: CZK 8,742 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting, held on 30 April 2014, the aggregate balance of the net profit of CZK 13,123 million for the year ended 31 December 2013 was allocated as follows: CZK 8,742 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings.

16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Cash and cash equivalents	7,160	7,188
Current balances with central banks	145,069	36,643
Total cash and current balances with central banks (refer to Note 35)	**152,229**	43,831

Obligatory minimum reserves in the amount of CZK 126,081 million (2013: CZK 5,318 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2014, the interest rate was 0.05% (2013: 0.05%) in the Czech Republic and 0.05% (2013: 0.25%) in the Slovak Republic.

17 Financial assets at fair value through profit or loss

As of 31 December 2014 and 2013, the *'Financial assets at fair value through profit or loss'* portfolio includes only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any financial assets as *'Financial assets at fair value through profit or loss'.*

(CZKm)	31 Dec 2014	31 Dec 2013
Securities	20,208	20,778
Derivative financial instruments	23,659	17,340
Total financial assets at fair value through profit or loss	**43,867**	38,118

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

Trading securities comprise the following:

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

* Acquisition cost for shares, participation certificates and emission allowances; amortised acquisition cost excluding coupon for debt securities.

The Bank's portfolio of trading securities includes treasury bills issued by the Czech Ministry of Finance at fair value of CZK 3,969 million (2013: CZK 10,406 million).

As of 31 December 2014, the portfolio of trading securities includes securities at fair value of CZK 13,839 million (2013: CZK 9,504 million) that are publicly traded on stock exchanges and securities at fair value of CZK 6,369 million (2013: CZK 11,274 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

Emission allowances at fair value comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Emission allowances		
– Other currencies	1,443	381
Total emission allowances	**1,443**	381

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

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

Debt trading securities at fair value comprise the following:

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

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

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

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

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

Of the debt securities issued by state institutions in the Czech Republic, CZK 9,786 million (2013: CZK 6,063 million) consist of securities eligible for refinancing with the CNB.

18 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	31 Dec 2014		31 Dec 2013	
(CZKm)	Fair value	Cost*	Fair value	Cost*
Shares and participation certificates	**2**	**2**	2	2
Fixed income debt securities	19,458	17,226	78,939	71,622
Variable yield debt securities	15,092	14,595	14,614	14,306
Total debt securities	**34,550**	**31,821**	93,553	85,928
Total available-for-sale financial assets	**34,552**	**31,823**	93,555	85,930

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

As of 31 December 2014, the *'Available-for-sale financial assets'* portfolio includes securities at fair value of CZK 34,550 million (2013: CZK 93,553 million) that are publicly traded on stock exchanges and securities at fair value of CZK 2 million (2013: CZK 2 million) that are not publicly traded.

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

(CZKm)	31 Dec 2014	31 Dec 2013
Shares and participation certificates		
– Other currencies	2	2
Total shares and participation certificates available-for-sale	**2**	2

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

(CZKm)	31 Dec 2014	31 Dec 2013
Shares and participation certificates available-for-sale issued by:		
– Non-banking foreign entities	2	2
Total shares and participation certificates available-for-sale	**2**	2

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

(CZKm)	31 Dec 2014	31 Dec 2013
Fixed income debt securities		
– Czech crowns	14,563	58,195
– Other currencies	4,895	20,744
Total fixed income debt securities	**19,458**	78,939
Variable yield debt securities		
– Czech crowns	11,464	11,027
– Other currencies	3,628	3,587
Total variable yield debt securities	**15,092**	14,614
Total debt securities available-for-sale	**34,550**	93,553

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

(CZKm)	31 Dec 2014	31 Dec 2013
Debt securities available-for-sale issued by:		
– State institutions in the Czech Republic	12,393	61,948
– Foreign state institutions	4,895	13,325
– Financial institutions in the Czech Republic	16,424	17,450
– Foreign financial institutions	838	830
Total debt securities available-for-sale	**34,550**	93,553

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

(CZKm)	31 Dec 2014		31 Dec 2013	
Country of Issuer	Fair value	Cost*	Fair value	Cost*
EFSF	0	0	567	561
Poland	817	694	5,383	4,924
Slovakia	4,078	3,435	7,375	6,874
Total	**4,895**	**4,129**	13,325	12,359

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

Of the debt securities issued by state institutions in the Czech Republic, CZK 11,551 million (2013: CZK 53,690 million) consist of securities eligible for refinancing with the CNB.

During the year ended 31 December 2014, the Bank acquired bonds with a nominal value of CZK 4,060 million and EUR 45 million (a total CZK equivalent of CZK 5,294 million), of which CZK 4,060 million comprised bonds issued by state institutions in the Czech Republic and CZK 1,234 million by foreign state institutions. During 2014, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 850 million, EUR 197 million and USD 23 million (a total CZK equivalent of CZK 6,763 million), of which CZK 2,921 million were issued by state institutions in the Czech Republic, CZK 2,432 million by foreign state institutions, CZK 850 million by financial institutions in the Czech Republic and CZK 560 million by foreign financial institutions.

During the year ended 31 December 2013, the Bank acquired bonds with a nominal value of CZK 6,225 million and EUR 197 million (a total CZK equivalent of CZK 11,340 million), of which CZK 6,225 million comprised bonds issued by state institutions in the Czech Republic, CZK 2,520 million by foreign state institutions and CZK 2,595 million by financial institutions in the Czech Republic. During 2013, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 1,900 million and EUR 75 million (a total CZK equivalent of CZK 3,822 million), of which CZK 1,900 million were issued by state institutions in the Czech Republic and CZK 1,922 million by Foreign state institutions.

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

Reclassification of certain debt securities held in the portfolio of 'Available-for-sale financial assets'
During the first quarter of 2014, the Bank reviewed the accounting recognition of certain debt securities issued by state institutions held in the portfolio of *'Available-for-sale financial assets'* (hereafter only "AFS") on the basis of the Bank's changing its intention for their classification. The Bank concluded that all regulatory and accounting requirements, as well as internal limits, were satisfied for recognition of the debt securities in the nominal value of CZK 50,260 million in the portfolio of *'Held-to-maturity investments'* (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains and losses in Equity of CZK 4,474 million as of the reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security (refer to Notes 22 and 40).

19 Assets held for sale

As of 31 December 2014, the Bank reported *'Assets held for sale'* at a carrying amount of CZK 0 million (2013: CZK 6 million) comprising buildings and land owned by the Bank which the management of the Bank decided to sell as a component of a plan to optimise the distribution network. These buildings are not depreciated.

20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Current accounts with other banks (refer to Note 35)	351	893
Debt securities	8,682	6,710
Loans and advances to banks	11,263	11,671
Advances due from central banks (reverse repo transactions)	20,000	87,001
Term placements with other banks	13,942	13,386
Total amounts due from banks, gross	**54,238**	119,661
Allowances for amounts due from banks (refer to Note 12)	0	0
Total amounts due from banks, net	**54,238**	119,661

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

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

Securities acquired as loans and receivables

As of 31 December 2014, the Bank maintains in its portfolio bonds at an amortised cost of CZK 8,682 million (2013: CZK 6,710 million) and a nominal value of CZK 8,395 million (2013: CZK 6,625 million), of which CZK 2,590 million (2013: CZK 2,590 million) is comprised of a bond issued by the parent company, Société Générale S.A., and acquired by the Bank under an initial offering and normal market conditions in 2010. Additionally, the Bank holds in this portfolio securities with a nominal value of CZK 2,910 million (2013: CZK 1,410 million) and EUR 79 million (2013: EUR 70 million) issued by financial institutions in the Czech Republic and CZK 705 million (2013: CZK 705 million) issued by foreign financial institutions, i.e. a total CZK equivalent of CZK 5,805 million (2013: CZK 4,035 million).

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

During the year ended 31 December 2013, the Bank acquired bonds with a nominal value of EUR 70 million (equivalent to CZK 1,811 million) issued by financial institutions in the Czech Republic.

21 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Loans to customers	460,755	435,287
Bills of exchange	318	302
Forfaits	674	1,458
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**461,747**	437,047
Debt securities	2,072	461
Other amounts due from customers	12	11
Total loans and advances to customers, gross	**463,831**	437,519
Allowances for loans to customers		
– Individuals	(4,111)	(3,956)
– Corporates*	(10,539)	(10,267)
Total allowances for loans to customers (refer to Note 12)	**(14,650)**	(14,223)
Allowances for other amounts due from customers (refer to Note 12)	(1)	(1)
Total allowances for loans and other amounts due from customers	**(14,651)**	(14,224)
Total loans and advances to customers, net	**449,180**	423,295

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2014, loans and advances to customers include interest due of CZK 957 million (2013: CZK 1,025 million), of which CZK 379 million (2013: CZK 420 million) relates to overdue interest.

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

As of 31 December 2014, the loan portfolio of the Bank (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value	Allowances
Standard	432,669	195,582	237,087	0	432,669	0%
Watch	7,825	2,988	4,837	(834)	6,991	17%
Substandard	5,867	3,502	2,365	(1,403)	4,464	59%
Doubtful	1,260	542	718	(575)	685	80%
Loss	14,126	851	13,275	(11,838)	2,288	89%
Total	**461,747**	**203,465**	**258,282**	**(14,650)**	**447,097**	

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

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

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

(CZKm)	31 Dec 2014	31 Dec 2013
Food industry and agriculture	13,824	14,428
Mining and extraction	3,731	4,480
Chemical and pharmaceutical industry	5,514	6,012
Metallurgy	7,690	7,478
Automotive industry	9,493	4,443
Manufacturing of other machinery	9,339	8,802
Manufacturing of electrical and electronic equipment	2,975	2,812
Other processing industry	6,693	7,563
Power plants, gas plants and waterworks	20,986	26,153
Construction industry	8,420	8,682
Retail	11,134	10,050
Wholesale	28,932	27,143
Accommodation and catering	926	983
Transportation, telecommunication and warehouses	11,836	11,554
Banking and insurance industry	50,375	47,045
Real estate	35,801	32,712
Public administration	31,120	32,146
Other industries	21,160	17,669
Individuals	181,798	166,892
Total loans to customers	**461,747**	437,047

The majority of loans, more than 89% (2013: more than 87%), were provided to entities on the territory of the Czech Republic.

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

	31 Dec 2014			31 Dec 2013		
(CZKm)	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***
Guarantees of state and governmental institutions	4,284	2,171	2,153	4,899	2,964	2,947
Bank guarantee	17,974	15,225	15,104	16,198	13,561	13,451
Guaranteed deposits	2,181	2,128	1,721	1,916	1,874	1,481
Pledge of real estate	316,526	211,333	153,357	291,914	194,039	140,237
Pledge of movable assets	13,244	1,317	1,260	14,552	1,363	1,317
Guarantee by legal entity	22,904	13,155	11,798	18,438	11,381	10,868
Guarantee by individual (natural person)	1,099	170	151	1,243	189	168
Pledge of receivables	38,744	3,939	3,357	32,812	3,886	3,426
Insurance of credit risk	14,980	14,231	14,231	15,351	14,571	14,571
Other	884	504	333	1,202	617	349
Nominal value of collateral	**432,820**	**264,173**	**203,465**	398,525	244,445	188,813

* The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling the collateral, the risk of declining market prices, the risk of insolvency, etc.
*** The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 12% of total pledges on real estate (2013: 13%).

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

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

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

Loans and advances to customers – renegotiated loans and loans in forbearance

(CZKm)	31 Dec 2014	31 Dec 2013
Individuals	1,277	956
Corporates*	3,665	4,051
Total	**4,942**	5,007

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

22 Held-to-maturity investments

Held-to-maturity investments comprise the following:

	31 Dec 2014		31 Dec 2013	
(CZKm)	Carrying value	Cost*	Carrying value	Cost*
Fixed income debt securities	62,114	60,840	194	193
Total held-to-maturity investments	**62,114**	**60,840**	194	193

* Amortised acquisition cost excluding coupon.

As of 31 December 2014, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 62,114 million (2013: CZK 194 million) that are publicly traded on stock exchanges.

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

(CZKm)	31 Dec 2014	31 Dec 2013
Fixed income debt securities		
– Czech crowns	48,747	0
– Foreign currencies	13,367	194
Total fixed income debt securities	**62,114**	194

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

(CZKm)	31 Dec 2014	31 Dec 2013
Fixed income debt securities issued by:		
–State institutions in the Czech Republic	51,840	0
– Foreign state institutions	10,274	194
Total fixed income debt securities	**62,114**	194

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

(CZKm)	31 Dec 2014		31 Dec 2013	
Country of Issuer	Fair value	Cost*	Fair value	Cost*
France	0	0	198	193
Poland	5,109	5,001	0	0
Slovakia	5,225	5,039	0	0
Total	**10,334**	**10,040**	198	193

* Amortised acquisition cost excluding coupon.

During the year ended 31 December 2014, the Bank acquired bonds with a nominal value of CZK 1,370 million and EUR 103.5 million (a total CZK equivalent of CZK 4,230 million), of which CZK 1,646 million comprised bonds issued by state institutions in the Czech Republic and CZK 2,584 million by foreign state institutions. During 2014, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of EUR 65 million (a total CZK equivalent of CZK 1,801 million), of which CZK 1,607 million were issued by state institutions in the Czech Republic and CZK 194 million by foreign state institutions.

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

During the first quarter of 2014, certain debt securities with a nominal value of CZK 50,260 million issued by state institutions held in the portfolio of *'Available-for-sale financial assets'* were reclassified to the portfolio of *'Held-to-maturity investments'*. The securities were reclassified at fair value. The corresponding unrealised gains and losses in Equity of CZK 4,474 million as of reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security (refer to Notes 18 and 40).

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Prepayments and accrued income	385	286
Settlement balances	335	405
Receivables from securities trading	18	22
Other assets	2,003	1,460
Total prepayments, accrued income and other assets	**2,741**	2,173

'Other assets' include provisions for operating receivables for other debtors in the amount of CZK 227 million (2013: CZK 232 million) and in particular also advances provided and receivables for other debtors.

24 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Investments in subsidiary undertakings	25,880	25,738
Investments in associated undertakings	837	482
Total investments in subsidiaries and associates	**26,717**	26,220

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as of 31 December 2014:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels	3,314	0	3,314
Cataps, s.r.o.	100	100	Financial services	Prague	4	0	4
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Factoring KB, a.s.	100	100	Factoring	Prague	1,190	0	1,190
KB Penzijní společnost, a.s.	100	100	Financial services	Prague	550	0	550
KB Real Estate, s.r.o.	100	100	Support services	Prague	511	0	511
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,873	0	4,873
NP 33, s.r.o.	100	100	Support services	Prague	405	0	405
Protos, uzavřený investiční fond, a.s.	89.64	100	Financial services	Prague	11,705	0	11,705
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague	1,299	0	1,299
VN 42, s.r.o.	100	100	Support services	Prague	864	0	864
Total					**25,880**	**0**	**25,880**

Associated undertakings

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

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

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

** In the year ended 31 December 2014, the entire impairment on Komerční pojišťovna, a.s. (hereafter only "KP") in the amount of CZK 355 million (2013: 0 million CZK) was released. After years of uncertainty about the new regulatory framework for the insurance and reinsurance industry in the European Union, the Solvency II Directive will come into effect on 1 January 2016. After analysing the impact of Solvency II on KP, it is expected that KP will be able to absorb regulatory capital requirements and to maintain or even increase its current profit distribution. In order to assess the current level of impairment, the recoverable amount of the 49% share owned by the Bank was determined. The recoverable amount was established as value in use based on a discounted cash flows model, where the discount rate corresponds to the cost of equity determined using the Damodaran method on the basis of publicly available data for inflation and interest rates. Cash flows correspond to the expected distribution of KP's profits in future. Refer to Note 13.

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

(CZKm)	Investment at cost as of 1 Jan 2014	Additions	Decreases	Investment at cost as of 31 Dec 2014
Bastion European Investments S.A.[1]	3,396	0	(82)	3,314
Cataps, s.r.o.[3]	0	4	0	4
ESSOX s.r.o.	1,165	0	0	1,165
Factoring KB, a.s.	1,190	0	0	1,190
KB Penzijní společnost, a.s.[2]	330	220	0	550
KB Real Estate, s.r.o.	511	0	0	511
Modrá pyramida stavební spořitelna, a.s.	4,873	0	0	4,873
NP 33, s.r.o.	405	0	0	405
Protos, uzavřený investiční fond, a.s.	11,705	0	0	11,705
SG Equipment Finance Czech Republic s.r.o.	1,299	0	0	1,299
VN 42, s.r.o.	864	0	0	864
Total subsidiaries	**25,738**	**224**	**(82)**	**25,880**
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**

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

Changes in equity investments in subsidiaries and associates in 2014

1) In May 2014, the equity in Bastion European Investments S.A. was decreased by EUR 2.9 million (equivalent to CZK 82 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.
2) In June 2014, the equity of KB Penzijní společnost, a.s. was increased by CZK 220 million in the form of increasing other capital funds.
3) In December 2014, the Bank established a new subsidiary, Cataps, s.r.o., with a share capital of CZK 4 million. Cataps, s.r.o. is a business providing ancillary banking services and was established in connection with potential future optimisation in providing certain transaction and payment services.

25 Intangible assets

The movements in intangible assets were as follow:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
Cost					
As of 1 January 2013	8,916	1,482	62	610	11,070
Additions	842	74	0	879	1,795
Disposals/transfers	(287)	(32)	(8)	(916)	(1,243)
Foreign exchange rate difference	0	2	0	0	2
As of 31 December 2013	9,471	1,526	54	573	11,624
Additions	751	151	0	1,019	1,921
Disposals/transfers	(63)	(11)	(12)	(902)	(988)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**10,159**	**1,666**	**42**	**690**	**12,557**
Accumulated amortisation and allowances					
As of 1 January 2013	(6,381)	(1,151)	(42)	0	(7,574)
Additions	(793)	(203)	(17)	0	(1,013)
Disposals	288	32	8	0	328
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(2)	0	0	(2)
As of 31 December 2013	(6,886)	(1,324)	(51)	0	(8,261)
Additions	(923)	(120)	(2)	0	(1,045)
Disposals	64	10	12	0	86
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**(7,745)**	**(1,434)**	**(41)**	**0**	**(9,220)**
Net book value					
As of 31 December 2013	2,585	202	3	573	3,363
As of 31 December 2014	**2,414**	**232**	**1**	**690**	**3,337**

* Internally generated assets comprise mainly of software.

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

26 Tangible assets

The movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
Cost					
As of 1 January 2013	157	10,772	4,945	301	16,175
Reallocation from/to assets held for sale	0	23	0	0	23
Additions	0	286	237	531	1,054
Disposals/transfers	(16)	(2,763)	(406)	(570)	(3,755)
Foreign exchange rate difference	0	1	2	0	3
As of 31 December 2013	141	8,319	4,778	262	13,500
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	0	147	297	449	893
Disposals/transfers	0	(1)	(434)	(445)	(880)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**141**	**8,465**	**4,641**	**266**	**13,513**
Accumulated depreciation and allowances					
As of 1 January 2013	0	(5,540)	(4,054)	0	(9,594)
Reallocation of accumulated depreciation of assets held for sale	0	14	0	0	14
Additions	0	(318)	(260)	0	(578)
Disposals	0	1,548	349	0	1,897
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	(1)	(3)	0	(4)
As of 31 December 2013	0	(4,297)	(3,968)	0	(8,265)
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	0	(258)	(264)	0	(522)
Disposals	0	1	419	0	420
Impairment charge	0	0	1	0	1
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2014	**0**	**(4,554)**	**(3,812)**	**0**	**(8,366)**
Net book value					
As of 31 December 2013	141	4,022	810	262	5,235
As of 31 December 2014	**141**	**3,911**	**829**	**266**	**5,147**

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

27 Financial liabilities at fair value through profit or loss

As of 31 December 2014 and 2013, the *'Financial liabilities at fair value through profit or loss'* portfolio includes only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Bank has not designated any financial liabilities as *'Financial liabilities at fair value through profit or loss'.*

(CZKm)	31 Dec 2014	31 Dec 2013
Sold securities	1,992	1,195
Derivative financial instruments	23,425	17,348
Total financial liabilities at fair value through profit or loss	**25,417**	18,543

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 the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Current accounts (refer to Note 35)	15,042	2,748
Amounts due to banks	39,737	43,198
Total amounts due to banks	**54,779**	45,946

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

29 Amounts due to customers

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

(CZKm)	31 Dec 2014	31 Dec 2013
Current accounts	416,831	365,842
Savings accounts	100,615	95,283
Term deposits	39,126	53,656
Depository bills of exchange	12,965	7,593
Amounts received from customers	25,745	24,547
Other payables to customers	6,130	5,332
Total amounts due to customers	**601,412**	552,253

The fair value of securities and treasury bills used as collateral for repurchase loans received from customers was CZK 25,673 million (2013: CZK 24,461 million), of which CZK 7,630 million (2013: CZK 2,515 million) were securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'.* The carrying amount of associated liabilities was CZK 7,697 million (2013: CZK 2,571 million).

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

(CZKm)	31 Dec 2014	31 Dec 2013
Private companies	226,228	210,659
Other financial institutions, non-banking entities	43,533	42,413
Insurance companies	3,492	3,688
Public administration	1,948	1,325
Individuals	173,194	157,419
Individuals – entrepreneurs	26,932	24,263
Government agencies	84,621	83,980
Other	13,538	11,673
Non-residents	27,926	16,833
Total amounts due to customers	**601,412**	552,253

30 Securities issued

Securities issued comprise mortgage bonds of CZK 55,321 million (2013: CZK 48,145 million). The Bank issues mortgage bonds to fund its mortgage activities.

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

(CZKm)	31 Dec 2014	31 Dec 2013
In less than one year	11,944	0
In one to five years	5,238	15,644
In five to ten years	4,841	6,161
In ten to twenty years	5,335	0
More than twenty years	27,963	26,340
Total debt securities	**55,321**	48,145

During the year ended 31 December 2014, the Bank repurchased mortgage bonds with aggregate nominal volume of CZK 1,333 million and increased the nominal volume in issue by CZK 7,987 million.

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

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 2014 CZKm	31 Dec 2013 CZKm
HZL Komerční banky, a.s., CZ0002000565	3M PRIBID minus the higher of 10 bps or 10% of the value of 3M PRIBID	CZK	2 Aug 2005	2 Aug 2015	610	1,910
HZL Komerční banky, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	11,334	11,453
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	3,117	3,132
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	2,454	2,461
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	1,801	1,822
HZL Komerční banky, a.s., CZ0002001365, CZ0002001373	4.23% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,843	1,825
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,314	3,281
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	4,983	4,966
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first 3M yield period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	5,080	5,107
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	8,488	6,878

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2014 CZKm	31 Dec 2013 CZKm
HZL Komerční banky, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	389	520
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,026	3,029
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,732	1,761
HZL Komerční banky, a.s., CZ0002003346	3.50%	CZK	31 Jan 2014	31 Jan 2026	881	0
HZL Komerční banky, a.s., CZ0002003353	3.50%	CZK	31 Jan 2014	31 Jan 2025	1,108	0
HZL Komerční banky, a.s., CZ0002003361	3.00%	CZK	30 Jan 2014	30 Jan 2024	958	0
HZL Komerční banky, a.s., CZ0002003379	3.00%	CZK	30 Jan 2014	30 Apr 2022	857	0
HZL Komerční banky, a.s., CZ0002003742	2.00%	CZK	18 Nov 2014	18 Nov 2026	827	0
HZL Komerční banky, a.s., CZ0002003759	2.10%	CZK	24 Nov 2014	24 Nov 2027	833	0
HZL Komerční banky, a.s., CZ0002003767	2.20%	CZK	20 Nov 2014	20 Nov 2028	842	0
HZL Komerční banky, a.s., CZ0002003775	2.30%	CZK	27 Nov 2014	27 Nov 2029	844	0
Total debt securities					**55,321**	48,145

* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for 2 to 30 years.
Three-month PRIBID was 4 bps as of 31 December 2014 (2013: 5 bps).
Six-month PRIBOR was 41 bps as of 31 December 2014 (2013: 48 bps).
The value of the interest rate swap CZK sale average for five years as of 31 December 2014 was 54 bps (2013: 128 bps).
The value of the interest rate swap CZK sale average for ten years as of 31 December 2014 was 87 bps (2013: 207 bps).

31 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Accruals and deferred income	138	162
Settlement balances and outstanding items	7	6
Payables from securities trading and issues of securities	1,930	1,548
Payables from payment transactions	5,256	4,569
Other liabilities	3,326	3,228
Total accruals and other liabilities	**10,657**	9,513

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 19 million (2013: CZK 21 million).

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

32 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Provisions for contracted commitments (refer to Notes 12 and 36)	633	559
Provisions for other credit commitments (refer to Note 12)	702	571
Provision for restructuring (refer to Note 9)	0	0
Total provisions	**1,335**	1,130

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

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

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

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

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

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance as of 1 January 2013	**159**	**353**	**10**	**522**
Additions	9	66	0	75
Disposals	(12)	(22)	(10)	(44)
Accrual	4	0	0	4
Remeasurement	(2)	0	0	(2)
Foreign exchange difference	0	4	0	4
Balance as of 31 December 2013	**158**	**401**	**0**	**559**
Additions	9	103	0	112
Disposals	(11)	(52)	0	(63)
Accrual	4	0	0	4
Remeasurement	16	0	0	16
Foreign exchange difference	0	5	0	5
Balance as of 31 December 2014	**176**	**457**	**0**	**633**

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.

Net deferred tax assets are as follow:

(CZKm)	31 Dec 2014	31 Dec 2013
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	58	2
Difference between accounting and tax net book value of assets	1	1
Remeasurement of retirement benefits plan – equity impact (refer to Note 38)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 39)	2	3
Revaluation of available-for-sale financial assets – equity impact (refer to Note 40)	0	0
Other temporary differences	0	0
Net deferred tax assets	**61**	6

Net deferred tax liabilities are as follow:

(CZKm)	31 Dec 2014	31 Dec 2013
Banking provisions and allowances	308	267
Allowances for assets	0	1
Non-banking provisions	30	31
Difference between accounting and tax net book value of assets	(322)	(309)
Remeasurement of retirement benefits plan – equity impact (refer to Note 38)	5	2
Revaluation of hedging derivatives – equity impact (refer to Note 39)	(3,735)	(1,917)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 40)	(940)	(926)
Other temporary differences	102	148
Net deferred tax liabilities	**(4,552)**	(2,703)

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

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

(CZKm)	2014	2013
Balance as of the beginning of the period	**(2,697)**	(4,706)
Movement in the net deferred tax – profit and loss impact (refer to Note 14)	35	122
Movement in the net deferred tax – equity impact (refer to Notes 38, 39 and 40)	(1,829)	1,887
Balance as of the end of the period	**(4,491)**	(2,697)

34 Share capital

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

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

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Companies and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The exclusion of voting rights can occur only on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

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

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

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

Global depository receipts ("GDRs") were issued for shares of the Bank administered by The Bank of New York Mellon and which are held on its asset account at the Central Securities Depository. In principle, GDRs bear the same rights as do shares of the Bank and they may be reconverted into shares. One GDR represents one-third of one share of the Bank. The GDRs program was launched at the end of June 1995. In issuing the first tranche, the Bank marked its entry into the international capital markets; a second tranche followed in 1996. From the start, the GDRs have been traded on the London Stock Exchange. The number of GDRs issued as of 31 December 2014 was 167,442 pieces (2013: 183,747 pieces).

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

Name of the entity	Registered office	Ownership percentage
Société Générale S.A.	29 Bld Haussmann, Paris	60.35
Chase Nominees Limited	25 Bank Street, Canary Wharf, London	5.33
Nortrust Nominees Limited	155 Bishopsgate, London	4.77

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

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

Capital management

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

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

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 III capital adequacy regulation, just as under the previous Basel II regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the 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.

The Bank regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications resulting in a deterioration in the Bank's transactions' risk profile.

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

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

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

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

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

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

As of 31 December 2014, the amount of regulatory capital was CZK 59,151 million (2013: CZK 52,902 million).

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

(CZKm)	31 Dec 2014	31 Dec 2013	Change in the year
Cash and current balances with central banks (refer to Note 16)	152,229	43,831	108,398
Amounts due from banks – current accounts with other banks (refer to Note 20)	351	893	(542)
Amounts due to central banks	(2)	(1)	(1)
Amounts due to banks – current accounts (refer to Note 28)	(15,042)	(2,748)	(12,294)
Cash and cash equivalents at the end of the year	**137,536**	41,975	95,561

36 Commitments and contingent liabilities

Legal disputes
The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2014. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 297 million (2013: CZK 281 million) for these legal disputes (refer to Note 32). The Bank has also recorded a provision of CZK 58 million (2013: CZK 49 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2014, the Bank conducted a review of legal proceedings filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

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

Capital commitments
As of 31 December 2014, the Bank had capital commitments of CZK 279 million (2013: CZK 266 million) in respect of current capital investment projects.

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

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

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2014	31 Dec 2013
Non-payment guarantees including commitments to issued non-payment guarantees	36,302	40,593
Payment guarantees including commitments to issued payment guarantees	12,191	13,992
Committed facilities and unutilised overdrafts	7,832	8,985
Undrawn credit commitments	39,324	44,094
Unutilised overdrafts and approved overdraft loans	12,613	14,077
Unutilised limits under framework agreements to provide financial services	11,992	8,741
Open customer/import letters of credit uncovered	618	719
Standby letters of credit uncovered	2,524	1,982
Confirmed supplier/export letters of credit	134	169
Total commitments and contingencies	**123,530**	133,352

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Bank issued the guarantee and taking into account the collateral obtained. As of 31 December 2014, the Bank recorded provisions for these risks in the amount of CZK 702 million (2013: CZK 571 million). Refer to Note 32.

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

(CZKm)	31 Dec 2014	31 Dec 2013
Food industry and agriculture	8,336	8,990
Mining and extraction	779	2,315
Chemical and pharmaceutical industry	2,707	2,730
Metallurgy	4,201	4,071
Automotive industry	1,429	2,091
Manufacturing of other machinery	6,839	6,986
Manufacturing of electrical and electronic equipment	2,522	2,269
Other processing industry	1,847	2,235
Power plants, gas plants and waterworks	8,335	7,497
Construction industry	30,922	32,065
Retail	2,457	3,922
Wholesale	8,021	7,865
Accommodation and catering	364	323
Transportation, telecommunication and warehouses	4,962	5,442
Banking and insurance industry	3,739	3,375
Real estate	1,137	2,510
Public administration	4,149	5,547
Other industries	16,284	19,586
Individuals	14,500	13,533
Total commitments and contingencies	**123,530**	133,352

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

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

	31 Dec 2014			31 Dec 2013		
(CZKm)	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***	Total commitments and contingencies collateral*	Discounted commitments and contingencies collateral value**	Applied commitments and contingencies collateral value***
Guarantees of state and governmental institutions	673	12	12	214	197	197
Bank guarantee	947	897	853	891	840	747
Guaranteed deposits	2,123	2,104	1,899	2,295	2,280	2,145
Pledge of real estate	8,223	4,878	3,951	7,618	4,473	3,586
Pledge of movable assets	586	60	57	221	20	11
Guarantee by legal entity	8,171	4,498	4,145	6,650	4,495	4,424
Guarantee by individual (natural person)	40	4	4	21	2	2
Pledge of receivables	2,196	0	0	1,909	0	0
Insurance of credit risk	1,969	1,810	1,810	2,216	2,102	2,102
Other	88	60	60	233	163	118
Total nominal value of collateral	**25,016**	**14,323**	**12,791**	22,268	14,572	13,332

* The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, the current value of collateral, the market value of securities, etc.).
** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, the cost of selling the collateral, the risk of declining market prices, the risk of insolvency, etc.
*** The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

In accordance with Act No. 427/2011, the Supplementary Pension Saving Act and in accordance with the Statutes of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the "Fund") created after 1 January 2013, the Bank guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, the Bank is required to contribute to the Fund assets necessary to adjust the difference at latest within 30 days after the end of the quarter in which such fact was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

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

37 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party on making financial or operational decisions. As of 31 December 2014, the 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 2014	31 Dec 2013
Bastion European Investments S.A.	3,331	3,379
ESSOX s.r.o.	5,750	6,004
Factoring KB, a.s.	5,404	3,634
KB Real Estate, s.r.o.	543	573
SG Equipment Finance Czech Republic s.r.o.	15,616	15,248
Total loans	**30,644**	28,838
Bastion European Investments S.A.	87	0
Cataps, s.r.o.	4	0
ESSOX s.r.o.	944	299
KB Penzijní společnost, a.s.	609	600
Transformovaný fond KB Penzijní společnosti, a.s.	0	803
KB Real Estate, s.r.o.	49	42
Modrá pyramida stavební spořitelna, a.s.	2,165	3,812
NP 33, s.r.o.	76	9
Protos, uzavřený investiční fond, a.s.	6,588	6,639
SG Equipment Finance Czech Republic s.r.o.	4,029	3,760
VN 42, s.r.o.	177	21
Total deposits	**14,728**	15,985

As of 31 December 2014, the positive fair value of financial derivatives in relation to the Group companies amounted to 1,187 million (2013: CZK 1,001 million) and the negative fair value to CZK 763 million (2013: CZK 14 million).

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 30,850 million (2013: CZK 24,650 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 886 million (2013: CZK 1,014 million). KB Penzijní společnost, a.s. owns mortgage bonds issued by the Bank in the nominal value of CZK 287 million (2013: CZK 0 million).

As of 31 December 2014 and 2013, other amounts due to and from the Group companies were not significant.

Interest income from loans granted to the Group companies:

(CZKm)	2014	2013
Bastion European Investments S.A.	129	125
ESSOX s.r.o.	99	126
Factoring KB, a.s.	31	21
KB Real Estate, s.r.o.	18	19
SG Equipment Finance Czech Republic s.r.o.	250	259
Total interest from loans granted by the Bank	**526**	550

In addition to interest on loans to the Bank's Group companies, other income in the year ended 31 December 2014 amounted to CZK 616 million (2013: CZK 918 million) and total expenses amounted to CZK 2,507 million (2013: CZK 1,017 million).

As of 31 December 2014, the Bank reported guarantees granted to the Group companies totalling CZK 260 million (2013: CZK 1,126 million).

Amounts due to and from the Société Générale Group entities

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

(CZKm)	31 Dec 2014	31 Dec 2013
ALD Automotive s.r.o. (Czech Republic)	3,773	3,182
BRD Romania	10	116
Komerční pojišťovna, a.s.	2,222	1,698
Rosbank	66	1
SG Expressbank	2	1
SG London	0	238
SG New York	0	3
SGBT Luxembourg	1	0
Société Générale China	45	0
Société Générale Newedge UK	9	0
Société Générale Paris	11,094	10,623
Société Générale Warsaw	257	68
Splitska Banka	3	0
Succursale Newedge UK	0	7
Total	**17,482**	15,937

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

(CZKm)	31 Dec 2014	31 Dec 2013
BRD Romania	1	5
Crédit du Nord	18	4
ESSOX SK s.r.o.	0	13
Inter Europe Conseil	4	2
Investiční kapitálová společnost KB, a.s.	63	55
Komerční pojišťovna, a.s.	1,857	1,285
PEMA Praha spol. s.r.o.	2	11
Rosbank	1	6
SG Amsterdam	15	32
SG Cyprus	15	127
SG Expressbank	1	0
SG Frankfurt	2,560	178
SG Istanbul	0	10
SG London	12	2
SG New York	4	1
SG Private Banking (Suisse)	334	276
SGBT Luxembourg	46	5
Société Générale Paris	28,806	30,305
Société Générale Warsaw	334	34
SOGEPROM Česká republika, s.r.o.	7	0
Splitska Banka	45	27
Total	**34,125**	32,378

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

As of 31 December 2014, the Bank also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 288,773 million (2013: CZK 229,256 million) and CZK 275,638 million (2013: CZK 222,688 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2014 and 2013, the Bank also carried other amounts due to and from the Société Générale Group entities which are not significant.

During the year ended 31 December 2014, the Bank had total income of CZK 27,366 million (2013: CZK 21,470 million) and total expenses of CZK 30,391 million (2013: CZK 23,525 million) in relation to Société Générale Group entities. That income includes interest income from debt securities issued by Société Générale Group, income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise those of interbank deposits, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

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

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

(CZKm)	2014	2013
Remuneration to the Board of Directors members*	59	52
Remuneration to the Supervisory Board members**	6	5
Remuneration to the Directors' Committee members***	85	66
Total	**150**	123

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

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

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

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

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

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

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

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

(CZKm)	2014	2013
Remeasurement of retirement benefits plan as of 1 January	(11)	(13)
Deferred tax asset/(liability) as of 1 January	2	2
Balance as of 1 January	**(9)**	(11)
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	(16)	2
Deferred tax	3	0
	(13)	2
Remeasurement of retirement benefits plan as of 31 December	(27)	(11)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	5	2
Balance as of 31 December	**(22)**	(9)

39 Movements in the revaluation of hedging instruments in the Equity

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

(CZKm)	2014	2013
Cash flow hedge fair value as of 1 January	10,209	18,061
Deferred tax asset/(liability) as of 1 January	(1,914)	(3,352)
Balance as of 1 January	**8,295**	14,709
Movements during the year		
Gains/(losses) from changes in fair value	13,716	(3,880)
Deferred tax	(2,606)	737
	11,110	(3,143)
Transferred to interest income/expense	(4,141)	(3,684)
Deferred tax	786	700
	(3,355)	(2,984)
Transferred to personnel expenses	(4)	(6)
Deferred tax	1	1
	(3)	(5)
Change in the hedge of foreign currency risk of foreign net investment	(38)	(282)
	(38)	(282)
Cash flow hedge fair value as of 31 December	19,742	10,209
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(3,733)	(1,914)
Balance as of 31 December	**16,009**	8,295

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

(CZKm)	2014	2013
Reserve from fair value revaluation as of 1 January	4,914	7,281
Deferred tax/income tax asset/(liability) as of 1 January	(934)	(1,383)
Balance as of 1 January	**3,980**	5,898
Movements during the year		
Gains/(losses) from changes in fair value	828	(1,580)
Deferred tax/income tax	(157)	300
	671	(1,280)
(Gains)/losses from sales	0	(787)
Deferred tax	0	149
	0	(638)
(Gains)/losses from reclassified financial assets (refer to Notes 18 and 22)	(794)	0
Deferred tax	151	0
	(643)	0
Reserve from fair value revaluation as of 31 December	4,948	4,914
Deferred tax/income tax asset/(liability) as of 31 December (refer to Note 33)	(940)	(934)
Balance as of 31 December	**4,008**	3,980

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

In 2014, the Bank focused mainly on three core areas: (1) updating selected credit risk models in order to optimally reflect the current macroeconomic situation and goals set by the Bank; (2) increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management; and (3) optimizing the setting of approval authority with the objective of empowering business departments in areas with lower risk intensity.

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

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

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

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

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

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

(c) Ratings for individual clients
The Bank uses two types of ratings with the aim to evaluate the default risk for individuals: (1) the application rating, which results from an evaluation of clients' personal data, data on the behaviour in the Bank, and data available from external registers; and (2) a behavioural rating which is based on the evaluation of the information on the clients' behaviour in the Bank. The application rating is primarily used for active applications of clients for funding, while the behavioural rating (which includes the calculation of indicative 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 as an input for regular updates of the probability of default of all client exposures reported in accordance with the Basel III requirements.

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

(e) Credit bureaus
The evaluation of data from credit bureaus is one of the principal factors impacting the assessment of applications for client funding, and especially so in the retail client segments. Among other things, the Bank focused during the year on optimising the rules for reflecting information from credit bureaus in the approval process.

(f) Credit fraud prevention

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

Credit concentration risk

The Bank's credit concentration risk is actively managed as a part of overall credit risk management using standard tools (valuation, setting internal limits, reporting, use of risk mitigation techniques, simulation, sector analyses and limits). The Bank maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. A system of internal limits is established so that the Bank complies with regulatory limits set in respect of concentration risk. Refer to Notes 21 and 36 for quantitative information about credit concentration risk.

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

	Total exposure			Applied collateral		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**145,069**	**x**	**145,069**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**43,867**	**x**	**43,867**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**28,453**	**x**	**28,453**	**0**	**x**	**0**
Available-for-sale financial assets	**34,552**	**x**	**34,552**	**0**	**x**	**0**
Amounts due from banks	**54,238**	**2,251**	**56,489**	**21,601**	**680**	**22,281**
Loans and advances to customers	**463,831**	**121,279**	**585,110**	**203,465**	**12,111**	**215,576**
– Individuals	181,799	14,500	**196,299**	136,095	2,091	**138,186**
of which: mortgage loans	162,564	7,741	**170,305**	133,162	2,054	**135,216**
consumer loans	15,620	51	**15,671**	2,933	5	**2,938**
– Corporates**	279,948	106,779	**386,727**	67,370	10,020	**77,390**
of which: top corporate clients	145,801	65,047	**210,848**	34,533	5,449	**39,982**
– Debt securities	2,072	x	**2,072**	0	x	**0**
– Other amounts due from customers	12	x	**12**	0	x	**0**
Held-to-maturity investments	**62,114**	**x**	**62,114**	**0**	**x**	**0**
Total	**832,124**	**123,530**	**955,654**	**225,066**	**12,791**	**237,857**

* 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.

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

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

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

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

Classification of receivables
The Bank classifies its receivables arising from financial activities into five categories in accordance with CNB regulation No. 163/2014. The Standard and Watch categories represent non-default while Substandard, Doubtful and Loss represent default. The classification reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The classification of individuals reflects also the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel III principles.

The structure of the credit portfolio according to the classification is regularly reported to the CNB and to investors.

Characteristics of receivables that are not classified
Pursuant to the 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
Depending on the client segment, materiality, risk profile and specificity of the receivables, provisions are calculated either: (i) according to statistical models which are developed in conformity with the Basel III requirements and in compliance with IFRS and are regularly updated based on the latest loss observations and new risk drivers reflecting the phase of the business cycle; or (ii) taking into account the present value of expected future cash flows while considering all available information, including the estimated value of collateral sale and the expected duration of the recovery process.

All significant, individually material impaired credit exposures (i.e. classified as Substandard, Doubtful or Loss according to the CNB classification) are assessed individually and reviewed at least on a quarterly basis by three levels of Provisioning Committee or by recovery specialists. For individually material impaired uncovered credit exposures in the category Watch, the provisioning rate used is established within the Société Générale Group and is calculated based on the average probability of default and LGD for the unsecured part of the receivable.

In August 2014, the model used for the calculation of allowances for Retail was updated in order to reflect new loss observations and to improve its diagnostic ability.

The following table shows the split of classified customer loans (Watch, Substandard, Doubtful and Loss) based on the type of assessment:

	31 Dec 2014		31 Dec 2013	
(CZKm)	**Individually**	**Statistical model**	**Individually**	**Statistical model**
Individuals	2	9,238	768	8,715
Corporates*	12,527	7,311	17,025	2,417
Total	**12,529**	**16,549**	17,793	11,132

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2014, the Bank reported the following loans not past due and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	**Loans not past due**	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days to 1 year**	**Over 1 year**	**Total**	**Total**
Banks								
– Standard	52,533	0	0	0	0	0	0	52,533
– Watch	1,705	0	0	0	0	0	0	1,705
Total	**54,238**	**0**	**0**	**0**	**0**	**0**	**0**	**54,238**
Customers								
– Standard	429,181	3,473	14	1	0	0	3,488	432,669
– Watch	16	0	738	0	0	0	738	754
Total	**429,197**	**3,473**	**752**	**1**	**0**	**0**	**4,226**	**433,423**

As of 31 December 2013, the Bank reported the following loans not past due and past due loans not impaired:

		Past due loans, not impaired						
(CZKm)	**Loans not past due**	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days to 1 year**	**Over 1 year**	**Total**	**Total**
Banks								
– Standard	118,645	0	0	0	0	0	0	118,645
– Watch	1,016	0	0	0	0	0	0	1,016
Total	**119,661**	**0**	**0**	**0**	**0**	**0**	**0**	**119,661**
Customers								
– Standard	403,589	4,499	32	2	0	0	4,533	408,122
– Watch	7	0	0	0	0	0	0	7
Total	**403,596**	**4,499**	**32**	**2**	**0**	**0**	**4,533**	**408,129**

The amount of the collateral applied in respect of past due loans not impaired was CZK 2,658 million (2013: CZK 2,565 million).

Loan collateral

The Bank uses collateral as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Bank's business lines.

The Bank has fully implemented in its internal system the rules for assessing collateral's eligibility according to CNB regulation No. 163/2014. In compliance with the CNB validation, the Bank uses the Advanced Internal Ratings-Based (AIRB) approach. For clients of the Slovak branch, the Bank uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sale, the historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Bank uses independent valuations performed or supervised by a dedicated specialised department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB regulation No. 163/2014.

The Bank (except for the Slovak branch) uses the on-line connection to the Real Estate Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and for regular monitoring of selected events that may put the Bank's pledge right to real estate at risk.

Real estate collateral valuation
Activities related to the valuation of real estates obtained as collaterals for corporate and retail loans are independent from the Bank's business processes. The valuation process is managed and controlled by a specialised internal department which co-operates with various external valuation experts.

In 2014, together with the principal activity involving real estate valuation, the Bank focused mainly upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Bank monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estate depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, revaluation is performed regularly.

Recovery of receivables from borrowers
The Bank continuously responded to the changing legal environment and its impact on the collection of receivables, and in particular the impact of the new Civil Code. Given the size of the portfolio in recovery, the Bank is continuously improving the efficiency and process of recovery. These efforts also involve intensified and enhanced use of external recovery capacities, which take in approximately 14% of the total portfolio of exposures in recovery and 78% of the total number of clients in recovery. During 2014, the Bank continued in regular sales of uncollateralised retail receivables to selected investors so that the maximum achievable recovery rate is obtained. The main emphasis is on further automation of the recovery process.

The Bank paid increased attention to the application of the Insolvency Act and its impact on the process of collecting receivables from retail and corporate clients. The Bank plays an active role in the insolvency process, from the position of secured creditor, creditors' committee member or representative of creditors, whether in bankruptcy proceedings or in reorganisations, which are used by the Bank depending on the debtor's circumstances and the attitudes of other creditors.

Credit risk hedging instruments
The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Credit risk of financial derivatives
The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Bank may incur if the counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the remaining time until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2014, the Bank posted a credit exposure of CZK 23,437 million (2013: CZK 19,798 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2014 for all outstanding agreements. The netting agreement is taken into account where applicable.

The Bank puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures for individual clients which could arise due to movements in market prices. On a daily basis, the Bank monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that the limit breach is triggered by the deliberate action of a dealer ("active limit breach"), such behaviour is penalised. The Board of Directors is informed about active limit breaches on a regular basis.

(B) Market risk

Segmentation of the Bank's financial operations
For risk management purposes, the Bank's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions concluded by the Bank's dealers for position-taking purposes or for accommodating customers' needs. The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions within the Structural Book, and other transactions not included in the Market Book.

Products generating market risk
Products that are traded by the Bank and generate market risks include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, forward rate agreements, interest rate futures and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash and carry positions in emission allowances.

Derivatives traded on the Market Book are used either for proprietary position-taking or with intent for their sale to clients.

More complex derivatives (options, commodity derivatives, structured derivatives) which are being sold to clients, are immediately offset on the market by doing "back-to-back" trades with other counterparties. This ensures that the Bank is not exposed to market risks associated with these derivatives (e.g. volatility risk, among others).

Market risk in the Market Book
The Bank has developed a complex system of market risk limits with the objective of restricting potential losses due to movements in market prices by limiting the size of the open positions. The Bank monitors compliance with all limits on a daily basis and if these are exceeded the Bank takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure market risks inherent in the activities of the Market Book, the Bank uses the Value-at-Risk (hereafter only „VaR") concept. VaR is calculated using historical scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the last 250 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and the third largest potential losses out of the 250 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK -17 million as of 31 December 2014 (2013: CZK -19 million). The average VaR was CZK -23 million in 2014 (2013: CZK -17 million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Exceedances should not occur more frequently than on 1% of the days within a given period. In 2014, none of the daily losses (actual or hypothetical) exceeded the 99% VaR although in several cases the loss was very close to the calculated VaR. Work on a project for improving the accuracy of the VaR calculation by implementing a more sophisticated VaR model is presently underway in co-operation with Société Générale, and its implementation is planned for the first quarter of 2015.

In addition, the Bank performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to all open positions in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Greek crisis in 2010) or from a hypothetical crisis that could negatively influence the positions.

Additional specific metrics such as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

Market risk in the Structural Book
The Bank manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged under established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of interest income to a parallel shift of the yield curve, and Earnings at Risk (hereafter only "EaR") for net interest income. The EaR indicator shows the maximum departure of the planned net interest income level from the initial value that is attributable to the movements in interest rates over a one-year time horizon and at the 99% confidence level.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Bank's sensitivity to a change in market interest rates is measured upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 1% p.a. It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates occurred. As of 31 December 2014, the CZK interest rate risk sensitivity was CZK -315 million (2013: CZK -348 million), the EUR sensitivity was CZK -56 million (2013: CZK -51 million), the USD sensitivity was CZK 30 million (2013: CZK -9 million), and for other currencies it was CZK -62 million (2013: CZK -45 million) for the hypothetical assumption of a 1% change in market interest rates. The Bank is limited by this indicator, and the level of the limit is determined to be approximately 2% of capital.

In order to hedge against interest rate risk within the Structural Book, the Bank uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

(C) Financial derivatives

The Bank operates a system of market risk and counterparty limits which are designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis and follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading are as follows:

	31 Dec 2014 Nominal value		31 Dec 2013 Nominal value		31 Dec 2014 Fair value		31 Dec 2013 Fair value	
(CZKm)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Positive**	**Negative**	**Positive**	**Negative**
Interest rate instruments								
Interest rate swaps	675,398	675,398	578,804	578,804	12,863	13,640	9,376	9,703
Interest rate forwards and futures*	61,639	61,639	48,414	48,414	7	2	9	4
Interest rate options	6,905	6,905	6,873	6,873	24	24	21	21
Total interest rate instruments	**743,942**	**743,942**	634,091	634,091	**12,894**	**13,666**	9,406	9,728
Foreign currency instruments								
Currency swaps	198,939	198,709	135,547	136,171	1,387	1,165	723	1,358
Cross currency swaps	121,335	120,840	102,872	102,822	6,569	5,940	4,859	4,643
Currency forwards	20,373	19,979	31,486	30,857	473	113	980	383
Purchased options	42,697	43,391	48,525	49,581	844	0	868	0
Sold options	43,391	42,697	49,581	48,525	0	844	0	868
Total currency instruments	**426,735**	**425,616**	368,011	367,956	**9,273**	**8,062**	7,430	7,252
Other instruments								
Futures on debt securities	83	83	0	0	0	0	0	0
Forwards on emission allowances	1,375	1,597	847	720	15	238	222	95
Commodity forwards	1,461	1,461	1,296	1,296	38	37	19	18
Commodity swaps	19,080	19,080	11,674	11,674	1,268	1,251	105	97
Commodity cross currency swaps	738	738	3,903	3,903	46	46	137	137
Purchased commodity options	924	924	475	475	125	0	21	0
Sold commodity options	924	924	475	475	0	125	0	21
Total other instruments	**24,585**	**24,807**	18,670	18,543	**1,492**	**1,697**	504	368
Total	**1,195,262**	**1,194,365**	1,020,772	1,020,590	**23,659**	**23,425**	17,340	17,348

* Fair values include only forwards. Regarding futures, the Bank places funds on a margin account which is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2014:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	201,493	287,813	186,092	675,398
Interest rate forwards and futures*	57,363	4,276	0	61,639
Interest rate options	796	5,010	1,099	6,905
Total interest rate instruments	**259,652**	**297,099**	**187,191**	**743,942**
Foreign currency instruments				
Currency swaps	197,296	1,643	0	198,939
Cross currency swaps	19,331	50,400	51,604	121,335
Currency forwards	16,245	4,128	0	20,373
Purchased options	26,204	16,493	0	42,697
Sold options	26,673	16,718	0	43,391
Total currency instruments	**285,749**	**89,382**	**51,604**	**426,735**
Other instruments				
Futures on debt securities	83	0	0	83
Forwards on emission allowances	897	478	0	1,375
Commodity forwards	1,461	0	0	1,461
Commodity swaps	16,037	3,043	0	19,080
Commodity cross currency swaps	738	0	0	738
Purchased commodity options	825	99	0	924
Sold commodity options	825	99	0	924
Total other instruments	**20,866**	**3,719**	**0**	**24,585**
Total	**566,267**	**390,200**	**238,795**	**1,195,262**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2013:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	96,490	317,917	164,397	578,804
Interest rate forwards and futures*	46,893	1,521	0	48,414
Interest rate options	270	5,854	749	6,873
Total interest rate instruments	**143,653**	**325,292**	**165,146**	**634,091**
Foreign currency instruments				
Currency swaps	134,039	1,450	58	135,547
Cross currency swaps	15,576	43,858	43,438	102,872
Currency forwards	27,240	4,198	48	31,486
Purchased options	32,709	15,816	0	48,525
Sold options	33,459	16,122	0	49,581
Total currency instruments	**243,023**	**81,444**	**43,544**	**368,011**
Other instruments				
Futures on debt securities	0	0	0	0
Forwards on emission allowances	832	15	0	847
Commodity forwards	1,296	0	0	1,296
Commodity swaps	10,055	1,619	0	11,674
Commodity cross currency swaps	3,635	268	0	3,903
Purchased commodity options	236	239	0	475
Sold commodity options	236	239	0	475
Total other instruments	**16,290**	**2,380**	**0**	**18,670**
Total	**402,966**	**409,116**	**208,690**	**1,020,772**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

	31 Dec 2014 Nominal value		31 Dec 2013 Nominal value		31 Dec 2014 Fair value		31 Dec 2013 Fair value	
(CZKm)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Positive**	**Negative**	**Positive**	**Negative**
Interest rate swaps for cash flow hedging	535,197	535,197	469,592	469,592	28,366	8,232	17,831	6,252
Interest rate swaps for fair value hedging	15,656	15,656	26,821	26,821	74	2,444	217	2,237
Cross currency swaps for cash flows hedging	41,598	44,641	42,629	42,361	2	2,916	176	2,609
Cross currency swaps for fair value hedging	0	0	0	2,880	0	0	0	150
Forwards on stocks for cash flow hedging	46	46	32	32	11	0	11	0
Total	**592,497**	**595,540**	539,074	541,686	**28,453**	**13,592**	18,235	11,248

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2014:

(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Interest rate swaps for cash flow hedging	96,892	246,277	192,028	535,197
Interest rate swaps for fair value hedging	21	300	15,335	15,656
Cross currency swaps for cash flow hedging	5,695	32,345	3,558	41,598
Forwards on stocks for cash flow hedging	16	30	0	46
Total	**102,624**	**278,952**	**210,921**	**592,497**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2013:

(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Interest rate swaps for cash flow hedging	91,792	214,756	163,044	469,592
Interest rate swaps for fair value hedging	0	1,318	25,503	26,821
Cross currency swaps for cash flow hedging	8,595	30,064	3,970	42,629
Forwards on stocks for cash flow hedging	4	28	0	32
Total	**100,391**	**246,166**	**192,517**	**539,074**

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

	31 Dec 2014			31 Dec 2013		
(CZKm)	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
Floating cash flows from cash flow hedging derivatives	(387)	(1,681)	(1,566)	(467)	(2,235)	(2,072)

The Bank treats as hedges only those contracts for which it is able to demonstrate that all criteria set out in IAS 39 for recognising the transactions as hedges have been met.

During 2014, the Bank recorded the following hedges:

1. Interest rate risk hedging:
   a. The fair values of long-term loans provided and of investments into long-term government securities classified into the *'Available-for-sale financial assets'* portfolio are hedged by interest rate swaps and cross currency swaps, respectively;
   b. The fair values of issued long-term mortgage bonds classified into the *'Securities issued'* portfolio are hedged by interest rate swaps;
   c. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients with variable interest rates are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Statement of Income on an ongoing basis);
   d. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and short-term liabilities to clients are hedged by a portfolio of interest rate swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Statement of Income on an ongoing basis).

2. Foreign exchange risk hedging:
   a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Bank. The hedging instrument consists of foreign currency assets (e.g. securities) or foreign currency liabilities (client deposits), respectively;
   b. The Bank hedges the fair value of a deferred tax asset, the amount of which is derived from a foreign currency asset and is therefore dependent on the foreign exchange rate developments and selected foreign currency liabilities (e.g. short-term client liabilities).

3. Share price risk hedging:
   a. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Société Générale S.A. share price. The risk of change in the Société Générale S.A. share price is hedged at the Société Générale level. Hedging instruments are forwards on stocks.
   b. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Bank hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.

4. Hedging of an investment in a foreign subsidiary:
   a. The foreign exchange risk associated with investments in subsidiaries including foreign exchange risk arising from prospective cash flows (received dividends) is hedged by selected foreign currency liabilities (e.g. short-term client liabilities).

The Bank does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

Further information on hedges is provided in Notes 3, 5 and 7 to these Financial Statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the estimated economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the *'Undefined'* category.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	126,081	0	0	0	26,148	**152,229**
Financial assets at fair value through profit or loss	3,656	8,284	5,947	2,326	23,654	**43,867**
Positive fair values of hedging financial derivatives	0	0	0	0	28,453	**28,453**
Available-for-sale financial assets	0	4,840	9,705	20,007	0	**34,552**
Assets held for sale	0	0	0	0	0	**0**
Amounts due from banks	44,708	6,534	2,072	924	0	**54,238**
Loans and advances to customers, net	207,655	68,487	159,712	13,326	0	**449,180**
Held-to-maturity investments	0	2,857	20,981	38,276	0	**62,114**
Current tax assets	0	0	0	0	130	**130**
Deferred tax assets	0	0	0	0	61	**61**
Prepayments, accrued income and other assets	0	0	0	0	2,741	**2,741**
Investments in subsidiaries and associates	0	0	0	0	26,717	**26,717**
Intangible assets	0	0	0	0	3,337	**3,337**
Tangible assets	0	0	0	0	5,147	**5,147**
Total assets	**382,100**	**91,002**	**198,417**	**74,859**	**116,388**	**862,766**
Liabilities						
Amounts due to central banks	2	0	0	0	0	**2**
Financial liabilities through profit or loss	1,992	0	0	0	23,425	**25,417**
Negative fair values of hedging financial derivatives	0	0	0	0	13,592	**13,592**
Amounts due to banks	48,472	5,961	346	0	0	**54,779**
Amounts due to customers	59,061	15,149	3,549	0	523,653	**601,412**
Securities issued	610	11,334	17,989	25,388	0	**55,321**
Current tax liabilities	0	0	0	0	65	**65**
Deferred tax liabilities	0	0	0	0	4,552	**4,552**
Accruals and other liabilities	0	0	0	0	10,657	**10,657**
Provisions	0	0	0	0	1,335	**1,335**
Total liabilities	**110,137**	**32,444**	**21,884**	**25,388**	**577,279**	**767,132**
Statement of Financial Position interest rate sensitivity gap as of 31 December 2014	**271,963**	**58,558**	**176,533**	**49,471**	**(460,891)**	**95,634**
Derivatives*	452,949	353,921	301,488	349,369	0	**1,457,727**
Total off-balance sheet assets	**452,949**	**353,921**	**301,488**	**349,369**	**0**	**1,457,727**
Derivatives*	785,600	331,017	263,319	80,339	0	**1,460,275**
Undrawn portion of loans**	(4,310)	(3,081)	6,271	1,120	0	**0**
Undrawn portion of revolving loans**	(320)	320	0	0	0	**0**
Total off-balance sheet liabilities	**780,970**	**328,256**	**269,590**	**81,459**	**0**	**1,460,275**
Net off-balance sheet interest rate sensitivity gap as of 31 December 2014	**(328,021)**	**25,665**	**31,898**	**267,910**	**0**	**(2,548)**
Cumulative interest rate sensitivity gap as of 31 December 2014	**(56,058)**	**28,165**	**236,596**	**553,977**	**93,086**	**x**

* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
** Undrawn loans and revolving loans are reported on a net basis, that is, the 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	5,318	0	0	0	38,513	**43,831**
Financial assets at fair value through profit or loss	5,529	10,412	3,374	1,463	17,340	**38,118**
Positive fair values of hedging financial derivatives	0	0	0	0	18,235	**18,235**
Available-for-sale financial assets	3,007	5,517	28,794	56,237	0	**93,555**
Assets held for sale	0	0	0	0	6	**6**
Amounts due from banks	113,410	962	4,516	773	0	**119,661**
Loans and advances to customers, net	203,618	68,594	138,963	12,120	0	**423,295**
Held-to-maturity investments	0	194	0	0	0	**194**
Current tax assets	0	0	0	0	0	**0**
Deferred tax assets	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	0	0	0	0	2,173	**2,173**
Investments in subsidiaries and associates	0	0	0	0	26,220	**26,220**
Intangible assets	0	0	0	0	3,363	**3,363**
Tangible assets	0	0	0	0	5,235	**5,235**
Total assets	**330,882**	**85,679**	**175,647**	**70,593**	**111,091**	**773,892**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	1,195	0	0	0	17,348	**18,543**
Negative fair values of hedging financial derivatives	0	0	0	0	11,248	**11,248**
Amounts due to banks	39,792	3,411	2,743	0	0	**45,946**
Amounts due to customers	65,139	19,279	1,300	0	466,535	**552,253**
Securities issued	1,910	0	22,442	23,793	0	**48,145**
Current tax liabilities	0	0	0	0	708	**708**
Deferred tax liabilities	0	0	0	0	2,703	**2,703**
Accruals and other liabilities	0	0	0	0	9,513	**9,513**
Provisions	0	0	0	0	1,130	**1,130**
Total liabilities	**108,037**	**22,690**	**26,485**	**23,793**	**509,185**	**690,190**
Statement of Financial Position interest rate sensitivity gap as of 31 December 2013	**222,845**	**62,989**	**149,162**	**46,800**	**(398,094)**	**83,702**
Derivatives*	450,084	289,287	282,269	254,364	0	**1,276,004**
Total off-balance sheet assets	**450,084**	**289,287**	**282,269**	**254,364**	**0**	**1,276,004**
Derivatives*	551,670	275,484	303,467	147,946	0	**1,278,567**
Undrawn portion of loans**	(4,596)	(1,820)	6,003	413	0	**0**
Undrawn portion of revolving loans**	(336)	(8)	195	149	0	**0**
Total off-balance sheet liabilities	**546,738**	**273,656**	**309,665**	**148,508**	**0**	**1,278,567**
Net off-balance sheet interest rate sensitivity gap as of 31 December 2013	**(96,654)**	**15,631**	**(27,396)**	**105,856**	**0**	**(2,563)**
Cumulative interest rate sensitivity gap as of 31 December 2013	**126,191**	**204,811**	**326,577**	**479,233**	**81,139**	**x**

* Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

** Undrawn loans and revolving loans are reported on a net basis, that is, the 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 of 31 December 2014 and 2013 were as follow:

	31 Dec 2014			31 Dec 2013		
	CZK	**USD**	**EUR**	**CZK**	**USD**	**EUR**
Assets						
Cash and current balances with central banks	0.05%	x	x	0.02%	x	x
Treasury bills	0.08%	x	x	0.15%	x	x
Amounts due from banks	0.23%	0.28%	0.51%	0.15%	0.19%	0.65%
Loans and advances to customers	2.89%	1.96%	1.90%	3.25%	1.99%	2.24%
Interest earning securities	1.55%	0.62%	1.53%	2.19%	3.69%	3.06%
Total assets	**1.62%**	**1.27%**	**1.39%**	2.00%	1.29%	1.65%
Total interest earning assets	**1.90%**	**1.27%**	**1.42%**	2.33%	1.35%	1.98%
Liabilities						
Amounts due to central banks and banks	0.01%	0.27%	0.52%	0.08%	0.23%	0.96%
Amounts due to customers	0.10%	0.06%	0.11%	0.21%	0.09%	0.08%
Debt securities	2.25%	x	0.00%	3.23%	x	0.00%
Total liabilities	**0.28%**	**0.08%**	**0.23%**	0.28%	0.11%	0.39%
Total interest bearing liabilities	**0.29%**	**0.09%**	**0.25%**	0.36%	0.11%	0.41%
Off-balance sheet assets						
Derivatives (interest rate swaps, options, etc.)	1.28%	2.42%	1.01%	1.51%	2.26%	1.21%
Undrawn portion of loans	2.27%	2.97%	1.99%	2.98%	2.30%	2.42%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.72%	x	0.89%
Total off-balance sheet assets	**1.50%**	**2.42%**	**1.02%**	1.74%	2.25%	1.22%
Off-balance sheet liabilities						
Derivatives (interest rate swaps, options, etc.)	0.95%	2.15%	1.02%	1.17%	2.01%	1.25%
Undrawn portion of loans	2.27%	2.97%	1.99%	2.98%	2.30%	2.42%
Undrawn portion of revolving loans	5.72%	x	0.89%	5.72%	x	0.89%
Total off-balance sheet liabilities	**1.18%**	**2.15%**	**1.02%**	1.42%	2.01%	1.26%

Note: The above table sets out the average interest rates for December 2014 and 2013 calculated as a weighted average for each asset and liability category.

The 2W REPO rate announced by the CNB remained at the level of 0.05% throughout 2014. Czech crown money market rates (PRIBOR) declined by as much as 0.09% (12M). The market spreads decreased by as much as 0.04% (6M) during 2014 and stagnated on the level of 15–36 basis points (1D–1Y). Interest rates in the derivatives market decreased by 15 to 121 basis points (2–10Y).

Euro money market rates decreased during 2014 by 0.20% (1M) to 0.30% (O/N), and derivative market rates decreased by 24 to 134 basis points (2–10Y).

Dollar money market rates increased during 2014 by as much as 0.05% (12M), and derivative market rates changed by -79 (10Y) to 40 basis points (2–3Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

	31 Dec 2014				31 Dec 2013			
(CZKm)	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and current balances with central banks	0	126,081	26,148	**152,229**	0	5,318	38,513	43,831
Financial assets at fair value through profit or loss	16,245	2,520	25,102	**43,867**	17,058	3,340	17,720	38,118
Positive fair values of hedging financial derivatives	0	0	28,453	**28,453**	0	0	18,235	18,235
Available-for-sale financial assets	19,458	15,092	2	**34,552**	78,939	14,614	2	93,555
Amounts due from banks	6,328	47,900	10	**54,238**	4,588	115,060	13	119,661
Loans and advances to customers	265,422	179,597	4,161	**449,180**	240,639	178,946	3,710	423,295
Held-to-maturity investments	62,114	0	0	**62,114**	194	0	0	194
Liabilities								
Amounts due to central banks	2	0	0	**2**	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	25,417	**25,417**	0	0	18,543	18,543
Negative fair values of hedging financial derivatives	0	0	13,592	**13,592**	0	0	11,248	11,248
Amounts due to banks	8,399	46,196	184	**54,779**	12,774	33,019	153	45,946
Amounts due to customers	488	593,537*	7,387	**601,412**	1,599	541,642*	9,012	552,253
Securities issued	25,016	30,305	0	**55,321**	18,134	30,011	0	48,145

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding one year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Bank is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The table below provides a breakdown of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	24,653	0	0	0	0	127,576	**152,229**
Financial assets at fair value through profit or loss	277	1,950	7,161	6,693	2,683	25,103	**43,867**
Positive fair values of hedging financial derivatives	0	0	0	0	0	28,453	**28,453**
Available-for-sale financial assets	0	98	4,867	9,252	17,867	2,468	**34,552**
Assets held for sale	0	0	0	0	0	0	**0**
Amounts due from banks	5,469	30,616	4,943	3,639	2,553	7,018	**54,238**
Loans and advances to customers	5,747	57,310	55,005	127,472	187,679	15,967	**449,180**
Held-to-maturity investments	0	172	3,906	20,455	37,581	0	**62,114**
Current tax assets	0	0	130	0	0	0	**130**
Deferred tax assets	0	0	0	0	0	61	**61**
Prepayments, accrued income and other assets	59	1	0	0	0	2,681	**2,741**
Investments in subsidiaries and associates	0	0	0	0	0	26,717	**26,717**
Intangible assets	0	0	0	0	0	3,337	**3,337**
Tangible assets	0	0	0	0	0	5,147	**5,147**
Total assets	**36,205**	**90,147**	**76,012**	**167,511**	**248,363**	**244,528**	**862,766**
Liabilities							
Amounts due to central banks	2	0	0	0	0	0	**2**
Financial liabilities at fair value through profit or loss	1,992	0	0	0	0	23,425	**25,417**
Negative fair values of hedging financial derivatives	0	0	0	0	0	13,592	**13,592**
Amounts due to banks	33,374	6,670	1,716	7,232	5,787	0	**54,779**
Amounts due to customers	547,419	31,906	16,749	5,275	63	0	**601,412**
Securities issued	0	201	12,152	5,177	37,719	72	**55,321**
Current tax liabilities	0	65	0	0	0	0	**65**
Deferred tax liabilities	0	0	0	0	0	4,552	**4,552**
Accruals and other liabilities	10,079	216	0	0	0	362	**10,657**
Provisions	7	179	237	229	2	681	**1,335**
Equity	0	0	0	0	0	95,634	**95,634**
Total liabilities	**592,873**	**39,237**	**30,854**	**17,913**	**43,571**	**138,318**	**862,766**
Statement of Financial Position liquidity gap as of 31 Dec 2014	**(556,668)**	**50,910**	**45,158**	**149,598**	**204,792**	**106,210**	**0**
Off-balance sheet assets*	67,716	142,216	82,591	121,726	55,162	0	**469,411**
Off-balance sheet liabilities*	72,117	165,234	130,794	154,336	59,599	12,790	**594,870**
Net off-balance sheet liquidity gap as of 31 Dec 2014	**(4,401)**	**(23,018)**	**(48,203)**	**(32,610)**	**(4,437)**	**(12,790)**	**(125,459)**

* 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	36,706	0	0	0	0	7,125	**43,831**
Financial assets at fair value through profit or loss	0	2,270	9,649	4,998	3,480	17,721	**38,118**
Positive fair values of hedging financial derivatives	0	0	0	0	0	18,235	**18,235**
Available-for-sale financial assets	0	3,300	6,538	26,817	50,819	6,081	**93,555**
Assets held for sale	0	0	6	0	0	0	**6**
Amounts due from banks	32,452	71,475	232	5,518	2,238	7,746	**119,661**
Loans and advances to customers	4,682	56,837	49,117	120,154	177,173	15,332	**423,295**
Held-to-maturity investments	0	0	194	0	0	0	**194**
Current tax assets	0	0	0	0	0	0	**0**
Deferred tax assets	0	0	0	0	0	6	**6**
Prepayments, accrued income and other assets	64	1	0	0	0	2,108	**2,173**
Investments in subsidiaries and associates	0	0	0	0	0	26,220	**26,220**
Intangible assets	0	0	0	0	0	3,363	**3,363**
Tangible assets	0	0	0	0	0	5,235	**5,235**
Total assets	**73,904**	**133,883**	**65,736**	**157,487**	**233,710**	**109,172**	**773,892**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss	1,195	0	0	0	0	17,348	**18,543**
Negative fair values of hedging financial derivatives	0	0	0	0	0	11,248	**11,248**
Amounts due to banks	23,319	8,587	966	7,544	5,530	0	**45,946**
Amounts due to customers	499,464	28,321	22,382	2,019	67	0	**552,253**
Securities issued	0	119	279	15,542	32,205	0	**48,145**
Current tax liabilities	0	8	700	0	0	0	**708**
Deferred tax liabilities	0	0	0	0	0	2,703	**2,703**
Accruals and other liabilities	8,950	198	0	0	0	365	**9,513**
Provisions	111	123	181	128	4	583	**1,130**
Equity	0	0	0	0	0	83,702	**83,702**
Total liabilities	**533,040**	**37,356**	**24,508**	**25,233**	**37,806**	**115,949**	**773,892**
Statement of Financial Position liquidity gap as of 31 Dec 2013	**(459,136)**	**96,527**	**41,228**	**132,254**	**195,904**	**(6,777)**	**0**
Off-balance sheet assets*	27,294	127,241	97,686	111,507	47,514	0	**411,242**
Off-balance sheet liabilities*	32,585	148,313	153,384	147,150	51,592	14,131	**547,155**
Net off-balance sheet liquidity gap as of 31 Dec 2013	**(5,291)**	**(21,072)**	**(55,698)**	**(35,643)**	**(4,078)**	**(14,131)**	**(135,913)**

* 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 of 31 December 2014.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	2	0	0	0	0	0	**2**
Financial liabilities at fair value through profit or loss (except derivatives)	1,992	0	0	0	0	0	**1,992**
Amounts due to banks	33,401	6,760	1,735	7,393	5,829	0	**55,118**
Amounts due to customers	547,515	32,122	16,830	5,735	63	0	**602,265**
Securities issued	81	374	13,590	9,411	39,999	72	**63,527**
Current tax liabilities	0	65	0	0	0	0	**65**
Deferred tax liabilities	0	0	0	0	0	4,552	**4,552**
Accruals and other liabilities	10,079	216	0	0	0	362	**10,657**
Provisions	7	179	237	229	2	681	**1,335**
Total non-derivative financial liabilities	**593,077**	**39,716**	**32,392**	**22,768**	**45,893**	**5,667**	**739,513**
Other loans commitment granted	2,731	14,933	29,872	13,247	1,409	12,712	**74,904**
Guarantee commitments granted	1,793	8,152	18,636	17,092	2,875	78	**48,626**
Total contingent liabilities	**4,524**	**23,085**	**48,508**	**30,339**	**4,284**	**12,790**	**123,530**

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 of 31 December 2013.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss (except derivatives)	1,195	0	0	0	0	0	**1,195**
Amounts due to banks	23,333	8,595	986	7,629	5,553	0	**46,096**
Amounts due to customers	499,566	28,589	22,516	2,685	67	0	**553,423**
Securities issued	224	290	1,729	20,085	34,321	0	**56,649**
Current tax liabilities	0	8	700	0	0	0	**708**
Deferred tax liabilities	0	0	0	0	0	2,703	**2,703**
Accruals and other liabilities	8,950	198	0	0	0	365	**9,513**
Provisions	111	123	181	128	4	583	**1,130**
Total non-derivative financial liabilities	**533,380**	**37,803**	**26,112**	**30,527**	**39,945**	**3,651**	**671,418**
Other loans commitment granted	3,337	8,994	37,224	13,889	1,278	13,876	**78,598**
Guarantee commitments granted	1,866	11,799	18,033	19,992	2,809	255	**54,754**
Total contingent liabilities	**5,203**	**20,793**	**55,257**	**33,881**	**4,087**	**14,131**	**133,352**

(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	150,360	1,356	239	274	**152,229**
Financial assets at fair value through profit or loss	36,553	6,480	764	70	**43,867**
Positive fair values of hedging financial derivatives	25,656	2,472	325	0	**28,453**
Available-for-sale financial assets	26,027	8,523	2	0	**34,552**
Assets held for sale	0	0	0	0	**0**
Amounts due from banks	29,867	20,336	3,859	176	**54,238**
Loans and advances to customers	360,903	79,842	8,068	367	**449,180**
Held-to-maturity investments	48,747	12,768	599	0	**62,114**
Current tax assets	130	0	0	0	**130**
Deferred tax assets	0	61	0	0	**61**
Prepayments, accrued income and other assets	2,440	284	15	2	**2,741**
Investments in subsidiaries and associates	23,403	3,314	0	0	**26,717**
Intangible assets	3,337	0	0	0	**3,337**
Tangible assets	5,142	5	0	0	**5,147**
Total assets	**712,565**	**135,441**	**13,871**	**889**	**862,766**
Liabilities					
Amounts due to central banks	2	0	0	0	**2**
Financial liabilities at fair value through profit or loss	21,499	3,147	734	37	**25,417**
Negative fair values of hedging financial derivatives	11,147	2,412	33	0	**13,592**
Amounts due to banks	25,545	27,719	1,470	45	**54,779**
Amounts due to customers	515,975	72,963	9,837	2,637	**601,412**
Securities issued	55,321	0	0	0	**55,321**
Current tax liabilities	0	65	0	0	**65**
Deferred tax liabilities	4,552	0	0	0	**4,552**
Accruals and other liabilities	8,058	2,007	507	85	**10,657**
Provisions	952	312	53	18	**1,335**
Equity	94,931	683	20	0	**95,634**
Total liabilities	**737,982**	**109,308**	**12,654**	**2,822**	**862,766**
Net FX position as of 31 December 2014	**(25,417)**	**26,133**	**1,217**	**(1,933)**	**0**
Off-balance sheet assets*	1,219,958	417,800	137,385	14,091	**1,789,234**
Off-balance sheet liabilities*	1,198,732	441,818	138,668	12,161	**1,791,379**
Net off-balance sheet FX position as of 31 December 2014	**21,226**	**(24,018)**	**(1,283)**	**1,930**	**(2,145)**
Total net FX position as of 31 December 2014	**(4,191)**	**2,115**	**(66)**	**(3)**	**(2,145)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot, fixed term and option transactions.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	42,086	1,280	220	245	**43,831**
Financial assets at fair value through profit or loss	34,522	3,359	162	75	**38,118**
Positive fair values of hedging financial derivatives	16,848	1,172	215	0	**18,235**
Available-for-sale financial assets	69,222	23,319	1,014	0	**93,555**
Assets held for sale	6	0	0	0	**6**
Amounts due from banks	94,570	17,737	6,093	1,261	**119,661**
Loans and advances to customers	338,430	77,228	7,298	339	**423,295**
Held-to-maturity investments	0	194	0	0	**194**
Current tax assets	0	0	0	0	**0**
Deferred tax assets	0	6	0	0	**6**
Prepayments, accrued income and other assets	2,021	120	21	11	**2,173**
Investments in subsidiaries and associates	22,824	3,396	0	0	**26,220**
Intangible assets	3,363	0	0	0	**3,363**
Tangible assets	5,228	7	0	0	**5,235**
Total assets	**629,120**	**127,818**	**15,023**	**1,931**	**773,892**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	16,946	1,397	147	53	**18,543**
Negative fair values of hedging financial derivatives	9,692	1,439	117	0	**11,248**
Amounts due to banks	14,308	30,028	1,581	29	**45,946**
Amounts due to customers	477,249	63,867	8,554	2,583	**552,253**
Securities issued	48,145	0	0	0	**48,145**
Current tax liabilities	700	8	0	0	**708**
Deferred tax liabilities	2,703	0	0	0	**2,703**
Accruals and other liabilities	8,022	1,149	237	105	**9,513**
Provisions	852	215	46	17	**1,130**
Equity	83,712	(10)	0	0	**83,702**
Total liabilities	**662,330**	**98,093**	**10,682**	**2,787**	**773,892**
Net FX position as of 31 December 2013	**(33,210)**	**29,725**	**4,341**	**(856)**	**0**
Off-balance sheet assets*	1,099,580	366,628	81,636	13,172	**1,561,016**
Off-balance sheet liabilities*	1,070,250	394,846	86,154	12,198	**1,563,448**
Net off-balance sheet FX position as of 31 December 2013	**29,330**	**(28,218)**	**(4,518)**	**974**	**(2,432)**
Total net FX position as of 31 December 2013	**(3,880)**	**1,507**	**(177)**	**118**	**(2,432)**

* 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 used the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) or Scenario Analysis (SA), the Bank developed and deployed also a permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. Since 2013, the process of risk self assessment has been performed in close co-operation with the mapping of risks for the purposes of internal audit. This has resulted in increased effectiveness of both procedures while simultaneously reducing time demands on the Bank's management. The Bank is continuously developing all the aforementioned operational risk instruments and supporting continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Bank's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

(H) Legal risk

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

(I) Estimated fair value of assets and liabilities of the Bank

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

(a) Cash and current balances with central banks
The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Amounts due from banks
The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis. The fair value of a loss loan is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers
The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) Held-to-maturity investments
The fair value of the held-to-maturity portfolio is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.

(e) Amounts due to central banks, banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

(f) Securities issued

The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair value:

	31 Dec 2014		31 Dec 2013	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	152,229	152,229	43,831	43,831
Amounts due from banks	54,238	54,698	119,661	119,893
Loans and advances to customers	449,180	463,771	423,295	436,088
Held-to-maturity investments	62,114	65,541	194	198
Financial liabilities				
Amounts due to central banks	2	2	1	1
Amounts due to banks	54,779	54,798	45,946	45,938
Amounts due to customers	601,412	599,373	552,253	552,324
Securities issued	55,321	55,990	48,145	48,806

The hierarchy of fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair value:

	31 Dec 2014				31 Dec 2013			
(CZKm)	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	152,229	7,160	0	145,069	43,831	7,188	0	36,643
Amounts due from banks	54,698	0	0	54,698	119,893	0	0	119,893
Loans and advances to customers	463,771	0	0	463,771	436,088	0	0	436,088
Held-to-maturity investments	65,541	65,541	0	0	198	198	0	0
Financial liabilities								
Amounts due to central banks	2	0	0	2	1	0	0	1
Amounts due to banks	54,798	0	0	54,798	45,938	0	0	45,938
Amounts due to customers	599,373	0	0	599,373	552,324	0	0	552,324
Securities issued	55,990	0	0	55,990	48,806	0	0	48,806

(J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2014	Level 1	Level 2	Level 3	31 Dec 2013	Level 1	Level 2	Level 3
Financial assets								
Financial assets at fair value through profit or loss								
– Emission allowances	1,443	1,443	0	0	381	381	0	0
– Debt securities	18,765	11,558	7,207	0	20,397	6,599	13,798	0
– Derivatives	23,659	15	23,644	0	17,340	222	17,118	0
Financial assets at fair value through profit or loss	**43,867**	**13,016**	**30,851**	**0**	38,118	7,202	30,916	0
Positive fair value of hedging financial derivatives	**28,453**	**0**	**28,453**	**0**	18,235	0	18,235	0
Available-for-sale financial assets								
– Shares and participation certificates	2	0	0	2	2	0	0	2
– Debt securities	34,550	17,288	17,262	0	93,553	74,202	19,351	0
Available-for-sale financial assets	**34,552**	**17,288**	**17,262**	**2**	93,555	74,202	19,351	2
Financial assets at fair value	**106,872**	**30,304**	**76,566**	**2**	149,908	81,404	68,502	2
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– Sold securities	1,992	1,992	0	0	1,195	1,195	0	0
– Derivatives	23,425	238	23,187	0	17,348	95	17,253	
Financial liabilities at fair value through profit or loss	**25,417**	**2,230**	**23,187**	**0**	18,543	1,290	17,253	0
Negative fair value of hedging financial derivatives	**13,592**	**0**	**13,592**	**0**	11,248	0	11,248	0
Financial liabilities at fair value	**39,009**	**2,230**	**36,779**	**0**	29,791	1,290	28,501	0

Financial assets at fair value – Level 3:

	2014		2013	
(CZKm)	Available-for-sale financial assets	Total	Available-for-sale financial assets	Total
Balance as of 1 January	**2**	**2**	2	2
Comprehensive income/(loss)				
– in the Statement of Income	0	0	0	0
– in Other Comprehensive Income	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Transfer from Level 1	0	0	0	0
Balance as of 31 December	**2**	**2**	2	2

Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows which was used for the original valuation.

42 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2014:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/ liabilities*	Gross amount of financial assets/ liabilities set off by financial liabilities/assets	Net amount of financial assets/ liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	52,112	0	52,112	29,541	11,323	11,248
Negative fair value of derivatives	37,017	0	37,017	29,541	5,327	2,149

* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2013:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/ liabilities*	Gross amount of financial assets/ liabilities set off by financial liabilities/assets	Net amount of financial assets/ liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	35,575	0	35,575	21,613	5,897	8,065
Negative fair value of derivatives	28,596	0	28,596	21,613	6,763	220

* This item includes also counterparties with only positive or negative fair value of derivatives.

43 Assets under management

As of 31 December 2014, the Bank held client assets on its balance sheet in the amount of CZK 1,789 million (2013: CZK 1,513 million) and also managed assets in the amount of CZK 398,588 million (2013: CZK 313,845 million). Of this amount, CZK 48,832 million (2013: CZK 41,088 million) consisted of assets of Group companies.

Report on Relations among Related Entities for the year ended 31 December 2014

(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 Companies Register maintained at the Municipal Court in 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 entities (hereinafter called **"related entities"**) exist.

This Report on Relations was compiled in accordance with the provisions of Section 82 et seq. of Act No. 90/2012 Coll., on business corporations and co-operatives (the Act on Business Corporations) for the year ended 31 December 2014, that is, from 1 January 2014 to 31 December 2014 (hereinafter called the **"reporting period"**).

I. Introduction

Structure of relations between entities within the business group:

In the period from 1 January 2014 to 31 December 2014, 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"**). The structure of the relations between the members of the group is as follows:

Société Générale Group

Retail Banking France	International Retail Banking and Financial Services	Global Banking and Investment Services	Komerční banka Group
FRANCE			
▶ Compagnie Générale d'Affacturage 100% ▶ Généfim 100% ▶ Généfimmo Holding 100% ▶ Groupe Boursorama 79.5% ▶ Groupe Crédit du Nord 100% ▶ Groupe Franfinance 100% ▶ La Banque Postale Financement 35% ▶ Sogébail 65.1% ▶ Sogéfimur 100% ▶ Sogéfinancement 100% ▶ Sogelease France 100% ▶ Sogéprom 100% ▶ Soginfo 100% ▶ SG Capital Développement 100% ▶ SG capital partenaires 100% ▶ SG Services 100% ▶ SGPI Société Générale de Participations Industrielles 100%	▶ Banque Française Commerciale Océan Indien 50% ▶ CGL Group 99.9% ▶ Sogécap Group 100% ▶ Sogessur 100% ▶ SG de Banque aux Antilles 100% ▶ Temsys 100%	▶ Amundi Group 20% ▶ CALIF 100% ▶ SGSS France 100% ▶ Inter Europe Conseil (IEC) 100% ▶ SG Option Europe 100% ▶ Lyxor Asset Management 100% ▶ SG Securities (Paris) SAS 100% ▶ Lyxor International Asset Management 100% ▶ Newedge Group SA 100% ▶ Parel 100% ▶ Sogefinerg 100%	

Société Générale Group				
Retail Banking France	International Retail Banking and Financial Services	Global Banking and Investment Services	Komerční banka Group	
EUROPE				
			Companies with KB's qualified interest	**Companies controlled by KB**
▶ SG Factoring SPA Italy 100%	▶ Bank Republic Georgia 93.6% ▶ Komercni Banka a.s. (KB) (CZ) 60.35% ▶ Banka Société Générale Albania 88.6% ▶ BRD-SG Groupe Romania 60.2% ▶ Mobiasbanca Moldavia 87.9% ▶ Eurobank Poland 99.5% ▶ Ohridska Banka Macedonia 70% ▶ Groupe ALD International 100% ▶ Fiditalia Group Spa Italy 100% ▶ SKB Banka Slovenia 99.7% ▶ GEFA Group Germany 100% ▶ SG Banka SRBIJA Serbia 100% ▶ Groupe Rosbank Russia 99.4% ▶ SG Express Bank Bulgaria 99.7% ▶ Groupe SG Consumer Finance 100% ▶ SG-Splitska Bank Croatia 100% ▶ Groupe SG Equipment Finance 100% ▶ Société Générale Banka Monténégro 90.5% ▶ Hanseatic Bank Germany 75%	▶ Newedge UK Financial Ltd Londres United Kingdom 100% ▶ SGSS Deutschland Kapitalanlagegesellschaft GmbH Germany 100% ▶ Lyxor Asset Management UK LLP 100% ▶ SG Hambros Bank Limited United Kingdom 100% ▶ SGSS Spa Italy 100% ▶ Société Générale Bank & Trust Luxembourg 100% ▶ SG Immobel Belgium 100% ▶ SG Investments (U.K.) United Kingdom Ltd 100% ▶ Société Générale* branches in: Frankfurt Germany, London United Kingdom, Madrid Spain, Zurich Switzerland, Milan Italy ▶ SG Issuer 100% ▶ SG Private Banking (Belgium) 100% ▶ SG Private Banking (Monaco) 100% ▶ SG Private Banking (Suisse SA) 100% ▶ SGCMF 100%	▶ Komerční pojišťovna, a.s. 48.99% ▶ CBCB – Czech Banking Credit Bureau, a.s. 20%	▶ Modrá pyramida stavební spořitelna, a.s. 100% ▶ Bastion European Investments S.A. 99.98% ▶ Protos, uzavřený investiční fond, a.s. 89.64% ▶ KB Penzijní společnost, a.s. 100% ▶ Factoring KB, a.s. 100% ▶ ESSOX s.r.o. 50.9% ▶ SG Equipment Finance Czech Republic s.r.o. 50.1% ▶ KB Real Estate, s.r.o. 100% ▶ VN 42, s.r.o. 100% ▶ NP 33, s.r.o. 100% ▶ Cataps, s.r.o. 100%

Société Générale Group

Retail Banking France	International Retail Banking and Financial Services	Global Banking and Investment Services	Komerční banka Group
	AFRICA – MIDDLE EAST		
	▶ BFV SG Madagascar 70% ▶ SG Congo 87% ▶ Eqdom Marocco 53.7% ▶ SG Marocaine de Banques 57% ▶ La Marocaine Vie 100% ▶ SG Tchad 66.1% ▶ SG Algérie 100% ▶ Société Générale Burkina Faso 52.6% ▶ SG de Banques au Bénin 82.9% ▶ Société Générale Ghana Limited 52.2% ▶ SG de Banques au Cameroun 58.1% ▶ Société Générale Mauritanie 91.0% ▶ SG de Banques en Côte d'Ivoire 73.2% ▶ Union Internationale de Banque Tunisia 57.2% ▶ SG de Banque en Guinée 57.9% ▶ SG de Banque en Guinée Equatoriale 57.2% ▶ SG de Banque au Liban 16.8% ▶ SG de Banques au Sénégal 64.8%		
	AMERICA		
	▶ Banco Cacique S.A. Brazil 100% ▶ Banco Pecunia Brazil 100% ▶ SG Equipment Finance SA Arrendamento Mercantil Brazil 100% ▶ SG Equipment Finance USA 100%	▶ Banco SG Brazil SA United States 100% ▶ SG Americas Securities, LLC 100% ▶ Lyxor Asset Management Inc 100% ▶ Newedge USA, LLC 100% ▶ Société Générale* branches in: New York United States. Montreal Canada ▶ Newedge Canada Inc 100% ▶ SG Americas, Inc. USA 100%	

Société Générale Group			
Retail Banking France	International Retail Banking and Financial Services	Global Banking and Investment Services	Komerční banka Group
	ASIA + AUSTRALIA		
	▶ Banque de Polynésie 72.1% ▶ Société Générale Calédonienne de Banque 90.1% ▶ SG Leasing and Renting Co Ltd China 100% ▶ SG Mumbai India 100%	▶ Fortune SG Fund 49.0% ▶ SG Securities Korea Co., Korea 100% ▶ Lyxor Asset Management Japan Co Ltd 100% ▶ SG Securities North Pacific, Tokyo Branch Japan 100% ▶ Newedge Japan Inc 100% ▶ Newedge Group Hong Kong Branch 100% ▶ Société Générale (China) Ltd 100% ▶ SG Asia Ltd (Hong-Kong) 100% ▶ SG Securities Asia International Holdings Ltd (Hong-Kong) 100% ▶ Société Générale branches in: Singapore, Tokyo Japan, Seoul South Korea, Hong Kong, Taipei Taïwan	

During the course of the 2014 reporting period, KB had business relationships 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	House 41 Tower Hill 99132, EC3N 4SG, 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, 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 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 in voting rights (%)
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 Automotive, s.r.o.	Panónska cesta 47, Bratislava 851 01, Slovakia	100.00
ALD EESTI AS	Akadeemia tee15A, 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., v likvidácii	Cukrová 14, Bratislava 811 08, Slovakia	100.00
European Fund Services, SA	17 Rue Antoine Jans L-1820 Luxembourg, Luxembourg	100.00
Franfinance, SA	57-59 Avenue De Chatou, 92500 Rueil Malmaison, France	100.00
HITEX Hungary	1062 Budapest, Vaci út 1-3, Hungary	100.00
Inter Europe Conseil	29, Boulevard Haussmann,75009, 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
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 Financial Limited	10 Bishops Square, London, E1 6EG, UK	100.00
PEMA Polska sp. z.o.o.	Ul. Krzysztofa Kolumba 3, 62-052 Komorniki, 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 (SGAM AI)	170 Place Henri Renault, 92400 Courbevoie, France	100.00
SG Cyprus Ltd.	20 Agias Paraskevis, 2002 Strovolos, 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 Boulevard 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 Geneva 11, Switzerland	100.00
SG Private Banking Belgique	Rue des Colonies, 11,1000 Brussels, Belgium	100.00
SG Securities (London) Ltd.	Exchange House – 12 Primrose Street, London EC2A 2EG, UK	100.00
SG Securities Services	Via Benigno Crespi 19A, Milano, Italy	100.00
SG Sucursal en Espana	Genova 26, Madrid, Spain	100.00
SG Option Europe	17 Cours Valmy, La Defense Cedex, Paris, France	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.	Pietermaai 15, Willemstad, Netherlands Antilles	100.00
SGBT Luxembourg	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100.00

Company	Registered office	SG's share in voting rights (%)
SG Montenegro	Bulevar Revolucije br. 17, Podgorica 81000, Montenegro	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

c) KB's subsidiaries

Company	Registered office	SG's share in voting rights (%)
ESSOX s.r.o.	Senovážné náměstí 231/7, České Budějovice, 370 21, Czech Republic	100.00
Factoring KB, a.s.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, 155 00, Czech Republic	100.00
Modrá pyramida stavební spořitelna, a.s.	Bělehradská 128, House No. 222, Prague 2, 120 21, Czech Republic	100.00
KB Penzijní společnost, a.s.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, 155 00, Czech Republic	100.00
Protos, uzavřený investiční fond, a.s.	Dlouhá 34, House No. 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.	náměstí Junkových 2772/1, Prague 5 – Stodůlky, 155 00, Czech Republic	100.00
KB Real Estate, s.r.o.	Václavské náměstí 625/42, Postal Code 110 00, Prague 1, Nové Město, Czech Republic	100.00
VN 42, s.r.o.	Václavské náměstí 796/42, Postal Code 110 00, Prague 1, Nové Město, Czech Republic	100.00
NP 33, s.r.o.	Václavské náměstí 796/42, Postal Code 110 00, Prague 1, Nové Město, Czech Republic	100.00

Role of the Company within the Group:
Komerční banka is the parent company of KB Group and is part of the international financial group of Société Générale (hereinafter called "SG Group"). As a part of SG Group, Komerční banka provides universal banking services on the territory of the Czech Republic and is a universal bank offering a wide range of services in the area of retail, corporate and investment banking. KB Group companies offer additional specialised services, including pension savings and building society schemes, leasing, factoring, consumer lending and insurance. As a part of KB Group, the Bank provides certain subsidiaries with trademark licences. Komerční banka provides certain IT services and advisory in the area of human resources, compliance and operational risks within SG Group. The products of KB's subsidiaries are sold using Komerční banka's sales network. KB provides banking services in Slovakia through its branch. Komerční banka offers some of its products using the network of Modrá pyramida stavební spořitelna, a.s.

As a part of its management and control system, KB receives data on the whole control and management system and also provides these data, including data on KB, to the company SG (the data include, inter alia, budgets, business plans, the business continuity plan and anti-money laundering measures).

KB participates in the creation of group policies on the territory of the Czech Republic.

Ways and means of control
Société Générale, as the majority shareholder, exerts its influence on the activity of the Company through the General Meeting. It has four representatives on the Bank's nine-member Supervisory Board and two representatives on the three-member Audit Committee. Three Société Générale employees are seconded to the Board of Directors of Komerční banka as members. Furthermore, based on a contract entered into by and between SG and KB, SG seconds its employees to certain positions. At this time, there are ten such employees within KB.

In accordance with Section 79 of the Corporations Act, SG is a controlling entity in respect to KB. Control is formally exercised by implementing SG's methodologies in KB's internal regulations, in particular in the area of risk management and capital adequacy. Furthermore, there is informal control in the form of consultancy on individual areas of KB's activity.

KB acts as controlling entity in relation to its subsidiaries. Control is formally exercised by implementing KB's methodologies in the subsidiaries' internal regulations; informal control takes the form of consultancy on individual areas of activity.

II. Relations within the Group

A. Important arrangements in effect during the reporting period at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity and relating to assets exceeding 10% of owners' equity

No such arrangements were in effect.

B. Overview of mutual contracts between the controlled entity and the controlling entity or between controlled entities

Banking transactions

During the reporting period, KB entered into the arrangements stated below with controlled entities that were subject to banking secrecy restrictions in the following areas:

Deposit arrangements
In the deposit segment, KB had entered into arrangements with 32 branches and subsidiaries of the SG Group as of the end of the reporting period. As of 31 December 2014, KB maintained a total of 60 accounts, of which 32 were loro accounts for branches and subsidiaries of the SG Group, 24 were current accounts and 4 were overdraft accounts opened for non-banking entities of the SG Group. The average monthly overdraft balance (borrowing) on loro accounts was CZK 3.54 million; the average monthly credit balance (deposit) was CZK 1,291.5 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 252.45 million; the average monthly overdraft balance on these accounts was CZK 103.98 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 0.61 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 4.18 million. For the year ended 31 December 2014, KB paid CZK 0.011 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 136.5 million; the average monthly overdraft balance on nostro accounts was CZK 113.5 million. Interest income on nostro accounts for the reporting period was CZK 0.152 million; interest expenses amounted to CZK 0.109 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 13.12 million; income fees (i.e. provided discounts from credit operations on nostro accounts) amounted to CZK 2.091 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 2.104 million. Interest expenses paid by KB on loro accounts amounted to CZK 5,000 and interest income totalled CZK 1.36 million in the reporting period.

One subsidiary held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 797.8 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 0.4 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, KB provided loans during 2014 to one SG Group subsidiary. These totalled 166 loans in the aggregate amount of CZK 3,647.6 million. The average monthly balance of the loans during the reporting period was CZK 3,287.8 million. The aggregate amount of interest income was CZK 63.6 million.

As of the end of the reporting period, KB had provided 1 entity from the SG Group with a confirmed export letter of credit in the aggregate amount of CZK 83.7 million. Three entities had been provided with bank guarantees (payment, non-payment) in the amount of CZK 259.8 million.

As of the end of the reporting period, KB had received guarantees from 3 SG Group entities as collateral for loans provided to clients in the aggregate amount of CZK 4,595.7 million. The aggregate amount of fees for guarantees received in the reporting period amounted to CZK 10.3 million.

Investment banking arrangements
In the investment banking segment, KB carried out transactions with 14 branches and subsidiaries from within the SG Group. The total number of transactions was 23,784 (2,569 on-balance sheet transactions and 21,215 off-balance sheet transactions) in the aggregate nominal amount of CZK 1,860,488.2 million. The income from the investment banking transactions amounted to CZK 26,354.9 million and the costs totalled CZK 29,935.4 million.

The aggregate nominal amount of on-balance sheet transactions was CZK 826,690.5 million and consisted of the following:

- depository transactions – a total of 2,022 transactions in the aggregate amount of CZK 775,666.4 million;
- securities held for trading – a total of 547 transactions in the aggregate amount of CZK 51,024.1 million.

The aggregate nominal amount of off-balance sheet transactions was CZK 1,033,797.7 million and consisted of the following:

- foreign currency transactions (spots, forwards, swaps) totalling 7,170 transactions in the aggregate nominal amount of CZK 564,437 million;
- interest rate derivative transactions (interest rate swaps and futures) totalling 812 transactions in the aggregate nominal amount of CZK 310,240.1 million;
- option transactions with currency instruments totalling 10,032 transactions in the aggregate nominal amount of CZK 120,846.2 million;
- commodity transactions were carried out only with SG Paris; KB executed 3,076 transactions in the aggregate amount of CZK 36,995 million;
- emission allowance transactions – KB executed a total of 123 transactions in the aggregate amount of CZK 1,515.3 million with SG Paris during the reporting period; and
- promise to accept a deposit totalling 2 transactions in the aggregate nominal amount of CZK 2,764.1 million.

All of the banking products were provided under standard terms and conditions, in accordance with KB's price list, and while 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 mutual contracts

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Distribution agreement	ALD Automotive s.r.o.	29 January 2003
Lease of non-residential premises – Ostrava	ALD Automotive s.r.o.	1 November 2003
Lease of non-residential premises	ALD Automotive s.r.o.	1 December 2003
Lease of non-residential premises	ALD Automotive s.r.o.	1 March 2004
Lease of non-residential premises – Brno	ALD Automotive s.r.o.	1 January 2010
Separate VoIP Agreement No. 1	ALD Automotive s.r.o.	3 August 2011
Network package	ALD Automotive s.r.o.	1 November 2012
Lease of non-residential premises – NP-HK	ALD Automotive s.r.o.	1 February 2013
Agreement for co-operation in the performance of the contract for employee group risk insurance	ALD Automotive s.r.o.	29 March 2013
Agreement – outsourcing of HR services	ALD Automotive s.r.o.	1 April 2013
Co-operation agreement	ALD Automotive s.r.o.	1 April 2013
Framework agreement for full-service leasing and finance leasing with subsequent purchase	ALD Automotive s.r.o.	22 May 2013
Postal service agreement	ALD Automotive s.r.o.	17 July 2014
Service contract – lease of a mailing machine	ALD Automotive s.r.o.	17 July 2014
Co-operation agreement for the purposes of KBSK Business Continuity Planning on ALD Bratislava premises	ALD Automotive s.r.o., organizačná zložka	28 March 2013
Operative leasing framework agreement	ALD Automotive s.r.o., organizačná zložka	18 June 2013
Individual Pricing Agreement	ALD Automotive s.r.o., organizačná zložka	24 March 2014
Custodian services agreement	B.R.D.	20 October 2011
Service level agreement	B.R.D.	20 October 2011
Non-disclosure agreement	ESSOX s.r.o.	21 May 2003
Service contract	ESSOX s.r.o.	21 September 2005
Lease of non-residential premises and payment of relating services	ESSOX s.r.o.	8 March 2006
Agreement for the provision of the PROFIBANKA smart card reader	ESSOX s.r.o.	26 June 2007
Mutual co-operation agreement + 1 amendment	ESSOX s.r.o.	1 August 2007
Co-operation agreement	ESSOX s.r.o.	17 September 2008
Co-branded cards distribution agreement + 1 amendment	ESSOX s.r.o.	16 January 2009

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Co-operation agreement + 1 amendment	ESSOX s.r.o.	20 October 2009
Service contract – outsourcing + 5 amendments	ESSOX s.r.o.	15 December 2009
Confidentiality agreement	ESSOX s.r.o.	10 May 2010
Confidentiality agreement	ESSOX s.r.o.	9 July 2010
Agreement on the organisation of periodic control + 1 amendment	ESSOX s.r.o.	28 February 2011
Personal data processing framework agreement	ESSOX s.r.o.	12 April 2011
Framework service agreement	ESSOX s.r.o.	26 April 2011
Separate agreement No. 1	ESSOX s.r.o.	30 June 2011
Contract for exchange of negative client information within KB/SG Financial Group in the Czech Republic	ESSOX s.r.o.	19 August 2011
Service contract – outsourcing (HR services)	ESSOX s.r.o.	21 December 2011
Service level agreement	ESSOX s.r.o.	26 March 2012
Co-operation Agreement	ESSOX s.r.o.	1 August 2012
Distribution Agreement for Product “Corporate Car Loans” + 1 amendment	ESSOX s.r.o.	1 August 2012
Agreement for co-operation in the performance of contract for employee group risk insurance No. 3280000000, in the wording of Amendment No. 1 dated 29 June 2012	ESSOX s.r.o.	22 August 2012
Co-branded cards co-operation agreement	ESSOX s.r.o.	28 December 2012
Agreement on framework insurance contract No. 7720802024	ESSOX s.r.o.	10 February 2014
Service Level Agreement	ESSOX s.r.o.	28 March 2014
Separate agreement No. 2 – Provision of technical infrastructure services, Service hosting	ESSOX s.r.o.	29 August 2014
Service Level Agreement	ESSOX s.r.o.	25 November 2014
Service level agreement	European Fund Services, SA	12 November 2008
License agreement	Factoring KB, a.s.	20 December 2004
Framework agreement for personal data processing	Factoring KB, a.s.	1 December 2008
Lease of non-residential premises, movable things and payment of relating services (3) + amendment (1)	Factoring KB, a.s.	8 June 2006 18 June 2008 5 January 2009 19 December 2011
Premium payment contract No. 7720352405	Factoring KB, a.s.	2 March 2009
Service contract – outsourcing (HR services)	Factoring KB, a.s.	4 January 2010
Co-operation agreement – jobs	Factoring KB, a.s.	28 April 2010
Mutual co-operation agreement + amendment (1)	Factoring KB, a.s.	1 August 2007 1 July 2010
Ancillary service contract – Profi Merlin	Factoring KB, a.s.	16 July 2010
Confidentiality agreement	Factoring KB, a.s.	9 August 2010
Framework service agreement	Factoring KB, a.s.	8 September 2010
Rules for co-operation between KB and members of the group in the field of sourcing and purchasing	Factoring KB, a.s.	4 October 2010
License agreement for use of database	Factoring KB, a.s.	1 April 2011
Agreement on the organisation of periodic control + amendment (1)	Factoring KB, a.s.	5 May 2011
Agreement for co-operation in the performance of contract for employee group risk insurance No. 3280000000, in the wording of Amendment No. 1 dated 29.6.2012	Factoring KB, a.s.	24 August 2012
Lease of non-residential premises, movable things and payment of relating services	Factoring KB, a.s.	30 August 2012
Separate agreement No. 1 (IT Process Procedure)	Factoring KB, a.s.	1 December 2012
Separate agreement No. 2 (IT Process Procedure)	Factoring KB, a.s.	1 December 2012
Separate agreement No. 3 (IT Process Procedure)	Factoring KB, a.s.	1 December 2012
Co-operation Agreement No. 0000020447/0000	Factoring KB, a.s.	31 December 2012
Separate agreement No. 4 (IT Process Procedure)	Factoring KB, a.s.	31 December 2012
Distribution agreement + amendment (1)	Factoring KB, a.s.	1 December 2008 10 January 2013
Agreement – services: data transfer – current accounts	Factoring KB, a.s.	1 August 2013

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement – outsourcing of HR services (excluding payroll) KB Agr. No. 20596/0000 + amendment (1)	Factoring KB, a.s.	1 January 2013 1 October 2013
Service contract	Factoring KB, a.s.	31 October 2013
Agreement relating to framework insurance contract No. 7720802024, Annex No. 7	Factoring KB, a.s.	10 February 2014
Framework agreement for the rental of employee-driven motor vehicles	Factoring KB, a.s.	22 September 2014
Service Level Agreement	Factoring KB, a.s.	26 November 2014
Parking place sublease agreement (3) + amendments (2)	Factoring KB, a.s.	28 August 2012 1 September 2012 1 January 2013 31 December 2013 31 December 2014
License agreement + amendment No. 1	KB Penzijní společnost, a.s.	20 December 2004 18 December 2014
Framework agreement for personal data processing	KB Penzijní společnost, a.s.	11 August 2006
Service contract (sharing data from subsidiaries) + Amendment No. 1 and 2	KB Penzijní společnost, a.s.	24 November 2006 28 August 2009 6 May 2010
Mutual co-operation agreement + Amendment No. 1	KB Penzijní společnost, a.s.	1 August 2007 1 July 2010
Agreement for Co-operation within the Group under S. 5a of Act No. 235/2004 Sb., the VAT Act + Amendments Nos. 1 and 2	KB Penzijní společnost, a.s.	19 November 2008 22 October 2009 6 August 2014
Service Level Agreement	KB Penzijní společnost, a.s.	31 December 2009
Agreement on KB Call Centre Services + Amendment No. 1	KB Penzijní společnost, a.s.	31 December 2009 31 December 2013
Service contract – outsourcing (HR services)	KB Penzijní společnost, a.s.	4 January 2010
Service contract – outsourcing + Amendment No. 1	KB Penzijní společnost, a.s.	9 January 2010 11 September 2013
Co-operation agreement – jobs	KB Penzijní společnost, a.s.	28 April 2010
Confidentiality agreement	KB Penzijní společnost, a.s.	9 July 2010
Rules for co-operation between KB and members of the group in the field of sourcing and purchasing	KB Penzijní společnost, a.s.	13 September 2010
IT service framework agreement	KB Penzijní společnost, a.s.	2 November 2010
Agreement on the Organisation of Periodic Control + Amendment No. 1	KB Penzijní společnost, a.s.	21 January 2011 30 December 2011
Notification service contract (Contract No. 1 relating to Framework Agreement)	KB Penzijní společnost, a.s.	10 June 2011
Compliance service contract	KB Penzijní společnost, a.s.	1 December 2011
Co-operation Agreement	KB Penzijní společnost, a.s.	10 August 2012
Sublease agreement (office space) + Amendment No. 1	KB Penzijní společnost, a.s.	10 August 2012 26 June 2014
Sublease agreement (parking places) + Amendment No. 1	KB Penzijní společnost, a.s.	10 August 2012 30 May 2014
Agreement for co-operation in the performance of the contract for employee group risk insurance	KB Penzijní společnost, a.s.	22 August 2012
Agreement – outsourcing of services (documentation processing)	KB Penzijní společnost, a.s.	25 September 2012
Technical Infrastructure service contract – Connectivity Services (Contract No. 2 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 December 2012
Technical Infrastructure service contract – Physical Hosting of Equipment (Contract No. 3 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 December 2012
Technical Infrastructure service contract – IT Infrastructure Hosting – VMWare (Contract No. 4 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 December 2012
Distribution Agreement for Products “Pension saving plans – pillar II” and “Supplementary pension saving plans with a state contribution – pillar III” + Amendment No. 1	KB Penzijní společnost, a.s.	21 December 2012 4 September 2013

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service contract for technical support – Voice over IP (Contract No. 5 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 December 2012
Agreement – outsourcing of HR services (excluding payroll)	KB Penzijní společnost, a.s.	1 January 2013
Agreement – outsourcing of services: operational risks	KB Penzijní společnost, a.s.	25 March 2013
Service contract + Amendment No. 1	KB Penzijní společnost, a.s.	21 May 2013 2 June 2014
Service contract for technical support – Fileshare (Contract No. 6 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 August 2013
Service contract for technical support – Smartphone (Contract No. 7 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 August 2013
Service contract for technical support – EUW (Contract No. 8 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 August 2013
Service contract for technical support – Service Desk (Contract No. 9 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 August 2013
Service contract for technical support – Email (Contract No. 10 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 August 2013
Confidentiality agreement	KB Penzijní společnost, a.s.	12 August 2013
Contract for issue of payment place mandate	KB Penzijní společnost, a.s.	1 October 2013
Contract for personal data processing (in connection with contract for issue of payment place mandate)	KB Penzijní společnost, a.s.	1 October 2013
Service contract – outsourcing – BI services	KB Penzijní společnost, a.s.	1 November 2013
Service contract for technical support – Service implementation (Contract No. 12 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 January 2014
Service contract for technical support – Identity and Access (Contract No. 13 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 January 2014
Agreement to enter into Framework insurance agreement	KB Penzijní společnost, a.s.	11 February 2014
Parking place sublease agreement – City West – B1 + Amendment No. 1	KB Penzijní společnost, a.s.	30 May 2014 31 December 2014
Service contract for technical support – Platform hosting (Contract No. 11 relating to Framework Agreement)	KB Penzijní společnost, a.s.	17 June 2014
Framework agreement for the rental of employee-driven motor vehicles	KB Penzijní společnost, a.s.	22 September 2014
Backup site provision agreement	KB Penzijní společnost, a.s.	10 November 2014
Service contract – outsourcing	KB Real Estate, s.r.o.	8 July 2011
Co-operation agreement in connection with use of real estate	KB Real Estate, s.r.o.	1 September 2012
Real estate lease agreement + 4 amendments	KB Real Estate, s.r.o.	4 June 2012 26 September 2012 14 December 2013 31 December 2014
Co-operation agreement	Komerční pojišťovna, a.s.	27 December 2000
Contract for individual group risk insurance including 8 amendments	Komerční pojišťovna, a.s.	9 January 2003
Framework agreement – Spektrum insurance program in the wording of Amendments Nos. 1, 2, 3 and 4	Komerční pojišťovna, a.s.	28 January 2003
Lease of non-residential premises, movable things and payment of relating services – Jihlava, including 8 amendments	Komerční pojišťovna, a.s.	1 February 2003
PATRON collective insurance contract in the wording of Amendment No. 1	Komerční pojišťovna, a.s.	25 August 2003
Contract for collective insurance of credit cards of Komerční banka, a.s., including 2 amendments	Komerční pojišťovna, a.s.	1 November 2004
License agreement	Komerční pojišťovna, a.s.	20 December 2004
Lease of non-residential premises, movable things and payment of relating services – Brno	Komerční pojišťovna, a.s.	1 June 2005
Co-operation agreement	Komerční pojišťovna, a.s.	22 September 2005
Framework agreement for personal data processing	Komerční pojišťovna, a.s.	24 March 2006
Contract for the mediation of “VITAL AND VITAL PLUS PROGRAM” including 2 amendments	Komerční pojišťovna, a.s.	25 April 2006
Contract for the mediation of “VITAL GRANT” including 2 amendments	Komerční pojišťovna, a.s.	25 April 2006

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for the mediation of MERLIN and PROFI MERLIN including Amendment No. 1	Komerční pojišťovna, a.s.	25 April 2006
Contract for the mediation of PATRON and PROFI PATRON	Komerční pojišťovna, a.s.	25 April 2006
Contract for the mediation of RISK LIFE FOR MORTGAGE LOANS including Amendments Nos. 1, 2, 3, and 4	Komerční pojišťovna, a.s.	25 April 2006
Contract for the mediation of TRAVEL INSURANCE including Amendments Nos. 1, 2 and 3	Komerční pojišťovna, a.s.	14 June 2006
Contract for the mediation of sale of VITAL INVEST including 20 amendments	Komerční pojišťovna, a.s.	4 October 2006
TVIS/STVIS and spot transactions contract	Komerční pojišťovna, a.s.	7 December 2006
Contract for the mediation of the sale of VITAL PREMIUM including 7 amendments	Komerční pojišťovna, a.s.	18 December 2006
Contract for acceptance of payment cards – internet including Amendment No. 1	Komerční pojišťovna, a.s.	29 March 2007
Agreement for the provision of a smart card reader	Komerční pojišťovna, a.s.	2 April 2007
Agreement to send electronic notifications of clearing	Komerční pojišťovna, a.s.	5 June 2007
Framework distribution contract including Amendment No. 1	Komerční pojišťovna, a.s.	22 June 2007
Lease of non-residential premises, movable things and payment of relating services – Ostrava	Komerční pojišťovna, a.s.	1 July 2007
Contract for the collective insurance of consumer loans including 5 amendments	Komerční pojišťovna, a.s.	1 August 2007
Mutual co-operation agreement including Amendment No. 1	Komerční pojišťovna, a.s.	1 August 2007
Contract for collective insurance of credit cards of Komerční banka, a.s., including 2 amendments	Komerční pojišťovna, a.s.	1 November 2007
Agreement to terminate Contract of Access to KB's voice information system	Komerční pojišťovna, a.s.	10 April 2008
Fees clearing agreement	Komerční pojišťovna, a.s.	1 October 2008
Contract of co-operation in the group VAT registration including 2 amendments	Komerční pojišťovna, a.s.	21 November 2008
Contract for collective insurance of payment cards including 6 amendments	Komerční pojišťovna, a.s.	26 January 2009
Contract for the mediation of VITAL PLUS including Amendments Nos. 1, 2, 3 and 4	Komerční pojišťovna, a.s.	14 April 2009
Contract for collective insurance of corporate lending including 1 amendment	Komerční pojišťovna, a.s.	5 May 2009
Contract for collective insurance of MERLIN and PROFI MERLIN including 6 amendments	Komerční pojišťovna, a.s.	5 October 2009
Contract for collective insurance of goods purchasing relating to credit cards	Komerční pojišťovna, a.s.	29 October 2009
Agreement to co-operate in portfolio valuation	Komerční pojišťovna, a.s.	9 December 2009
Contract for acceptance of electronic payments made through Moje platba	Komerční pojišťovna, a.s.	14 December 2009
Call centre service contract	Komerční pojišťovna, a.s.	31 December 2009
Service contract – outsourcing	Komerční pojišťovna, a.s.	21 April 2010
Confidentiality agreement	Komerční pojišťovna, a.s.	9 July 2010
IT service framework agreement including separate agreements 1, 2, 3, 4 and including 1 amendment	Komerční pojišťovna, a.s.	14 September 2010
Accession to the rules of co-operation between KB and Group members in the area of sourcing and acquisitions	Komerční pojišťovna, a.s.	15 October 2010
Contract for collective insurance of the "A KARTA" and "LADY" credit cards	Komerční pojišťovna, a.s.	1 April 2011
Lease of non-residential premises, movable things and payment of relating services – Hradec Králové	Komerční pojišťovna, a.s.	1 September 2011
Product development co-operation agreement	Komerční pojišťovna, a.s.	21 December 2012
Minutes of the agreement to cut the commission for the Vital extraordinary insurance premium	Komerční pojišťovna, a.s.	2 May 2013
Contract for the provision of BI consulting including amendment	Komerční pojišťovna, a.s.	26 June 2013
Contract for optional collective insurance of consumer loans	Komerční pojišťovna, a.s.	28 August 2013
Contract for the mediation of the "MOJE JISTOTA" risk life insurance including 1 amendment	Komerční pojišťovna, a.s.	27 September 2013
Minutes of the agreement to cut the basis for the calculation of the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	5 February 2014
Minutes of the agreement not to provide a discount on administrative costs on survival of Vital Plus contracts	Komerční pojišťovna, a.s.	7 April 2014
Minutes of the agreement to cut the basis for the calculation of the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	25 July 2014
Separate agreement No. 6 – Provision of WEBEX technical infrastructure services	Komerční pojišťovna, a.s.	1 August 2014

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement to open and maintain Merlin and Profi Merlin AIA4 current account	Komerční pojišťovna, a.s.	25 August 2014
Agreement to cancel Lease of non-residential premises, movable things and payment of relating services – Pilsen	Komerční pojišťovna, a.s.	4 February 2013
Contract for the mediation of VITAL including Amendments Nos. 1, 2, 3 and 4	Komerční pojišťovna, a.s.	25 April 2006
VITAL INVEST FORTE custody agreement	Komerční pojišťovna, a.s.	6 October 2009
Framework agreement to arrange term deposits with individual interest rates	Komerční pojišťovna, a.s.	22 October 2009
Custody agreement including Amendment No. 1	Komerční pojišťovna, a.s.	7 July 2010
Contract for collective insurance of “Moje pojištění plateb” including 1 amendment	Komerční pojišťovna, a.s.	7 December 2011
Separate agreement No. 1–4 relating to Framework IT services agreement	Komerční pojišťovna, a.s.	22 February 2012
Agreement for co-operation in the performance of the contract for employee group risk insurance	Komerční pojišťovna, a.s.	29 February 2012
Contract for employee group risk insurance including Amendments Nos. 1, 2, 3, 4 and 5	Komerční pojišťovna, a.s.	29 February 2012
Minutes of the agreement to cut the basis for the calculation of the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	29 June 2012
Individual pricing agreement	Komerční pojišťovna, a.s.	30 August 2012
Separate agreement No. 5 – Provision of notification services	Komerční pojišťovna, a.s.	7 September 2012
Contract for the mediation of Vital Premium in EUR including 1 amendment	Komerční pojišťovna, a.s.	23 November 2012
Pension insurance distribution contract	Komerční pojišťovna, a.s.	2 January 2013
Framework agreement to indemnify clients	Komerční pojišťovna, a.s.	21 January 2013
Contract for collective insurance of corporate cards and golden corporate cards	Komerční pojišťovna, a.s.	21 January 2013
Minutes of the agreement to cut commission (Brouček, Vital Invest, Vital Premium and Vital)	Komerční pojišťovna, a.s.	1 January 2014
Contract for collective insurance of “Profi pojištění plateb” including 1 amendment	Komerční pojišťovna, a.s.	7 December 2011
Group insurance agreement on work-related accident and occupational disease insurance for members of board of directors and administrators of the financial group of KB/SG	Komerční pojišťovna, a.s.	23 December 2014
Commitment Letter – Certus and Certus 2 in CZK	Komerční pojišťovna, a.s., SG	14 January 2013
Distribution Agreement including Amendments Nos. 1 and 2	LIAM	15 February 2008
Contact Bank Agreement including Amendments Nos. 1 and 2	LIAM	25 February 2008
Agreement to reinvoice KB’s costs to MPSS – training of certified sales agents – pension reform – an agreement to reinvoice KB’s PR costs to MPSS (training)	Modrá pyramida stavební spořitelna, a.s.	11 invoices for 2014 – 101 trained financial advisors
Agreement to reinvoice KB’s PR costs to MPSS (training)	Modrá pyramida stavební spořitelna, a.s.	98 invoices for 2014
Separate distribution agreement (Perfektní půjčka) dated 1 April 2011, including Amendments No. 1, No. 2 and No. 3 arrangement of a loan under the agreement	Modrá pyramida stavební spořitelna, a.s.	1 April 2011, Amendment No. 1 dated 31 January 2013, Amendment No. 2 dated 21 January 2014, Amendment No. 3 dated 29 May 2014
Framework contract for employee temporary assignment including Amendment No. 1; reimbursement of costs incurred in connection with employee temporary assignment	Modrá pyramida stavební spořitelna, a.s.	1 December 2006, Amendment No. 1 dated 31 July 2007
Co-operation agreement – Client scoring	Modrá pyramida stavební spořitelna, a.s.	31 August 2007
Outsourcing Agreement – treasury – provision of services	Modrá pyramida stavební spořitelna, a.s.	7 February 2008
Lease of non-residential premises and payment of relating services (Uherský Brod)	Modrá pyramida stavební spořitelna, a.s.	20 November 2008
Confidentiality agreement relating to the “Agreement to use HP OV SD licenses”; preserving confidential character of information	Modrá pyramida stavební spořitelna, a.s.	9 February 2009
Framework agreement for personal data processing (KB as administrator, MPSS as processor) dated 30 May 2009	Modrá pyramida stavební spořitelna, a.s.	30 May 2009
Agreement on KB’s call centre services dated 1 January 2010, including the reinvoicing of KB’s PR costs to MPSS in 2014; provision of KB’s call centre services to MPSS, including the reinvoicing of KB’s marketing costs to MPSS in 2014	Modrá pyramida stavební spořitelna, a.s.	1 January 2010

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement to reimburse costs of licence use (replacing the oral agreement on the reimbursement of costs for the use of licences from 2007) including Amendment No. 1; payment of the price of the service and provision of co-operation	Modrá pyramida stavební spořitelna, a.s.	28 May 2009, Amendment No. 1 dated 11 February 2010
Confidentiality agreement relating to "Outsourcing services agreement (HR services)"	Modrá pyramida stavební spořitelna, a.s.	27 April 2010
Mutual co-operation agreement dated 31 August 2007 including Amendment No. 1; benefits for MPSS employees within KB	Modrá pyramida stavební spořitelna, a.s.	1 August 2007, Amendment No. 1 dated 1 July 2010
Agreement on custody services provided by KB dated 2010; service under the contract	Modrá pyramida stavební spořitelna, a.s.	7 July 2010
Confidentiality agreement relating to "Contract of co-operation in the field of sourcing and purchasing" – HR services; preserving confidential character of information	Modrá pyramida stavební spořitelna, a.s.	9 July 2010
Accession to the rules of co-operation between KB and Group members in the area of sourcing and acquisitions dated 16 September 2010; provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	16 September 2010
Agreement to use KB's sales network (including Amendments Nos. 1, 2, 3 and 4) brokerage of deals – saving plans for housing loans	Modrá pyramida stavební spořitelna, a.s.	1 March 2005, Amendment No. 1 dated 12 June 2009, Amendment No. 2 dated 30 September 2010, Amendment No. 3 dated 1 October 2011, Amendment No. 4 dated 30 April 2014
Framework agreement for personal data processing (MPSS as administrator, KB as processor) dated 30 May 2009 including Amendment No. 1 dated 12 September 2011; personal data processing	Modrá pyramida stavební spořitelna, a.s.	30 May 2009, Amendment No. 1 dated 12 September 2011
Contract for the placement of a cash dispenser No. 2004/2011/9526 – services of a cash dispenser at the address Kounicova 29, Brno	Modrá pyramida stavební spořitelna, a.s.	03 October 2011
Framework service agreement dated 24 January 2011, including Amendment No. 1 – provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	24 January 2011, Amendment No. 1 dated 11 October 2011
Service contract – outsourcing – data warehouse – dated 30 June 2011, including Amendments Nos. 1, 2, 3 and 4 – provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	30 June 2011, Amendment No. 1 dated 15 October 2011, Amendment No. 2 dated 13 May 2013, Amendment No. 3 dated 31 December 2013, Amendment No. 4 dated 3 November 2014
Separate agreement No. 2 dated 31 October 2011 according to framework contract for IT delivery dated 24 January 2011; provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	31 October 2011
Separate agreement No. 3 dated 31 October 2011 according to framework contract for IT delivery dated 24 January 2011; provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	31 October 2011
Service contract – outsourcing; an assessment of risks linked with real estate collateral for MPSS in KB's system – provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	20 December 2011
Contract for the placement of a cash dispenser No. 20076/0000 – services of a cash dispenser at the address Jindřišská ul. 17, House No. 889, Prague 1	Modrá pyramida stavební spořitelna, a.s.	27 February 2012
Contract for the placement of a cash dispenser No. 20162/0000 – services of a cash dispenser at the address Bělehradská 128, House No. 222, Prague 2	Modrá pyramida stavební spořitelna, a.s.	2 April 2012

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate distribution agreement (MůjÚčet, G2.2) dated 1 April 2011, including Amendments Nos. 1, 2, 3, 4 and 5 – mediation of service under the contract	Modrá pyramida stavební spořitelna, a.s.	1 April 2011, Amendment No. 1 dated 27 April 2012, Amendment No. 2 dated 31 January 2013, Amendment No. 3 dated 29 May 2014, Amendment No. 4 dated 29 May 2014, Amendment No. 5 dated 21 October 2014
Separate agreement No. 5 relating to Framework agreement to deliver IT services – notification services (SMS gateway)	Modrá pyramida stavební spořitelna, a.s.	29 June 2012
Separate agreement No. 4 dated 31 October 2011 according to Framework IT delivery agreement dated 24 January 2011, including Amendment No. 1 dated 5 October 2012 – provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	31 October 2011, Amendment No. 1 dated 5 October 2012
Co-operation agreement, including the reinvoicing of the marketing costs between KB and MPSS; mutual co-operation in specified areas, including the reinvoicing of the marketing costs between KB and MPSS	Modrá pyramida stavební spořitelna, a.s.	31 January 2013
Separate distribution agreement (A card, Lady card, VISA Elektron credit card) dated 1 April 2011, including Amendments No. 1, 2 and 3 – mediation of service under the contract	Modrá pyramida stavební spořitelna, a.s.	1 April 2011, Amendment No. 1 dated 31 January 2013, Amendment No. 2 dated 21 January 2014, Amendment No. 3 dated 29 May 2014
Memorandum of Understanding, including SLA – MPSS details of co-operation in credit risk management, replaced by Agreement of Risk Management Co-operation dated 31 March 2014 and individual SLAs (8 pieces)	Modrá pyramida stavební spořitelna, a.s.	11 October 2012, SLA-MPSS retail dated 19 April 2013
Lease agreement – parking places in a garage, including Amendment No. 1 – provision of lease services	Modrá pyramida stavební spořitelna, a.s.	31 January 2007, Amendment No. 1 dated 30 April 2013
Distribution agreement for “Loans for housing co-operatives and associations of apartment owners” – mediation of service under the contract	Modrá pyramida stavební spořitelna, a.s.	1 November 2013
Framework agreement to provide preferential conditions to the employees of KB and of the companies of the Societé Génerale Group holding MPSS saving plans for housing loans; provision of preferential conditions to the employees of KB and of the companies of the Societé Génerale Group holding MPSS saving plans for housing loans	Modrá pyramida stavební spořitelna, a.s.	1 November 2013
Service contract – outsourcing (HR services), including Amendment No. 1 – provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	30 November 2010, Amendment No. 1 dated 20 December 2013
Separate agreement No. 1 dated 31 November 2011 according to Framework IT delivery agreement dated 24 January 2011, including Amendment No. 1 dated 5 October 2012 and Amendment No. 2 dated 1 January 2014 – provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	31 November 2011, Amendment No. 1 dated 5 October 2012, Amendment No. 2 dated 1 January 2014
Agreement on framework insurance contract No. 7720802024; an insurance contract made by KB (policy holder) for the benefit of MPSS – deals with property risks	Modrá pyramida stavební spořitelna, a.s.	10 February 2014
SLA – Agreement on Scoring Model for HC and AO	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
SLA – Agreement on Delivery of Inputs for Real Estate Revaluation	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
Agreement on KBxMPSS Risk Management Co-operation and the relating SLA (8 pieces)	Modrá pyramida stavební spořitelna, a.s.	31 March 2014

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
SLA – Agreement on Co-operation on IRBA Implementation in MPSS	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
SLA – Agreement on Data administration and delivery for Collected Reporting	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
SLA – Agreement on Exchange of Fraud Lists	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
SLA – Agreement on Risk services remuneration – prices for individual risk management co-operation services	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
SLA – Agreement on Scoring Calculator for MPSS	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
SLA – Agreement on Pre-Scoring of Clients and Negative Information Delivery pre-Scoring	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
Agreement under Section 221 of the Labour Code on granting leave to employees moving between jobs – compensation for the financial costs incurred by KB, a.s., in connection with the leave to which the employee became entitled thanks to his employment with MPSS, a.s., and which will be taken in his subsequent employment with KB, a.s.	Modrá pyramida stavební spořitelna, a.s.	23 June 2014
Agreement for Co-operation within the Group under S. 5a of Act No. 235/2004 Sb., the VAT Act as Amended including Amendment No. 1 and Amendment No. 2 – co-operation and reimbursement of the cost of representation	Modrá pyramida stavební spořitelna, a.s.	27 November 2008, Amendment No. 1 dated 22 October 2009, Amendment No. 2 dated 22 August 2014
Agreement to enter into an agreement for the lease of non-residential premises and for the payment of relating services – Agreement to enter into an agreement for the lease of non-residential premises and for the payment of relating services for the backup site at Prague 5 – Stodůlky	Modrá pyramida stavební spořitelna, a.s.	1 September 2014
Lease of non-residential premises and payment of relating services – lease of non-residential premises and payment of relating services for the backup site at Prague 5 – Stodůlky	Modrá pyramida stavební spořitelna, a.s.	1 September 2014
Lease of non-residential premises and payment of relating services (Antala Staška 2059, Prague 4); lease of non-residential premises	Modrá pyramida stavební spořitelna, a.s.	1 December 2014
Agreement – Services PD/LGD Models for RWA calculation; provision of service – models for the provision of loans by MPSS	Modrá pyramida stavební spořitelna, a.s.	18 December 2014
Distribution agreement concerning the “Consumer loan” product; mediation of service under the contract	Modrá pyramida stavební spořitelna, a.s.	18 December 2014
Service Level Agreement – co-operation in the area of accounting and reporting, accounting and additional information for the needs of the consolidated statements of KB Group	Modrá pyramida stavební spořitelna, a.s.	10 December 2014 with effect from 1 January 2015
Separate distribution agreement (mortgage loan; pre-mortgage loan dated 9 September 2011, including Amendment No. 1 and Amendment No. 2; arrangement of loans under the contract	Modrá pyramida stavební spořitelna, a.s.	9 September 2011, Amendment No. 1 dated 19 December 2011, Amendment No. 2 dated 31 January 2013
Confidentiality Agreement – quadrilateral agreement	Modrá pyramida stavební spořitelna, a.s.; BHW Holding AG; Česká pojišťovna a.s.	11 August 2006
Agreement on the Organisation of Periodic Control dated 17 December 2010, including Amendment No. 1 – provision of services under the contract	Modrá pyramida stavební spořitelna, a.s., SG	17 December 2010, Amendment No. 1 dated 17 October 2012
Agreement for co-operation in the performance of the contract for employee group risk insurance No. 3280000000, in the wording of Amendment No. 1 dated 29 June 2012, HR-Accession to an insurance contract made between Komerční pojišťovna, a.s. (insurer) and Modrá pyramida stavební spořitelna, a.s. (policy holder). The insurance also applies to MPSS employees with effect from 1 February 2012. The insured risk covers death of employee.	Modrá pyramida stavební spořitelna, a.s.; Komerční pojišťovna, a.s.	10 September 2012
Global Terms of Business	Newedge Group (Frankfurt branch)	31 December 2010
Transfer of Futures Accounts	Newedge Group (UK branch)	26 June 2009
Novation agreement	Newedge UK Financial Limited	7 October 2011
Newedge EMIR Reporting Services Agreement	Newedge UK Financial Limited	3 February 2014
Agreement + Application for Client + Representation Letter	NewEdge; Eurex Clearing AG (Frankfurt)	26 June 2014

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service contract	NP 33, s.r.o.	18 November 2013
Contract for the transfer of technical improvement	NP 33, s.r.o.	18 November 2013
Agreement relating to Framework insurance contract No. 7720802024	NP 33, s.r.o.	30 December 2013
VAT Group Co-operation Agreement	NP 33, s.r.o.	8 June 2014
Contract for the transfer of technical improvement	NP 33, s.r.o.	18 December 2014
Lease of non-residential premises and payment of relating services + Amendment No. 1	NP 33, s.r.o.	18 November 2013 30 December 2014
Agreement for the assignment of rights and transfer of obligations	NP 33, s.r.o.; AV Service s.r.o.	18 November 2013
2 x Agreement for the assignment of rights and transfer of obligations	NP 33, s.r.o., Elekom a.s.	18 November 2013
Custody agreement	Protos, uzavřený investiční fond, a.s.	9 July 2007
2 x Depository agreement	Protos, uzavřený investiční fond, a.s.	17 October 2014
Service level agreement	Protos, uzavřený investiční fond, a.s.	8 December 2014
Agreement on opening and maintaining correspondent account of non-resident-credit institution in the currency of the Russian Federation, including Amendments 1 and 2.	Rosbank	15 June 2011
Convention – Contract for the purchase of EMC Documentum licences	SG	28 December 2012
Notification of termination of agreement on the organisation of periodic control	SG, ALD (UAB)	9 September 2013
Lease of non-residential premises and payment of relating services – Prague	SG Equipment Finance Czech Republic s.r.o.	30 October 2013
Agreement on reimbursement of cost	SG Equipment Finance Czech Republic s.r.o.	13 December 2013
Contract for TVIS/STVIS and spot transactions	SG Equipment Finance Czech Republic s.r.o.	29 July 2005
Mutual co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	1 August 2007
Lease of non-residential premises and payment of relating services – Ústí n/L	SG Equipment Finance Czech Republic s.r.o.	20 November 2007
Lease of non-residential premises and payment of relating services – Pilsen	SG Equipment Finance Czech Republic s.r.o.	19 January 2009
Framework agreement for personal data processing made between KB and SGEF	SG Equipment Finance Czech Republic s.r.o.	13 March 2009
Agreement on KB Call Centre Services	SG Equipment Finance Czech Republic s.r.o.	13 December 2009
Co-operation agreement – jobs	SG Equipment Finance Czech Republic s.r.o.	14 April 2010
Co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	30 June 2010
Confidentiality agreement	SG Equipment Finance Czech Republic s.r.o.	9 July 2010
Rules for co-operation between KB and members of the group in the field of sourcing and purchasing	SG Equipment Finance Czech Republic s.r.o.	20 September 2010
Confidentiality agreement	SG Equipment Finance Czech Republic s.r.o.	1 December 2010
Framework service agreement	SG Equipment Finance Czech Republic s.r.o.	14 December 2010
Agreement on the Organisation of Periodic Control + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	26 January 2011
Lease of non-residential premises and payment of relating services – Č. Budějovice	SG Equipment Finance Czech Republic s.r.o.	27 May 2011
Service contract – outsourcing (HR services)	SG Equipment Finance Czech Republic s.r.o.	15 June 2011
Co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	3 August 2011
Separate agreement No. 1 – Provision of technical infrastructure services, Connectivity Services	SG Equipment Finance Czech Republic s.r.o.	1 June 2012

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate agreement No. 2 – Provision of technical infrastructure services, Physical hosting of equipment	SG Equipment Finance Czech Republic s.r.o.	1 June 2012
Separate agreement No. 3 – Provision of technical infrastructure services, IT Infrastructure hosting (VMWare)	SG Equipment Finance Czech Republic s.r.o.	1 June 2012
Agreement for co-operation in the performance of the contract for employee group risk insurance	SG Equipment Finance Czech Republic s.r.o.	20 August 2012
Lease of non-residential premises and payment of relating services – Bratislava + 2 amendments	SG Equipment Finance Czech Republic s.r.o.	30 October 2012
Parking place sublease agreement – Prague	SG Equipment Finance Czech Republic s.r.o.	30 October 2013
Service contract	SG Equipment Finance Czech Republic s.r.o.	30 October 2013
Agreement on Framework insurance contract No. 7720802024	SG Equipment Finance Czech Republic s.r.o.	10 February 2014
Service level agreement	SG Equipment Finance Czech Republic s.r.o.	1 September 2014
Framework agreement for the rental of employee-driven motor vehicles	SG Equipment Finance Czech Republic s.r.o.	21 October 2014
Lease of non-residential premises and payment of relating services – Ostrava	SG Equipment Finance Czech Republic s.r.o.	1 December 2014
Commercial Framework agreement	SG Equipment Finance Czech Republic s.r.o., ECS	21 December 2005
Cross-Border RMB Agent Settlement Agreement (nostro account maintenance)	SG China	5 July 2011
Memorandum of understanding – Alpha platform (software development)	SG London	2013
Terms for Business for Treasury Equities, Derivatives and Fixed Income Products	SG London	4 October 2007
Appointment of process agent for Komerční banka, a.s	SG London	6 May 2011
Appointment of process agent for Komerční banka, a.s	SG London	14 September 2011
Appointment of process agent for Komerční banka, a.s.	SG London	23 January 2013
Service Level Agreement	SG New York	16 September 2003
Appointment of process agent for Komerční banka, a.s. including an Amendment	SG New York	12 January 2004
Contract for employee temporary assignment	SG Paris	29 June 2012
Analytical coverage of the Czech Republic for the needs of SG Research	SG Paris	2002
Exchange of opinions on the macroeconomic situation	SG Paris	2002
Exchange of opinions on economic development with SG analysts	SG Paris	2002
Exchange of opinions on financial markets development	SG Paris	2002
Contract for communication services	SG Paris	2002
Inserting KB's analytical reports, economic and strategic analyses in SG's database of analyses	SG Paris	2002
6 x Sending reports to SG Economic, Equity and Strategy Research	SG Paris	2002
Revisions of written texts	SG Paris	2012
Sending reports to SG Thematic Research	SG Paris	2012
ISDA Master Agreement (mediation of transactions with all types of derivatives on the interbank market)	SG Paris	23 November 1998
Global Master Repurchase Agreement (framework agreement to close repo and buy-sell-back deals)	SG Paris	4 November 2003
Contract on the provisions of services relating to securities (custody contract)	SG Paris	19 July 2004
ACPI – subscribing product of SG at KB's points of sale	SG Paris	20 September 2004
General terms and conditions for use of e-confirmation	SG Paris	10 February 2005
Sub-Custodian Service Agreement	SG Paris	16 September 2005
EUR Account Maintenance & Clearing Service Agreement (conditions to make transactions on a nostro account maintained by KB)	SG Paris	7 November 2005
Sub-Custodian Service Agreement	SG Paris	12 December 2005

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
CZK Account Maintenance & Clearing Service Agreement (conditions to make transactions on a loro account maintained by KB)	SG Paris	13 January 2006
SG Paris – Sure Pay (arrangement of payments to selected countries of the Eurozone)	SG Paris	8 February 2006
SG Paris – Pay Away (arrangement of foreign payments to African countries)	SG Paris	10 February 2006
SG Paris – Word Pay (payments processing and transfer)	SG Paris	14 June 2006
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	22 December 2006
Agreement relating to the use of the Glass Custody Tool	SG Paris	8 March 2007
Custodian Services Agreement	SG Paris	8 March 2007
2 x Agreement relating to structured products	SG Paris	18 May 2007
Agreement relating to structured products	SG Paris	19 July 2007
ISDA Master Agreement (emission allowances)	SG Paris	23 November 2007
Agreement (internal audit co-operation)	SG Paris	31 March 2008
Co-operation agreement (framework conditions of co-operation in the area of internal audit)	SG Paris	31 March 2008
Service Level Agreement (mediation of foreign payments)	SG Paris	3 April 2008
Agreement relating to structured products	SG Paris	21 July 2008
Cash letter service agreement (issuing and processing of cheques)	SG Paris	11 August 2008
Contingency agreement (dealing with SWIFT issues)	SG Paris	17 October 2008
Service Level Agreement (expats benefits administration)	SG Paris	1 January 2010
Recruitment Hosted Solution (recruitment process support)	SG Paris	2 February 2009
2 x Agreement relating to structured products	SG Paris	6 April 2009
Agreement relating to structured products	SG Paris	29 July 2009
Credit Support Annex (financial collateral transactions)	SG Paris	27 October 2009
Agreement relating to structured products	SG Paris	5 November 2009
Custody contract	SG Paris	19 February 2010
Hosting contract	SG Paris	3 March 2010
Bi-Lateral Agreement on Rate Reset and Payment Notices Produced by the ISDA Operations Committee	SG Paris	6 October 2010
Contract concerning T3C competence centres	SG Paris	22 February 2011
Protection agreement (personal data protection)	SG Paris	21 May 2011
2 x Contract for employee temporary assignment including 3 amendments	SG Paris	31 August 2012
Access To The SWIFTNet Network And Related Services Master Agreement	SG Paris	19 September 2012
Co-operation Transfer Pricing Agreement for Advisory Business	SG Paris	1 January 2013
Agreement to extend employee temporary assignment	SG Paris	4 March 2013
Amendment to Service Level Agreement (backup procedure conditions)	SG Paris	13 March 2013
Bankers Blanket Bond (banking risks insurance)	SG Paris	1 July 2013
Business Interruption (business interruption insurance)	SG Paris	1 July 2013
Directors & Officers Liability	SG Paris	1 July 2013
Professional Indemnity	SG Paris	1 July 2013
Amendment for incoming or outgoing XML SEPA Credit Transfer and SEPA Direct Debit messages – Euro Account Maintenance & Clearing Service Agreement	SG Paris	30 December 2013
Amendment for incoming or outgoing XML SCT (SEPA Credit Transfer) and SDD (SEPA Direct Debit) messages	SG Paris	13 January 2014
Service level agreement (Provision of services)	SG Paris	1 June 2014
Client Service Agreement – Regulatory Capital Calculation and allocation of operational risk	SG Paris	26 September 2014
Bankers Blanket Bond (banking risks insurance)	SG Paris	1 July 2014
Business Interruption (insurance of business interruption)	SG Paris	1 July 2014
Directors & Officers Liability	SG Paris	1 July 2014
Professional Indemnity	SG Paris	1 July 2014
Service Level Agreement (SGCIB Global Applications)	SG Paris	7 August 2014

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
SME eTrading – consultancy services	SG Paris	28 December 2014
Agreement on the organisation of periodic control including 1 amendment	SG Paris, ALD EESTI AS	7 June 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, ALD Automotive Hungary	28 February 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, ALD Automotive Polska	28 March 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, ALD Automotive s.r.o.	19 April 2011
Agreement on the organisation of periodic control including 1 amendment.	SG Paris, ALD (SIA)	23 May 2011
Agreement on the organisation of periodic control including 1 amendment.	SG Paris, ALD (UAB)	17 May 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, ESSOX SK s.r.o., v likvidácii	16 February 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, HITEX Hungary	22 February 2011
Agreement on the organisation of periodic control	SG Paris, Komerční pojišťovna, a.s.	24 June 2013
Agreement on the organisation of periodic control including 1 amendment	SG Paris, PEMA Polska	15 February 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, PEMA Praha, spol. s.r.o.	11 March 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, PEMA SLOVAKIA, spol. s.r.o.	11 March 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, SG Equipment Leasing Hungary	29 March 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, SG Equipment Leasing Polska	13 September 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, SG Vehicle Finance Hungary Plc.	29 March 2011
Agreement on the organisation of periodic control	SG Paris, SG Warsaw	30 December 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, SG Equipment Finance Hungary Plc.	29 March 2011
2 x Master co-operation agreement SG on transfer pricing including an amendment (provision of services pertaining to investment certificates and investment funds transactions)	SG Paris, SGBT Luxembourg	31 March 2010
Custody contract	SG Securities Services	8 March 2011
Custody Agreement	SG Splitska Banka	26 May 2010
Custody Agreement	SG Splitska Banka	28 May 2012
Service level agreement relating to the Custody agreement	SG Splitska Banka	27 November 2013
Custody Account Agreement	SG Warszawa	13 November 2009
Service Level Agreement (custody services)	SG Warszawa	13 November 2009
Brokerage Conformity Agreement	SGAM AI	10 July 2004
Introduction Broker Agreement (brokerage of SGAM funds purchase transactions)	SGAM AI	19 February 2007
EURO Medium Term Note Master Purchase Agreement (securities transactions)	SGAM Banque	13 July 2007
Novation Agreement (a modification of the terms and conditions for securities trading)	SGAM Banque	29 March 2010
ISDA Master Agreement (a framework agreement to make FX transactions)	SGBT Luxembourg	7 May 2010
Sub-Custody & Brokerage Service Agreement	SGBT Luxembourg	1 April 2011
Custody contract	SG Montenegro	2 December 2014
Accession to the rules of co-operation between KB and Group members in the area of sourcing and acquisitions	Sogeprom Česká republika s.r.o	2011
Confidentiality agreement	Sogeprom Česká republika s.r.o.	2011
Service contract	VN 42, s.r.o.	18 November 2013
Contract for the transfer of technical improvement	VN 42, s.r.o.	18 November 2013
Agreement on Framework insurance contract No. 7720802024	VN 42, s.r.o.	30 December 2013
VAT Group Co-operation Agreement	VN 42, s.r.o.	8 June 2014
Lease of non-residential premises and payment of relating services + 2 amendments	VN 42, s.r.o.	18 November 2013 14 December 2013 18 December 2014
Contract for the transfer of technical improvement	VN 42, s.r.o.	18 December 2014
6x Agreement for the assignment of rights and transfer of obligations	VN 42, s.r.o.; AV Service s.r.o.	18 November 2013
7x Agreement for the assignment of rights and transfer of obligations	VN 42, s.r.o.; Elekom a.s.	18 November 2013
Agreement for the assignment of rights and transfer of obligations	VN 42, s.r.o.; LEVEL Hlinsko, spol. s.r.o.	18 November 2013

C. Assessment of advantages and disadvantages arising from the relations within the Group and an assessment as to injury

Advantages and disadvantages arising from the relations within the Group

The SG Group is diversified and provides universal banking services. The entire Group takes advantage of mutual synergistic effects, including product pooling, a strong international brand and SG's know-how. KB, for example, uses SG's global network to provide Trade Finance Products while co-operating in the payment area and using SG's wide network. Thanks to the Group, it is possible for KB to use the global cash pooling network, offer transnational solutions in the cash management area and offer SG products. KB benefits from SG's global experience in the Global Finance Platform area. The advantages to the Company‘s integration into the SG Group contribute to the Company's positive financial results.

Assessment of injury

The Company's Board of Directors has reviewed all arrangements between the Company and the companies that were part of the Group during the 2014 reporting period and states that the Company incurred no injury as a result of any contracts, agreements or any other legal acts in effect or adopted by the Company or as a result of any other influence otherwise exerted in the reporting period.

In Prague on 27 February 2015

Albert Le Dirac'h
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

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 the Act No. 90/2012 Coll., on Business Corporations, and with the Bank's Articles of Association as approved by the General Meeting. 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.

The shareholder shall be entitled to a proportion of the Bank's profit approved for distribution to the Shareholders by the General Meeting (a dividend) taking into account the Bank's financial results and terms and conditions specified by the generally binding legal regulations and the payment of which was decided upon by the Board of Directors based on the fulfilment of the terms and conditions specified by the generally binding legal regulations.

In accordance with the Articles of Association, the right to a share in profit 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 which approved the share of the profit to be distributed among shareholders. The share in profit 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 claim a payment of the dividend shall lapse 3 years from the day when the shareholder learnt of the due date for the payment of the share in profit or when he could or should have learnt this, however, no later than within 10 years of the due 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.

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 the share in profit, please refer to the chapter Komerční banka share on the capital market.

Global depository receipts

Global depository receipts (GDRs) were issued for shares of Komerční banka administered by The Bank of New York ADR Department (that are held on its asset account at the Securities Centre). 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 2014 was 167,442.

Bonds

List of bonds issued by Komerční banka (as of 31 December 2014)

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pieces	Interest rate	Payout of interest
1.	HZL 2005/2015	CZ0002000565 [1]	2 August 2005	2 August 2015	5,200,000,000	520,000	3M PRIBID plus the lower of -0.10% or -10% of value of 3M PRIBID	quarterly
2.	HZL 2005/2015	CZ0002000664 [1]	21 October 2005	21 October 2015	11,490,000,000	1,149,000	4.40% p.a.	yearly
3.	HZL 2006/2016	CZ0002000854 [1]	1 September 2006	1 September 2016	EUR ths. 8,534	42,670	3.74% p.a.	yearly
4.	HZL 2007/2019	CZ0002001142 [2]	16 August 2007	16 August 2019	3,000,000,000	30	5.00% p.a.	yearly
5.	HZL 2007/2037	CZ0002001324 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note A	stated
6.	HZL 2007/2037	CZ0002001332 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note A	stated
7.	HZL 2007/2037	CZ0002001340 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note B	stated
8.	HZL 2007/2037	CZ0002001357 [2]	16 November 2007	16 November 2037	500,000,000	5	Note B	stated
9.	HZL 2007/2037	CZ0002001365 [2]	16 November 2007	16 November 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
10.	HZL 2007/2037	CZ0002001373 [2]	16 November 2007	16 November 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
11.	HZL 2007/2037	CZ0002001381 [2]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
12.	HZL 2007/2037	CZ0002001399 [2]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
13.	HZL 2007/2037	CZ0002001431 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
14.	HZL 2007/2037	CZ0002001449 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
15.	HZL 2007/2037	CZ0002001456 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
16.	HZL 2007/2037	CZ0002001464 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
17.	HZL 2007/2037	CZ0002001472 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
18.	HZL 2007/2037	CZ0002001480 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
19.	HZL 2007/2037	CZ0002001498 [2]	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
20.	HZL 2007/2037	CZ0002001506 [2]	7 December 2007	7 December 2037	700,000,000	7	RS minus 0.20% p.a.	stated
21.	HZL 2007/2037	CZ0002001514 [2]	7 December 2007	7 December 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
22.	HZL 2007/2037	CZ0002001522 [2]	7 December 2007	7 December 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
23.	HZL 2007/2037	CZ0002001530 [2]	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
24.	HZL 2007/2037	CZ0002001548 [2]	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
25.	HZL 2007/2037	CZ0002001555 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
26.	HZL 2007/2037	CZ0002001563 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
27.	HZL 2007/2037	CZ0002001571 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
28.	HZL 2007/2037	CZ0002001589 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
29.	2007/2017	CZ0003701427 [1]	18 December 2007	1 December 2017	230,100,000	767	4.216% p.a.	yearly
30.	HZL 2007/2017	CZ0002001761 [1]	19 December 2007	19 December 2017	385,860,000	12,862	4.09% p.a.	yearly
31.	HZL 2007/2037	CZ0002001753 [1]	21 December 2007	21 December 2037	8,330,000,000	833	RS plus 1.5% p.a.	yearly
32.	HZL 2007/2037	CZ0002001746 [1]	28 December 2007	28 December 2037	1,240,000,000	124	RS plus 1.5% p.a.	yearly
33.	HZL 2012/2022	CZ0002002801 [1]	21 December 2012	21 December 2022	3,000,000,000	300,000	2.55% p.a.	yearly
34.	2012/2015	CZ0003703571 [1]	21 December 2012	21 December 2015	2,000,000,000	2,000,000,000	3.00% p.a.	yearly
35.	2012/2016	CZ0003703589 [1]	21 December 2012	21 December 2016	3,000,000,000	3,000,000,000	3.25% p.a.	yearly
36.	2012/2017	CZ0003703597 [1]	21 December 2012	21 December 2017	3,000,000,000	3,000,000,000	3.50% p.a.	yearly
37.	2012/2018	CZ0003703605 [1]	21 December 2012	21 December 2018	5,000,000,000	5,000,000,000	Note C	yearly
38.	2012/2019	CZ0003703613 [1]	21 December 2012	21 December 2019	5,000,000,000	5,000,000,000	Note D	yearly
39.	HZL 2013/2018	CZ0002003064 [1]	14 March 2013	14 March 2018	1,747,000,000	174,700	6M PRIBOR plus 0.50% p.a.	semiannually
40.	HZL 2014/2022	CZ0002003379 [1]	30 January 2014	30 April 2022	800,000,000	80,000	3.00% p.a.	yearly

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pieces	Interest rate	Payout of interest
41.	HZL 2014/2024	CZ0002003361 [1]	30 January 2014	30 January 2024	900,000,000	90,000	3.00% p.a.	yearly
42.	HZL 2014/2025	CZ0002003353 [1]	31 January 2014	31 January 2025	987,000,000	98,700	3.50% p.a.	yearly
43.	HZL 2014/2026	CZ0002003346 [1]	31 January 2014	31 January 2026	800,000,000	80,000	3.50% p.a.	yearly
44.	HZL 2014/2026	CZ0002003742 [2]	18 November 2014	18 November 2026	750,000,000	75,000	2.00% p.a.	yearly
45.	HZL 2014/2028	CZ0002003767 [2]	20 November 2014	20 November 2028	750,000,000	75,000	2.20% p.a.	yearly
46.	HZL 2014/2027	CZ0002003759 [2]	24 November 2014	24 November 2027	750,000,000	75,000	2.10% p.a.	yearly
47.	HZL 2014/2029	CZ0002003775 [2]	27 November 2014	27 November 2029	750,000,000	75,000	2.30% p.a.	yearly

Notes: Certain bonds are held by Komerční banka or other companies within the KB Group.
HZL = mortgage bond, RS = reference rate
1) dematerialised bonds
2) bonds in paper form

Note A: 5.06% p.a. for the first twelve annual periods, afterwards the relevant RS minus 0.20% p.a.

Note B: 5.02% p.a. for the first eleven annual periods, afterwards the relevant RS minus 0.20% p.a.

Note C: 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 D: 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 (with the exception of HZL ISIN CZ0002003742, HZL ISIN CZ0002003767, HZL ISIN CZ0002003759 and HZL ISIN CZ0002003775 that are order bonds) are made out to the bearer. All bonds, with the exception of 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 4–47 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 Capital Market Undertakings, 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 required by law, by the Czech National Bank or the Czech Securities Commission (in the case of bonds issued before 1 April 2006).

Public tradability and transferability
HZL ISIN CZ0002000565, CZ0002000664, CZ0002002801 and CZ0002003064 were admitted for trading on the Regulated Market of the Prague Stock Exchange. 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, semiannually, 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.

Additional disclosure

Description of real estate owned by the Bank

Komerční banka manages real estate used especially to conduct those 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 2014	Number	Of which owned by KB
Buildings in the Czech Republic	420	112
Buildings in the Slovak Republic	2	0
Total	**422**	**112**

Note: See also the Notes to the Separate Financial Statements prepared in accordance with IFRS, notes nos. 19 – Assets held for sale and 26 – Tangible assets.

Trademarks, licences and sublicenses

In 2014 Komerční banka also used trademarks for labelling its products and services both in the Czech Republic and the Slovak Republic. Those trademarks used were registered with appropriate intellectual property authorities in the Czech Republic and Slovak Republic.

With the Czech Intellectual Property Office Komerční banka registered a total number of 179 trademarks. In case of afurther 2 trademarks, a registration process has been initiated but the process has not yet been completed. In the Slovak Republic, 7 trademarks are registered with the Industrial Property Office of the Slovak Republic.

Within the KB Group, Komerční banka provides to certain of its subsidiaries licenses for its trademarks. In some cases, Komerční banka, is also a licencee and sub-licensee, typically from providers of IT services.

Governing law

As an issuer of publicly traded securities, during 2014 Komerční Banka was governed in its activities particularly by the following laws:

- EU Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms and connected implementing regulations of the European Commission;
- Act No. 21/1992 Coll., the Banking Act;
- Act No. 256/2004 Coll., on Capital Market Undertakings;
- Act No. 90/2012 Coll., on Business Corporations and Co-operatives;
- 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 Independent Loss Adjusters and on Amending the Trade Licensing Act;
- Act No. 253/2008 Coll., on Certain Measures against the Legalization of Proceeds from Criminal Activity and the Financing of Terrorism;
- 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;
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins;
- Act No. 591/1992 Coll., on Securities;
- Act No. 190/2004 Coll., on Bonds;
- Act No. 240/2013 Coll., on Investment Companies and Investment Funds;
- Act No. 89/2012 Coll., Civil Code;
- Act No. 277/2013, on Foreign Exchange Activities; and
- Act No. 634/1992 Coll., on Consumer Protection.

Expenses on research and development

In 2014, Komerční banka had outlays through operating expenses of CZK 204 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.

Financial and non-financial investments

Financial investments made by the Bank (balance as of the end of the year)

CZK million, IFRS	31 December 2014	31 December 2013
Bonds and treasury bills	115,430	114,145
Shares	2	2
Emissions allowances	1,443	381
Equity investments in subsidiary and associated undertakings	26,717	26,220
Total	**143,591**	140,747

Main investments – excluding financial investments* (balance as of the end of the year)

CZK million, IFRS	31 December 2014	31 December 2013
Tangible fixed assets	5,147	5,235
Intangible fixed assets	3,337	3,363
Total tangible and intangible fixed assets	**8,484**	8,598
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 2014, the Bank made non-financial investments in a total almost CZK 1.5 billion. Most of this amount was invested in the area of information technologies (almost CZK 0,9 billion) for acquisition and development of software and hardware. A significant part of the total amount was invested into development and reconstruction of real estate owned by the Bank. 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 2015 should not exceed CZK 2.0 billion. The Bank will continue to invest mainly into maintenance and development of the distribution network, into quality of provided services and operational efficiency, including investments into information technologies. The Bank's investment plans may be adjusted in accordance with developments in the economic environment.

Information on remuneration to auditors for services provided in 2014

Remuneration to the auditors of KB and KB Group for services performed during 2014:

Type of service – CZK thousand, excl. VAT	KB	KB Group
Statutory audit	16,019	23,564
Audit related services	274	705
Legal and tax related services	0	0
Other	876	876
Total	**17,160**	**25,136**

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 savings 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 in 1993, 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. 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 SGEF, a leading provider of asset-backed financing in the Czech Republic and in Slovakia.

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.

Société Générale has been playing a vital role in the economy for 150 years. With more than 148,000 employees, based in 76 countries, the group serves 32 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, offering a comprehensive range of multichannel financial services on the leading edge of digital innovation;
- International retail banking, financial services and insurance with a presence in emerging economies and leading specialised businesses; and
- Corporate and investment banking, private banking, asset management and securities services, with recognised expertise, top international rankings and integrated solutions.

Société Générale is included in the main socially responsible investment indices: FSTE4Good (Global and Europe), Euronext Vigeo (Global, Europe, Eurozone and France), ESI Excellence (Europe) from Ethibel and four of the STOXX ESG Leaders indices.

The Bank's identification details as of 31 December 2014

Komerční banka, a.s., entered in the Commercial Register maintained with the Municipal Court in 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 activities:

I. The Bank shall carry on business pursuant to Act No. 21/1992 Coll., 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 a 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 investment instruments,
    - main investment services of execution of orders on behalf of investors in relation to one or more 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 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 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 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 investment instruments,
    - ancillary services of foreign-exchange service where these are connected with the provision of investment services;
  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 activities comprise 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 specialised courses, training, and other educational programmes including teaching,
  f) business, financial, organisational, and economic consulting,
  g) data processing, database services, network (web) administration.

Authorised body – Board of Directors:

- Chairman of the Board of Directors: Albert Marie Le Dirac'h, born on 16 October 1954, date of assuming office: 2 August 2013*, member since: 2 August 2013*
- Member of the Board of Directors: Vladimír Jeřábek, born on 7 April 1968, member since: 2 June 2012*
- 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: 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*
- Member of the Board of Directors: Peter Palečka, born on 3 November 1959, member since: 8 October 2013*

* with reference to the current term

Method of performing acts in law:
Acting on behalf of the Bank: The Board of Directors, as the Bank's authorised 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: Jean-Luc André Joseph Parer, born on 16 April 1954, date of assuming office: 1 May 2013, member since 25 April 2013
- Vice-Chairman of the Supervisory Board: Giovanni Luca Soma, born on 21 August 1960, date of assuming office: 1 May 2013, member since 1 May 2013
- Member of the Supervisory Board: Bernardo Sanchez Incera, born on 9 March 1960, member since 22 April 2011
- Member of the Supervisory Board: Laurent Goutard, born on 13 May 1961, member since 1 May 2013
- Member of the Supervisory Board: Petr Laube, born on 8 July 1949, member since 1 May 2013
- Member of the Supervisory Board: Ing. Bořivoj Kačena, born on 24 February 1943, member since 30 April 2012
- Member of the Supervisory Board: Pavel Jelínek, born on 18 May 1971, member since 1 June 2013
- Member of the Supervisory Board: Dana Neubauerová, born on 7 May 1964, member since 1 June 2013
- Member of the Supervisory Board: Karel Přibil, born on 14 December 1954, member since 1 June 2013

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 founder, established the public limited company Komerční banka, a.s., based on the Deed of Incorporation of 3 March 1992 under Sec. 172 of the Commercial Code.

Foreign branch:
Name: Komerční banka, a.s., pobočka zahraničnej banky
Registered office: Bratislava, Hodžovo námestie 1A, postal code 811 06, Slovak Republic
Head of the branch: Katarína Kurucová, born on 14 June 1974

Notes

Notes

Notes

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