Annual Report 2015

Komerční banka, a.s.

NA PARTNERSTVÍ ZÁLEŽÍ

KB

Survey of Results 2011–2015

According to International Financial Reporting Standards (IFRS)

CONSOLIDATED DATA (CZK million)	2015	2014	2013	2012	2011
Financial results					
Net operating income	30,131	30,677	30,894	32,664	32,764
of which Net interest income	20,456	21,423	21,207	21,969	22,190
of which Net fees and commissions	6,956	6,752	7,077	6,971	7,305
Total operating costs	(13,439)	(13,065)	(13,148)	(13,485)	(13,489)
Attributable net profit	12,758	12,954	12,528	13,954	9,475
Net profit per share (CZK)[1]	337.77	342.96	331.68	369.44	249.97
Balance sheet					
Total assets	891,556	953,261	863,980	786,836	754,810
Loans to customers, net	532,617	494,706	473,089	451,547	434,386
Amounts due to customers	666,407	701,867	649,158	579,067	560,701
Total shareholders' equity	106,229	109,494	96,538	100,538	81,850
Ratios (%)[2]					
Return on average equity (ROAE)[3]	12.22	12.95	13.09	15.77	12.31
Return on average assets (ROAA)[4]	1.38	1.43	1.52	1.81	1.30
Net interest margin	2.43	2.56	2.80	3.13	3.30
Cost/income ratio	44.60	42.59	42.56	41.28	41.17
Capital[5]					
Capital adequacy (%)	16.34	16.42	15.81	14.66	14.61
Tier 1 ratio (%)	16.34	16.42	15.81	14.66	13.44
Tier 1	66,606	63,095	61,722	56,295	52,692
Tier 2	0	0	0	0	6,000
Total regulatory capital	66,606	63,095	59,087	53,684	55,581
Total risk-weighted assets	407,642	384,186	373,796	366,107	380,520
Other data					
Number of employees, average	8,426	8,520	8,604	8,758	8,774

CREDIT RATINGS (AS OF END OF FEBRUARY 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 2011–2013, Basel III since 2014
6) KB was assigned a credit rating by rating agencies registered under 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 and decided not to appoint a rating agency, whose market share is below 10%.

UNCONSOLIDATED DATA (CZK million)	2015	2014	2013	2012	2011
Financial results					
Net operating income	28,133	27,762	28,952	28,100	28,113
of which Net interest income	19,033	18,875	18,923	17,794	17,976
of which Net fees and commissions	6,275	6,370	6,672	6,990	7,104
Total operating costs	(12,251)	(11,871)	(11,790)	(12,008)	(12,011)
Net profit	12,424	12,768	13,123	12,249	7,951
Balance sheet					
Total assets	835,526	862,766	773,892	689,457	660,279
Loans to customers, net	484,474	449,180	423,295	396,189	372,688
Amounts due to customers	603,640	601,412	552,253	485,969	469,799
Total shareholders' equity	93,303	95,634	83,702	87,544	72,468
Ratios (%)[1]					
Return on average equity (ROAE)[2]	13.15	14.24	15.33	15.31	11.24
Return on average assets (ROAA)[3]	1.46	1.56	1.79	1.82	1.25
Net interest margin	2.30	2.37	2.63	3.02	3.08
Cost/income ratio	43.55	42.76	40.72	42.73	42.72
Capital[4]					
Capital adequacy (%)	16.66	17.05	16.01	15.32	15.75
Tier 1 ratio (%)	16.66	17.05	16.01	15.32	14.38
Tier 1	61,665	59,151	54,944	51,228	49,321
Tier 2	0	0	0	0	6,000
Total regulatory capital	61,665	59,151	52,902	49,102	52,492
Total risk-weighted assets	370,228	346,938	330,444	320,605	333,188
Other data					
Number of employees, average	7,538	7,624	7,706	7,845	7,855
Number of points of sale	397	399	399	400	398
Number of clients (thousands)	1,647	1,626	1,589	1,602	1,602
Number of ATMs	772	754	729	702	693

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 2011–2013, Basel III since 2014

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.

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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 advantages. KB Group operates in the Czech Republic and also provides services to corporate clients in Slovakia.

Contents

Loans to clients (KB Group, gross loans, CZK billion)

CZK 548.2 bil. +6.8%

Client deposits (KB Group, CZK billion)*

CZK 656.7 bil. +3.3%

* excluding repo operations with clients and client funds in the pension fund

Profit attributable to the Group's equity holders (CZK billion)

CZK 12.8 bil. -1.5%

Number of standalone Bank clients

1,647,000 clients +1.3%

Major events in 2015

January

As of 1 January 2015, the Transformed Fund managed by KB Penzijní společnost, which gathers supplementary pension insurance contributions with government contribution, was deconsolidated from the consolidation group of Komerční banka. That fund is still administrated by KB Penzijní společnost. Deconsolidation of the Transformed Fund followed approval of a change in its statutes. That change limited KB Penzijní společnost's discretion when investing the fund's assets into variable income instruments (such as equities and real estate).

February

The Bank was the first on the Czech market to begin offering the MasterCard Business World credit card which pays back to a client's account 1% of the amount of transactions settled using the card.

As of 1 February 2015, KB Penzijní společnost merged the KB Savings Conservative Participation Fund with the KB Balanced Participation Fund (transferee fund). The merger's aim was to increase the efficiency of portfolio management while complying with regulatory requirements.

March

The Supervisory Board of Komerční banka elected Mr Libor Löfler as a new member of the Board of Directors, effective from 1 April 2015. This change reflected the resignation of Pavel Čejka from the Board of Directors as of 31 March 2015 in connection with his assuming a management position within the International Banking and Financial Services Division of Société Générale Group.

The European Parliament adopted on 10 March 2015 a draft of the regulation on interchange fees for card-based payments. The aim of the regulation is to cap interchange fees for payments made using certain types of payment cards.

April

The General Meeting approved KB's results for 2014 and distribution of the 2014 profit (including the dividend payment of CZK 310 per share), elected Ms Sylvie Remond as a member of the Supervisory Board, and decided upon changes in the Articles of Association. It also confirmed the Bank's authority to acquire its own shares into treasury.

Jana Hanušová was elected Chief Executive Officer at ESSOX.

To secure clients' devices against malware infections and phishing attacks, KB provided its clients at no charge with a state-of-the-art tool developed by IBM.

Once again in 2015, KB Penzijní společnost was named the Best Pension Fund in the Czech Republic. The recognition came from the Global Banking & Finance Review portal.

Komerční banka signed a guarantee facility agreement within the European Investment Bank Group's InnovFin programme. Through the new contract, KB will offer advantageous financing of clients' innovative projects in a volume of CZK 4.2 billion.

SG Equipment Finance Czech Republic s.r.o. (SGEF) signed an agreement with the Council of Europe Development Bank to support the financing of small and medium-sized enterprises' and municipalities' investments in the total amount of CZK 2.7 billion.

Komerční banka extended its co-operation agreement with the Association of Private Farming CZ.

The Bank became the first in the Czech Republic to offer its clients full service in using SEPA (Single Euro Payments Area) Direct Debit (SDD). Now, KB enables its clients to send and receive payments using SDD from and to a single euro-denominated account to and from European countries supporting this SEPA instrument.

May

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

June

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

Deposits and withdrawals of foreign currency at no charge from Czech crown-denominated accounts became a regular service. The free deposits and withdrawals are for all currencies shown in Komerční banka's exchange rate list.

July

On 1 July, an amendment to the law on pension savings came into effect that discontinued the possibility to enter the pension savings system (i.e. the so-called 2nd pillar).

August

KB extended its co-operation with the Union of Towns and Municipalities of the Czech Republic.

By means of just a fingerprint, Komerční banka enabled its clients to log in to the Mobilní banka application on devices running iOS.

September

Komerční banka took second in the *Best Bank* contest conducted by the daily newspaper Hospodářské noviny. At the same time, Komerční pojišťovna was named *Best Life Insurer* and *Most Client-Friendly Life Insurer.*

KB and the Association of Small and Medium-sized Enterprises prolonged their co-operation. The major collaborative areas will be support for start-up businesses and trades, easier drawdown of EU subsidies, and assistance to enter successfully into and operate on foreign markets.

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.

Komerční banka prepared a package of services for young people which meets their financial needs while studying abroad under the Erasmus programme.

The Bank became the first in the Czech Republic to join the Private Finance for Energy Efficiency (PF4EE) initiative launched by the European Investment Bank (EIB) and European Commission (EC). Through this initiative focused on energy savings in business, KB will support lending directed to energy efficiency in the amount of EUR 75 million.

November

On 2 November, Visa Inc. announced its acquisition of Visa Europe Ltd., thus creating a single global company. KB has been a member bank of VISA Europe.

December

Komerční banka developed for its corporate clients a new generation of its mobile banking application. In addition to standard functions, the Mobilní banka Business application enables, for example, multi-tier payment authorisation of all payments readied in on-line banking, a complete overview of multiple entities' accounts, and automatic display of notifications regarding payments ready for authorisation.

The Parliament of the Czech Republic approved abolition of the 2nd pillar of the pension system from 2016 and improved conditions for state-subsidised pension insurance. The Parliament further approved an amendment to the Act on Recovery and Resolution in the Financial Market.

The Bank Board of the Czech National Bank (CNB) decided to set a countercyclical capital buffer rate for exposures located in the Czech Republic at 0.5%. The rate will apply from 1 January 2017.

Year 2016

At its meeting on 11 January 2016, the Board of Directors resolved to propose to the General Meeting a split of KB's shares in the ratio 5 to 1 in order to improve the title's liquidity on stock markets. The Board also decided to terminate Komerční banka's Global Depository Receipts programme in order to increase the Bank's operating efficiency.

Komerční banka formed a partnership with Worldline for providing merchant acquiring and payment processing services, on which basis KB will sell an 80% stake in its subsidiary Cataps, s.r.o. to Worldline. The partnership will operate under the brand name KB SmartPay.

Macroeconomic development in 2015

The year 2015 was an exceptional one for the Czech economy. Economic growth as measured by real GDP reached 4.3% and was the fastest since 2007. The pre-crisis economic levels were definitively surpassed last year. Given that the pace of growth in the euro zone economy was less than half that rate, the Czech economy's convergence with the euro area average accelerated significantly.

The past year was characterised by stable foreign demand from the Czech Republic's key trading partners (and especially the euro zone) and a stable exchange rate due to the CNB's intervention regime. The trade balance surplus (according to the national methodology) reached a record CZK 149.1 billion in 2015, which meant an annual improvement of CZK 3.1 billion. The pace of export growth came to 6.5%, and imports increased by 6.7%. The most important export destination was the European Union with 84.0% of all exports, or the euro area with a share of 65.3%. Germany was the leader among individual countries and took 32.5% of all Czech exports. Exporters as a whole were successful in overcoming problems associated with Russian sanctions, although actual exports to Russia fell during 2015 by 32.6%.

The Czech economy benefited last year from a combination of several one-off factors. The first was the final chance to tap into funds from the EU Programming Period 2007–2013, which was reflected mainly in infrastructure investments. This resulted in, among other things, growth in civil engineering, which saw an overall gain of 16.4% last year. As a result, the construction industry as a whole recorded gains for the second year in a row (at 5.5% last year). The second important phenomenon of 2015 was dramatically declining fuel prices in connection with the fall in crude oil prices on world markets. In the end, lower fuel prices boosted disposable income among households and businesses. Growth in the past year was also supported by changes in the rules for tobacco taxation, which had trimmed economic growth in 2014 but then added to it in 2015 (by about a half percentage point).

The growth is built on stable foundations because it can rely on strong domestic demand. Investment activity and household consumption last year reached their fastest growth rates since 2007. The driver in terms of gross value added was industry, where production climbed by 4.4% in real terms. The automotive industry contributed most to industrial growth, expanding by 11.5%, followed by manufacture of rubber and plastic products, which improved by 9.8%, and the metalworking industry with growth of 6.7%. On the other hand, sinking prices for energy commodities and shutdown of the nuclear power plant in Dukovany reflected negatively in the production and distribution of electricity, gas and steam, whose output last year fell by 2.2%. The chemical industry, too, did not fare well, as its production declined by 5.7%, and the mining industry contracted by 1.7%.

Strong economic growth was reflected on the labour market in the form of job creation and thus diminishing unemployment. With seasonal adjustment, the unemployment rate was coming down throughout the year. The unemployment rate (as measured by the ILO methodology) touched an eight-year low of 4.5% at the end of 2015 and together with Germany's unemployment rate was among the lowest in the entire European Union. It was lower year on year by 1.3 percentage points. The employment rate, meanwhile, reached 70.8%, which is the highest level since reporting of that indicator began in 1993. Unemployment is already so low that acceleration of nominal wage growth became visible during 2015 and, with inflation low, real wages also were seen to be rising. The improving household disposable income in combination with high consumer confidence led to strengthening retail sales, which increased, excluding the motor vehicle segment, by 5.9% in real terms. The motor vehicle segment expanded in real terms by even 11.5%. Service sector sales rose by 2.6% in real terms, with all that sector's segments contributing positively to the growth.

Price development in 2015 was marked by low inflation and a disinflationary trend. The year-on-year rise in consumer prices was only 0.1%. The annual inflation of 0.3% was the lowest since 2003. The main reason for the low inflation lies in declining fuel and food prices. On the other hand, core inflation, adjusted for the primary effect of changes in fuel, food, regulated prices and indirect taxes, reflected the growing domestic demand and pushed up to around 1.5% by the end of last year.

The favourable macroeconomic developments were reflected in the exchange rate. During 2015's first half, the Czech crown tended to strengthen against the euro, while the second half of the year was then marked by a stable exchange rate, as the central bank intervened as necessary to defend the crown from strengthening beyond the 27.00 CZK/EUR line.

Although economic growth in 2015 reached its highest levels since the pre-crisis period, market interest rates remained under pressure. This was due to several external and domestic factors. Monetary conditions were very relaxed both in the Czech economy and abroad. In the euro area, the ECB decided to launch an asset buyback programme for government bonds of EMU countries and to continue cutting deposit rates deeper into negative territory in light of a growing risk of deflation. These steps affected Czech interest yields more significantly than did the US Federal Reserve's implementing in December its first rate hike since 2006. The Czech National Bank contributed to the decline in market rates within the domestic economy also through its commitment to intervene to defend the exchange rate. That added to free interbank liquidity and, due to distortion in the currency forwards market, also to demand for Czech government bonds. Because investors with euro funding began to earn a substantial premium on their euro, they became interested in short-term bonds even despite their negative rates. Demand among domestic investors thus shifted to longer maturities. Overall, domestic government bonds became considerably more costly in comparison with the swap rates. Asset swap spreads fell into deeply negative territory, and especially so at the long end. The entire yield curve – and again, especially at the longer end – was pushed down by the global and domestic economy's persisting low-inflation environment.

Komerční banka shares on the capital market

Stock exchange listing

As of 31 December 2015, Komerční banka's shares were listed under ISIN CZ0008019106 on the Prime Market of the Prague Stock Exchange (PSE) and were traded at RM-SYSTÉM Czech Stock Exchange. Global depositary receipts (GDRs) representing shares of Komerční banka in the ratio 3:1 were traded on the London Stock Exchange.

Stock market performance

Performance of global equity markets was mixed in 2015, with heightened volatility particularly in the second half. European shares mostly performed better than their US counterparts. During the year, the STOXX Europe 600 index rose by 6.8% in euro terms (4.1% in CZK terms) while its sub-index comprising major European banks (including Komerční banka) even declined by 3.3% (−5.7% in CZK terms). That compares to a gain of 8.3% (in EUR, or 5.6% in CZK) in the MSCI World Index, while the US stock market's S&P 500 index lost 0.7% in USD terms (which represented an increase by 7.9% in CZK terms).

Macroeconomic factors affecting global stock markets included expectations for the start of normalisation in the US Federal Reserve's monetary policy even as the ECB was adding to its stimulus. Concerns over a slowdown in China's economy deepened after renminbi depreciation in August and the prices of oil and other commodities recorded a significantly declining trend.

KB share price development

The KB shares closed out trading for 2015 at CZK 4,950, which was 4.4% above the closing price of a year earlier. As of 31 December 2015, Komerční banka's market capitalisation stood at CZK 188.1 billion (EUR 6.9 billion[1]), ranking it third among titles listed on the PSE. The average daily trading volume on the PSE of CZK 218.3 million (EUR 8.0 million[2]) was the second highest among shares traded on the exchange and represented a daily capital rotation of 0.11%.

Individual quarters of 2015 saw quite different price trends for KB's shares. In the first quarter, the share price gained significantly as it was underpinned by the generally positive mood on global markets. Investors also appreciated the financial results and dividend proposal announced on 11 February. The closing share price touched its lowest for 2015 on 12 January at CZK 4,590 while the highest closing price for the year was reached on 19 March at CZK 5,667. Performance in the second quarter was affected by concerns over slowing in China and as GDP figures disappointed also in the US. The third quarter brought a significant drop in stock indices globally, and this was even more pronounced in emerging markets. Despite quite volatile development, KB's share price concluded that period at a similar level as it had begun, which meant relative overperformance compared to relevant benchmarks. During the final quarter, the price drifted slightly lower, as inflation trends indicated that the period of significantly relaxed monetary policy from European central banks and ultra-low interest rates may be further prolonged.

The gross dividend of CZK 310 per share paid out in 2015 represented 91% of KB Group's attributable net profit. The corresponding gross dividend yield based on 2014's closing share price was 6.5%.

In February 2016, given the 2015 result and while considering KB's capital position, regulatory developments, the outlook for growth in risk-weighted assets, and the Bank's previously announced intention to propose an increased dividend distribution in the range of 80–100% of attributable net profit for 2014–2016, Komerční banka's Board of Directors decided to suggest to the Supervisory Board a dividend payment of CZK 11,783 million. That would come to CZK 310 per share and put the payout ratio at 92.4% of KB Group's attributable consolidated net profit. The corresponding gross dividend yield based on 2015's closing share price is 6.3%.

The Board of Directors affirmed its intention to maintain the increased dividend distribution at 80–100% of attributable net profit also for the result of 2016, subject to change in external factors. The distribution policy for the subsequent periods will be reset in 2017

1) CZK/EUR exchange rate 27.025 as of 31 December 2015
2) Average CZK/EUR exchange rate 27.283 for 2015

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 2015 was 9.8%, comprising a 4.4% 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 45,000 shareholders as of 31 December 2015, individuals resident in the Czech Republic numbered almost 40,000. The vast majority of freely traded shares are held by institutional investors located in such main global financial centres 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 2015, Komerční banka management participated in around 100 investor presentations and meetings involving more than 140 institutions in Prague, London, New York and Boston.

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

Cumulative and average annual total return for shareholders of Komerční banka reinvesting net dividends

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 2005	131.3%	43.9%	87.4%	8.7%
5 years	30 December 2010	41.7%	11.6%	30.1%	7.2%
1 year	30 December 2014	9.8%	4.4%	5.3%	9.8%

* geometric mean

Information on Komerční banka shares

	2015	2014	2013	2012	2011
Number of shares issued[1]	38,009,852	38,009,852	38,009,852	38,009,852	38,009,852
Number of outstanding shares	37,771,180	37,771,180	37,771,180	37,771,180	37,771,180
Market capitalisation (CZK billion)	188.1	180.2	168.0	152.4	126.6
Earnings per share (CZK)[2]	337.8	343.0	331.7	369.4	250.0
Dividend per share for the year (CZK)[3]	310.0[4]	310.0	230.0	230.0	160.0
Dividend payout ratio (%)[5]	92.4	91.0	69.8	62.6	64.2
Book value per share (CZK)[6]	2,711.4	2,816.0	2,479.6	2,588.5	2,089.1
Share price (CZK)					
closing price at year-end	4,950	4,740	4,421	4,010	3,330
maximum	5,667	5,179	4,810	4,214	4,510
minimum	4,590	4,230	3,400	3,089	2,900

1) Nominal value of eash 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 22 April 2016
5) Total dividend paid / Consolidated net profit attributable to shareholders (IFRS consolidated)
6) Shareholders' equity exclusive minority equity per share (IFRS consolidated) divided by average number of shares outstanding

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 unceasing 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 enables 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 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 Code as amended 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 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 2016

Komerční banka anticipates that the Czech economy will continue on a solid growth course, even if the pace will be somewhat slower than that in the extraordinary year 2015. Gross domestic product is expected to expand by 2–3%, still driven mainly by domestic demand, low unemployment, rising real wages, strong operational profitability of companies and high utilisation of production capacities. Foreign demand for Czech production should remain stable or grow slightly, as price competitiveness will continue to benefit from the weakened Czech crown.

The aforementioned factors will push up core inflation (i.e. as adjusted for changes in the prices of food and fuels, regulated prices, and the effects of indirect taxes). Headline consumer price inflation will remain very low, however, because the effect of decreased prices of oil and other commodities shall prevail. In such conditions, the Czech National Bank may not begin tapering its currency intervention regime. The first hike in the benchmark two-week repo interest rate by the CNB is expected only in 2017, but long-term interest rates could increase earlier as the markets build in a longer-term inflationary outlook.

The robust confidence of households and businesses, low financing costs, and recovery in residential property prices should bolster demand for bank loans. The total volume of credit provided to individuals and companies should grow at a pace similar to that in 2015. Due to limited availability of profitable reinvestment opportunities for deposits, however, banks will again compete intensely on the loan market. The capacity of banks to generate fee income will be affected by aspirations of some competitors to gain market share or to achieve sufficient operational scale.

Strategy and priorities for 2016

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 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 across all segments through a balanced network of branches and advanced direct channels, as well as operational efficiency and prudent risk management.

Again in 2016, Komerční banka will make it a priority to develop its client-centric business model while further boosting clients' satisfaction.

KB is fine-tuning its service model in retail banking in order effectively and efficiently to address the differing needs and expectations of various client groups.

The branch network remains the main base for building mutual relationships, and the number of branches will not change significantly in 2016. KB continues in adapting the design of its branches so that privacy and efficiency of servicing clients are enhanced. The Group also is investing substantially into improving the competence of relationship managers and equipping them with the most useful information and tools.

Nevertheless, the overwhelming majority of transactions are today processed wholly through on-line channels. Reliability and security of internet and mobile banking must therefore be strengthened continuously. The growing prevalence of "smart" digital devices lays the groundwork for boosting the share of financial services and products sold on-line. Therefore, KB is focused in 2016 on enhancing its on-line service and sales capabilities so as to maintain its market leadership in multi-channel banking.

In an environment marked by decreasing margins due to strong competition and extremely low interest rates, growth in the volume of loans provided to clients is essential for maintaining the revenue base. Komerční banka's strong capital, liquidity and operating capability, as well as the increasing efficiency of its credit granting processes, should enable it to continue in its dynamic growth in lending with the aim to gain further market share in select areas, including lending to consumers and small businesses.

In order to offer clients advantageous alternatives for their savings even when interest rates are low, KB is expanding the range of available mutual funds, life insurance and pension savings policies. New product solutions for private banking clients are being prepared with the help of Société Générale's global expertise. Growth in non-bank assets under management will contribute positively to KB Group's fee income.

As the leading bank for corporations in the Czech Republic, KB will also continue to develop its offer of financing and investment banking solutions with high added value. The Bank is reinforcing its capacity for providing structured finance solutions.

Even though its business is developing dynamically, operating expenditures will remain tightly controlled. Initiatives aimed to optimise operations and extract savings in facility management and support services enable stable costs to be maintained even as employee remuneration reflects intense labour market competition for talent and the Bank allocates adequate resources to develop the future growth drivers for the Group's business.

In addition to competitive remuneration and professional skills training, KB is developing programmes directed to improving employee motivation and developing the corporate culture around Komerční banka's core values of team spirit, innovation, commitment and responsibility.

The fast pace of change in technologies used in the banking industry is captured in the programme of IT transformation, whereby selected key elements in the IT infrastructure are progressively updated or replaced. Ongoing change is generally funded from depreciation and amortisation.

KB's 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 lending and market activities across the business cycle and, at the same time, to preserve a sound balance sheet.

Inasmuch as regulatory demands on European banks continue to increase, KB must address new regulatory initiatives in the most efficient manner. As in previous years, the Bank will meet all its regulatory obligations, and, in particular, it will maintain strong capital adequacy and liquidity.

Main challenges and risks for the Bank and Group in 2016 and expected developments in the financial situation

Komerční banka's capital and liquidity include adequate buffers to absorb unexpected adverse market developments. It will continue in 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 these mostly are directed to operations with the Czech National Bank and to 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 a lesser extent, the Slovak economy. Both are 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 2016, KB's results would be affected negatively. Slower growth in the economy would lead to a slowing in the growth of business volumes, stagnation or even modest decline in revenues along with a rise in risk costs. Average risk weights of assets would increase, which could bring a slight weakening 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 even in an alternative negative scenario of economic recession.

Despite the proven effectiveness of KB's long-term hedging policy, the Bank's interest income is negatively affected by the fact that market interest rates have long lingered at very low levels. Should rates stay at the levels observed at the beginning of the year (while a modest uptick at the long end of the yield curve is expected in the second half of 2016) or should the Czech National Bank drop the two-week repo rate into negative territory, pressure on the Group's net interest income would build, despite higher loan and deposit volumes. Still, thanks to KB's hedging policy, the impact would be gradual and relatively slow.

Competition on the market remains intense, but the Bank has been able to grow the number of clients as well as the volumes of loans and assets under management. This can be attributed to the growing value of services delivered to clients and KB's consistent and reasonable pricing strategy. Potential significant risks are presented by proliferation of unregulated on-line providers of financial services (so-called "fintech" companies) who do not fulfil the same regulatory requirements and provide the same consumer protection. Further strengthening of competition among banks might also lead to squeezed margins from banking products.

At the beginning of 2016, the change in the levy to the Bank Resolution Fund and Deposit Insurance Fund came into force, as did the cut in interchange fees that merchants pay for payment card transactions. The Mortgage Credit Directive will be implemented during 2016. Among other changes, that gives customers the right to repay a loan early, in full or in part. In the current situation of low rates, the directive's impact should be small. Finally, in 2016, 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 2016, management expects the Bank's operations will generate sufficient profit in 2016 to cover the Group's capital needs ensuing from its growing volume of assets as well as to pay dividends.

Report on business activities

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 2015, KB Group was serving 2.4 million clients on a consolidated basis. Standalone KB recorded 1,647,000 clients (+1.3% year on year), of which 1,391,000 were individuals. The remaining 256,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 519,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 545,000. ESSOX's services were being used by 219,000 active clients.

The number of the Bank's clients using at least one direct banking channel (such as internet or telephone banking) reached 1,340,000 by the end of December 2015 and corresponds to 81.4% of all clients. Customers held 1,618,000 active payment cards, of which 201,000 were credit cards. The number of active credit cards issued by ESSOX came to 118,000. The development in internet banking continued in 2015, as the number of users of the MojeBanka platform at KB rose by 7% to 1,244,000. The number of users in mobile banking increased by more than 43% to 221,000.

It is through the branch network and several state-of-the-art direct banking channels that Komerční banka builds its relationships with clients. A project continued in 2015 that is directed to comprehensive renovation of branches so that they better conform to clients' changing needs. In addition to space for usual services, the changes also provide a suitably modern and private environment for financial advisory. As of the end of 2015, a total of 45 branches had been renovated to fit the New Branch Concept design. This branch network is further complemented by the distribution capacities of subsidiaries (in particular Modrá pyramida) and, for selected products, the network of business partners. 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.

KB views the digital environment as an integral part of the multi-channel distribution mix. For each segment, the Bank establishes a service model and access channels enabling clients to use digital solutions where it is important for them. Digitalisation of the environment and related changes in client behaviour are also reflected in the way the branch network operates. This primarily concerns the long-term trend of shifting transaction and simple service activities to direct channels. A growing number of clients use the internet as their foremost source for obtaining basic information. On the other hand, the branch network continues to be a key channel for advisory, as well as for sales and service regarding more complex products such as mortgages and investments.

Komerční banka's clients had at their disposal 397 banking branches (including one branch for corporate clients in Slovakia), 772 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 approximately 1,000 advisors. SG Equipment Finance (SGEF) was providing its leasing services via eight branches (two of which are in Slovakia), as well as through KB's network.

Komerční banka is developing the *"Know your client"* concept, which, among other aspects, requires that banking advisors be thoroughly acquainted with their clients' needs. Each of KB's clients has a dedicated banking advisor at the Bank. This advisor is personally responsible for the portfolio of clients entrusted to him or her, for building client relationships and for the business results. KB's advisors are continuously trained, enabling them to provide clients with consistently high-quality services. This means delivering simple services efficiently and quickly, comprehensively identifying client objectives to determine appropriate solutions built upon 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 banka second place in the category Best Bank 2015 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),
- Corporates and Municipalities (annual turnover up to CZK 1.5 billion), and
- Top Corporations (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.

Selected business indicators

NUMBER OF CLIENTS	31 DECEMBER 2015	31 DECEMBER 2014	CHANGE (%)
Komerční banka	1,647,000	1,626,000	1.3
– individual clients	1,391,000	1,371,000	1.4
– using at least one direct banking channel	1,340,000	1,269,000	5.6
Modrá pyramida	519,000	554,000	-6.3
KB Penzijní společnost	545,000	555,000	-1.8
ESSOX	219,000	274,000	-19.9

LOAN PORTFOLIO (CZK billion)	31 DECEMBER 2015	31 DECEMBER 2014	CHANGE (%)
Volume of KB's mortgages	185.2	162.6	13.9
Volume of other KB loans to individuals	21.5	19.2	12.0
Volume of ESSOX's loan portfolio	9.3	9.5	-2.3
Volume of Modrá pyramida's loan portfolio	37.0	38.3	-3.4
Volume of total financing from Factoring KB	6.1	6.2	-2.1
Volume of total financing from SGEF	24.5	22.9	6.7

AMOUNTS DUE TO CUSTOMERS (Bank, CZK billion)	31 DECEMBER 2015	31 DECEMBER 2014	CHANGE (%)
Private companies	233.7	226.2	3.3
Other financial institutions, non-banking entities	34.2	43.5	-21.4
Insurance companies	3.2	3.5	-8.1
Public administration	2.1	1.9	9.9
Individuals	192.0	173.2	10.8
Individuals – entrepreneurs	29.4	26.9	9.3
Government agencies	70.6	84.6	-16.6
Other	14.7	13.5	8.9
Non-residents	23.7	27.9	-15.3

Individuals

In the Individuals segment, Komerční banka developed its pro-client approach and its financial services offer across the entire range of client needs with a focus on providing added-value advisory.

The retail banking market was shaped by the strong performance of the Czech economy, low interest rates, growing regulatory pressure, as well as intense and active competition. Among other effects, this resulted in pressure for low prices for the services offered. The trend in developing digital instruments and a multi-channel service mix unambiguously continued and strengthened, thus reflecting clients' growing demands.

Komerční banka simplified its business model for new client acquisition. Despite intense competition, the successful strategy showed excellent results in a number of areas. KB acquired more than 112,000 new clients in the Individuals segment, bringing the total number to 1,391,000. That represents a year-on-year gain of 1.4%. The Bank also maintains a prominent position in the children and youth segment, with more than 426,000 accounts.

KB's mortgage portfolio expanded year on year by 13.9% to CZK 185.2 billion, while the volume of Modrá pyramida's loan portfolio dropped by 3.4% to CZK 37.0 billion. In a year-on-year comparison, the volume of other loans from KB to individuals rose by 12.0% to CZK 21.5 billion and the volume of financing by ESSOX decreased by 2.3% to CZK 9.3 billion.

The Bank is committed to professionalism and a high standard of service. Its basic products include highly flexible mortgage loans, personal accounts encompassing everything for conveniently managing one's finances, and the unique MojeOdměny (MyRewards) concept through which clients receive monetary rewards for their activities. KB developed the KB MojePlány (MyPlans) application for comprehensive financial advisory with recommendations for saving, investment and credit services.

According to the independent *Secure Account Navigator* study[1] from 2015, the Bank provided one of the fairest consumer accounts on the Czech market.

During 2015, KB's position as reference bank was supported by the presentation of a number of innovations covering a wide range of demands from active clients. In consumer finance, this included simplifying the product offer, expanding sales channels, introducing new types of direct campaigns and notifications, and simplifying approval processes. In the investments area, KB offered a new solution for active management of entrusted funds through the unique IKS Investment Manager service, which clients received very positively. The Bank made a special offer of the Erasmus package to students studying abroad, thus satisfying their needs and suggestions. Only a fingerprint is required to sign into the Mobilní banka app on mobile devices using the iOS operating system. Komerční banka also made accessible to its clients at no charge IBM's state-of-the-art solution for protecting internet banking clients. This special software bolsters computer protection against the risk that internet banking login data will be misused. KB also enabled its clients to inspect all electronic documents in a single, central depository.

KB will continue its focus on enhancing service quality as well as its orientation to active customers. The Bank is concentrated on developing long-term savings and investment solutions and growing its market share in mortgages and consumer finance. Komerční banka's dynamic development will be confirmed by further innovations with the objective to support increasing client satisfaction and convenience across the entire range of financial

1) Source: Project of the advisory company EEIP and Charles University

services and client sub-segments. The spirit of this approach will be visible also in future changes directed to further KB's development in on-line selling of financial products.

Private Banking

Komerční banka offers comprehensive Private Banking services to clients with financial assets exceeding CZK 20 million at its branches in Prague, Brno, and Ostrava as well as – if such clients prefer – 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 regional branches. Services provided include in particular first-class banking service, private portfolio management, a comprehensive range of investment instruments, as well as real estate and Lombard loans for financing clients' private needs.

During 2015, KB Private Banking strengthened its services directed to structuring family assets and multi-generational planning for asset transfer, as 85% of clients are first-generation owners. There was also a strong recovery in the market for mergers and acquisitions, where KB Private Banking assisted in sales of 52 companies valued at more than CZK 10 billion. Two closed funds for qualified investors unique to the Czech market were established. These invest into income-generating real estate and private equity.

In 2016, KB Private Banking will further strengthen internal synergies. Sharing of expertise and analytical support with SG Private Banking will continue, including to utilise the backing of expert centres for open-architecture investment solutions. Within the dynamic market for mergers and acquisitions, KB Private Banking will focus on wealth management services to owners selling their companies. This will include to assist in the selling process, in multi-generational structuring of assets, and in building financial asset portfolios.

Small Businesses

From the perspectives of client numbers, breadth of services and share of financing provided, KB has long held a leading market position in the Small Businesses segment.

As of the end of 2015, KB was servicing more than 243,000 clients. The volume of financing provided reached CZK 30.9 billion, representing a year-on-year gain of 8.7%. The main stimuli were an expanding offer and simplified processes, including in establishing initial and professional credit lines, thereby facilitating access to financing for a wider range of clients, as well as accelerating loan processing while requiring fewer documents.

In a highly competitive environment, Komerční banka emphasised the quality of services delivered and the value these add for clients. The extensive branch network continued to be among its most important competitive advantages. KB deals with its clients individually, and each client has his or her own banking advisor. The Bank's advisors undergo regular training and education. Within selected areas of expertise, such as foreign payments, exchange risk hedging and EU grants, banking advisor services are complemented by expert advisory from a network of specialists.

There were important innovations in how clients receive financing, acquire services and possible products on-line, and secure their internet payments. There was a positive response to the new, unique-to-the-market Business World corporate credit card, which rewards its holders for active use by returning 1% of each card payment to the business current account and offers the MasterCard Business Selection discount programme plus a number of other advantages. For easier and flexible administration of company finances, KB developed the Mobilní banka Business next-generation mobile app, which offers users such unique functionality as multiple and multi-level payment approval.

Komerční banka targets business start-ups and offers them advantageous accounts and initial credit lines to finance start-up costs. KB clients and potential clients can also benefit from the unique *Nastartujte se (Start up!)* programme, within which start-ups can apply for a financial grant and obtain thought-provoking information and experience from more experienced entrepreneurs or expert partners. KB will continue to provide comprehensive services and high-quality advisory founded on real added value for the client.

Further innovations are being prepared in the financing area, the service offer to artisans and mobile banking. The objectives are to bring attractive benefits to businesses and to be a reliable partner in their activities.

Corporates and Municipalities

Komerční banka strengthened its position during 2015 as the largest bank on the corporate financing market[1]. The Bank services nearly 10,100 clients in this segment of small and medium-sized enterprises as well as public sector corporations. According to market surveys, this figure represents a 40% market share[1].

Despite recovery in the Czech economy, small and medium-sized enterprises' demand for financing grew only slowly. Enterprises and public sector clients financed a number of development investments and operational needs from their own sources or postponed these while expecting EU grants to begin. The loan market recorded substantial growth only in the second half of the year. CNB's intervention to stabilise the crown's exchange rate continued, although expectations grew for its further rise after this policy's expected end. The environment of low interest rates also kept rates for clients at a minimum.

1) Source: KB's own market research

During 2015, an excess of liquidity on the market created within the Corporates and Municipalities segment a highly competitive environment with persisting pressure on the prices of all banking services. The volume of loans expanded year on year by 2.8% to CZK 104.9 billion. The most dynamically growing sectors were manufacturing, trade, and financing of export and developer projects. Increased growth and dynamics were apparent mainly in economically broadly connected groups. As the expected end of the CNB's currency intervention draws closer, exporters' and importers' desire to hedge their currency positions slowly mounted.

In addition to the Bank's provision of comprehensive and structured financial solutions and related advisory, clients appreciate in particular its very secure internet banking. Directed to this area were such large investments as the Trusteer solution. KB was one of the first banks on the market to offer SEPA Direct Debit. At the end of the year, the Bank launched the Mobilní banka Business app enabling companies' finances to be managed on tablets and mobile phones, including multi-level payment approval. The Bank made possible electronic drawing of loans, guarantees and documentary payments. It can accept financial statements from clients electronically in the same format as that used by state administration. KB expanded the KB eTrading on-line platform for currency operations. Clients have long emphasised the commitment, expertise and professionalism of the banking advisors and specialised team members. The Bank also made substantial investments into the efficiency of its internal processes so as to ensure services are provided within the expected time.

KB's clients drew nearly EUR 300 million in 2015 and a total of EUR 900 million from international financial institutions for guaranteeing or discounting loans. In connection with the new EU programming period, the Bank presented a number of training and advisory activities along with the Association of Small and Medium-sized Enterprises and Crafts of the Czech Republic and other partners. Komerční banka newly offered to draw up for its clients programme grant applications. The Bank provided extensive training at no charge on foreign trade, European grants, as well as new developments in accounting and the law in the fourth annual KB Academy cycle. Other formats of information support included the Bank's own Export Journal and its partnership with the magazine Trade News.

In 2016, KB will continue in the trend of strengthening on-line communication channels with possibilities for changing and storing client documents, enhancing service convenience, making navigation intuitive, and expanding reporting. Mobilní banka Business will be expanded to the Android and Windows Mobile platforms. The website will have an entirely new look and include sections specifically devoted to exports, cash management and EU topics. In co-operation with the EIB, KB will offer under the name EuroEnergy advantageous financing of projects focused on energy savings.

Top Corporations

KB has long maintained its leading market position for top domestic and multinational corporations, and in particular because it provides sophisticated individual solutions. In 2015, the exceptionally rapid growth of the Czech economy positively affected this segment. The entire year was marked by an environment of low interest rates, and that affected both demand for financing and transactions related to interest rate hedging. Komerční banka was successful in terms of acquisitions, being involved in large transactions and changes in ownership interests.

The volume of loans grew by 1.7% to CZK 148.3 billion[1]. These results confirmed KB's stable one-quarter share of the loan products market[2]. The main factors driving loan portfolio growth were financing in real estate, construction and energy, as well as acquisition financing. KB was also successful as an arranger of large transactions. The client portfolio in the Top Corporations segment remains stable.

Komerční banka provides its clients with a wide range of products and services, including highly specialised ones from investment banking as well as export and structured financing. At the same time, it brings clients comprehensive solutions for transactions unique on the banking market. KB's product offer is complemented by the offer from subsidiary and affiliated companies providing leasing, factoring services and supplementary pension insurance. KB clients value in particular the stable sales team for its reliability, professional approach and knowledge. In providing solutions meeting the needs of top multinational clients, KB utilises global expertise shared within Société Générale Group. It also offers clients the possibility to use SG's extensive international network, particularly for trade financing, payment services and international cash pooling structures.

As part of its new services offer in 2015, the Bank presented in particular services related to foreign currency transactions, such as multicurrency cash pooling and the full potential of SEPA Direct Debit, the latter of which KB was the first bank in the Czech Republic to introduce. Komerční banka also focused on the overall service concept for the most important clients, constantly improving that concept and endeavouring to bring clients the greatest possible added value and comprehensive solutions for their needs, using the entire portfolio of services provided by Société Générale Group.

1) Including branch in Slovakia
2) KB's own market research

In 2016, Komerční banka will continue the current trend and endeavour to utilise to the utmost the synergies within the KB and SG groups in providing financial services to clients' satisfaction. An important question for clients remains that as to the timing when the CNB will end its commitment to holding down the exchange rate. KB stands ready to guide them safely through this period by hedging their transactions. The Bank will monitor new investment opportunities on the market and related transactions. Considering the prognoses, KB expects further growth in the economy and also growth in financing and client prosperity.

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 SG groups operating there.

The year 2015 was relatively successful for KB SK. Over the year, the initial trend of decreasing asset volume changed course, and, as had been the main objective for 2015, the value of all loans at the end of the year represented a gain for the year. KB SK values its participation in large structured transactions of crucial importance to the development of the Slovak banking market. Such opportunities are highly attractive despite their demanding and lengthy preparations in comparison to standard corporate loans.

KB SK protected its operating profit, although net profit for 2015 fell in comparison to that for 2014. This was due to the release of provisions in 2014, the highly competitive environment, and the low interest rates in the euro zone. In line with its current strategy, these results thus represent a return to the expected and sustainable level of profitability for KB SK. Operating expenditures remained under control through the year, and low cost of risk could be attributed to the high quality of the branch's loan portfolio.

In accordance with the client-oriented business model, KB SK carefully reviewed the quality of services it provided and products it offered in Slovakia. This continuous process will progressively lead to implementing solutions which should further enhance KB SK's client satisfaction. In addition to client satisfaction, fulfilling regulatory requirements is also important. Although the investments made necessary by increasingly demanding banking regulations put pressure on profit, these are indispensable for KB SK to continue in building its business.

The main objective in 2016 will be to strengthen the branch's position in the Top Corporations segment within Slovakia. The financial strength and experience of the KB and SG groups should help to achieve this goal.

Investment banking

Interest rates in the Czech Republic moved in a very low range during 2015 as a result of the very relaxed monetary policies of the Czech National Bank and other central banks, especially the European Central Bank. The environment of overall low inflation also had a substantial effect. Yields on government bonds decreased when the CNB's intervention regime led to increases in crown liquidity and widening of the CZK/EUR swap basis. Foreign investors took advantage of this and added to their positions in short-term Czech government bonds such that yields on these bonds reaching even negative values. The CZK/EUR exchange rate weakened at the start of 2015 based on speculation that the CNB would increase the level of its exchange rate commitment due to very low inflation. The crown quickly compensated for this movement, however, when the president took a decisive stand against the intervention regime. During summer, the CZK/EUR exchange rate even reached the commitment limit of 27.00, and the central bank had to intervene directly in the market against further strengthening.

Despite difficult market conditions, KB's investment banking teams achieved very good results in 2015. The Czech and Slovak Corporate Sales Desks put in a solid performance while executing sophisticated transactions in interest rate swaps, cross currency swaps and foreign exchange options. By taking an active approach and co-operating professionally with the financial markets division of Société Générale, the Bank succeeded in boosting returns from commodity services. KB's profit rose also due to the eTrading platform, which offers a wide range of services, including foreign currency conversions, currency risk hedging, and earning returns on idle funds. The Financial Institution Sales Desk substantially boosted its traded volume, even though this growth had only a limited impact on profit due to market conditions. This team's successful transactions included several corporate bond issues. The results achieved by the FX and Short-Term Derivatives Desk in 2015 were higher in comparison with 2014 due to greater volatility and wider spreads at the close of 2015. The volume of foreign exchange trades slightly increased. The results achieved by the Bonds & Derivatives Trading Desk also improved due to growth in trades with foreign clients, which compensated for a decrease in trades on the domestic market.

Komerční banka was also affected by the Volcker Rule (introduced in July 2015), which limits the Bank's proprietary trading.

The Global Finance Platform team took advantage of growing demand for financing and executed 51 transactions, representing an increase of more than 80% in comparison to the previous year. All categories of financing, such as structured financing, syndicated loans and initial public offerings, recorded significant growth despite heightened competition on the market. The Bank co-operated on several transactions with teams from Société Générale wherein clients benefited from the combination of KB's knowledge as a leader on the domestic market and SG's global experience. In connection with expected growth in client business opportunities, the Global Finance Platform team should continue to expand in 2016.

Transaction and payment services

Cash payment operations

KB has a stable position among the most significant cash services providers in the Czech Republic[1]. ATM withdrawals predominate in terms of the number of cash transactions performed, while deposits at branches are the most significant in terms of volume. In comparison with 2014, the development of the overall number and volume of cash transactions was positively affected by the general recovery of the Czech economy. Cash payment operations at branches recorded a slight year-on-year decrease in terms of both volume and number of transactions, particularly in favour of transactions performed via ATM. That is consistent with the Bank's intentions and strategies.

The Bank recorded continuing growth in use of the deposit function at ATMs. The number of deposit transactions performed by clients via ATM rose year on year by 125% while volume grew by 142%. As of the end of 2015, KB was operating 114 deposit ATMs, and it intends to continue increasing their number.

As of the end of 2015, KB was one of only a few banks on the Czech market enabling its clients to deposits cash on accounts maintained also at other financial institutions.

Non-cash payment operations

Komerční banka maintained a stable market share in both domestic non-cash payment operations and payments within the Single Euro Payment Area (SEPA) performed by Czech banks[2]. KB recorded a year-on-year gain of 12.5% in the number of foreign payments.

Within KB, SEPA payments have an important position in foreign payments. On average, they represent 77% of all outgoing foreign payments and 66% of incoming foreign payments. Nevertheless, the absolute majority of payments were still non-cash domestic payments.

In 2015, KB's clients were able to input SEPA Direct Debit orders in both the Core and B2B schemes. All clients could set up SEPA Direct Debit approvals via any direct banking service. The Bank also offered its corporate clients the possibility to input and authorise payment orders via a mobile app. It introduced for retail clients a new, dynamic form for inputting foreign payments in the MojeBanka app.

Payment cards

With its 15.7% market share for card issuance, Komerční banka occupies the third position on the Czech payment cards market. KB is also third in payment card acceptance, with a market share of 14.9% of total turnover and 16.2% of all retailers[3]. Use of KB payment cards increased total turnover in 2015 by 14.2% in comparison with 2014.

There was a clear growth trend in use of card payments via the internet. For this reason, KB continued supporting payments secured with 3-D Secure. This technology was used in 2015 by more than 90% of KB's clients when making internet card payments.

During 2015, KB was working on many projects regarding payment card issuance and acceptance, including crediting payments via payment cards, cross-border acquiring and implementing EU regulations.

Trade finance and cash management

KB is one of the main players on the trade finance market and long has held a stable share for guarantees and documentary payments[4]. The Bank increased the volume of new sales by 4% year on year despite recording a slight decline in the number of new trades, which decrease mirrored the market. The number of users of the Trade & Finance OnLine app for arranging and managing transactions rose by a substantial 28%.

In cash management, KB offered multinational clients new solutions tailored to their needs, such as remote management of accounts from abroad via their parent companies. Using cash pooling structures, clients can centralise the balances of connected accounts from various banks and employ other new and sophisticated solutions to use their corporate cash flow more efficiently.

1) Source: KB's own market research
2) Source: KB's own market research
3) Source: KB's own research in co-operation with the International Chamber of Commerce Czech Republic
4) Source: KB's own research and statistics from the Bank Cards Association

Selected operating indicators for Komerční banka

	2015	2014	YEAR-ON-YEAR CHANGE
Number of active* payment cards	**1,618,000**	**1,532,000**	**5.6%**
– debit cards	1,417,000	1,342,000	5.6%
– credit cards	201,000	191,000	5.5%
Number of retailers	21,000	18,000	12.0%
Number of terminals	34,000	31,000	9.1%
Volume of card payments at retailers contracted with KB (in CZK million)	62,000	66,000	-6.0%
Number of card payments at retailers contracted with KB	67,814,000	66,967,000	1.3%
Volume of payments using KB cards (in CZK million)	70,000	61,000	14.2%
Number of payments using KB cards	83,994,000	67,676,000	24.1%
Volume of cash withdrawals (in CZK million)	**251,000**	**243,000**	**3%**
– via ATM	127,000	120,000	5%
– at branches	125,000	123,000	2%
Volume of cash deposits (in CZK million)	**311,000**	**316,000**	**-2%**
– via ATM	7,000	3,000	141%
– at branches	303,000	313,000	-3%
Number of cash withdrawals	**29,159,000**	**28,072,000**	**4%**
– via ATM	27,301,000	26,116,000	5%
– at branches	1,859,000	1,956,000	-5%
Number of cash deposits	**7,469,000**	**7,980,000**	**-6%**
– via ATM	485,000	216,000	125%
– at branches	6,984,000	7,764,000	-10%

* Cards in circulation

Comments on the IFRS consolidated financial results

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 12,758 million for 2015 under International Financial Reporting Standards (IFRS). This represents a 1.5% decrease in comparison with 2014.

Profit and loss statement

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

The deconsolidation affects year-on-year comparison of net operating income. The comments provided below on an "adjusted" basis exclude the Transformed Fund's contribution to consolidated revenues in 2014 and reflect a corresponding elimination from the income statement of the line 'Share of profit of pension scheme beneficiaries'. The adjusted comparison is thus based upon the same consolidation scope for both 2014 and 2015. There was no impact from the deconsolidation on reported operating expenses, cost of risk and the net profit of KB Group.

Net operating income remained stable in 2015 (-0.1%). Net interest income declined slightly, as the negative impact of low market interest rates on reinvestment yield from deposits more than offset the effect of growing loan and deposit volumes. Net fees and commissions decreased as a result of clients' switching to new advantageous account packages featuring the MojeOdměny (MyRewards) programme as well as to lower-priced on-line banking tools. Net profit from financial operations rose thanks to improved demand from corporate clients for hedging of financial risks. Reported (unadjusted) net operating income was down by 1.8%.

Net interest income slipped by 0.7% to CZK 20,456 million, despite strong growth especially in the volume of loans. This mainly reflects diminishing yields from reinvesting deposits, as market interest rates remained at very low levels throughout 2015. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, decreased to 2.5% in 2015 from 2.6% one year earlier. The unadjusted net interest income declined by 4.5%.

Net income from fees and commissions declined by 1.8% to CZK 6,956 million. Even though the number of transactions executed for clients expanded notably, the income from transaction fees was down due to inclusion of more transactions within the account packages and clients' rising preference for lower-priced direct banking channels. The number of KB's clients increased, too, but fees from deposit products were pushed down by the transition – now almost complete – to account bundles providing rewards for activity. Fees from loans were down, even though lending expanded, as the portfolio comprised a mounting share of loans for which no administration fees are charged and the Bank paid out higher commissions reflecting strong sales of housing loans. On the positive side, fees from cross-selling were up, benefitting from growth in the volumes of client savings in mutual funds, life insurance policies, as well as pension funds. Solid activity in the areas of structured financing, private banking and other services for corporations also contributed positively. The unadjusted fees and commissions rose by 3.0%.

Net gains from financial operations were higher by 9.7% at CZK 2,610 million. Customers' hedging activity for interest rate and currency risks picked up thanks to growth in financing and the fact that KB was able to offer option strategies effective in the current market environment. Successful roll out of the new eTrading application for business clients contributed as well to growth in the volume and number of spot and derivative transactions. Net gains from FX payments continued to reflect a narrowing of average spreads and cost optimisation by clients on conversions. The impact of the deconsolidation on this revenue line was immaterial.

Other income remained flat at CZK 109 million. In 2015, other income primarily comprised revenues from intermediation and property rental. Reported other income declined by 6.0%.

Recurring operating expenditures (adjusted for the impairment on several buildings that were reclassified into the accounting category Held for Sale) decreased by 0.3% to CZK 13,021 million. The total reported operating costs increased by 2.9% to CZK 13,439 million, impacted by revaluation of the real estate portfolio. Within this total, personnel expenses rose by a slight 0.1%[1] to CZK 6,793 million. The average number of employees diminished by 1.1% to 8,426. General administrative expenses were down by 1.8% to CZK 4,406 million. Savings were achieved across all main areas except for IT support. The provision created in this line in the second quarter for the estimated amount of the Group's 2015 contribution to the new Bank Resolution Fund was released in the fourth quarter, because the respective law has come into force only from 1 January 2016. The category 'Depreciation, impairment and disposal of fixed assets' grew by 25.1% to CZK 2,240 million. During the last quarter of 2015, KB reviewed the portfolio of buildings it owns with the aim to optimise the ratio of owned and rented premises. The Bank identified several buildings which have been reclassified into the accounting category Held for Sale and their valuations have been adjusted in line with their newly intended use (sale). The net book value of the buildings thereby decreased by CZK 418 million, which amount has been recognised on the line 'Depreciation, impairment and disposal of assets'. The impairment has no cash impact.

Profit before allowances / provisions for loan and investment losses, other risk and income taxes for 2015 was 2.4% lower, at CZK 16,692 million. The reported figure declined by 5.2%.

The cost of risk dropped by 17.1% to CZK 1,075 million, or 21 basis points in relative terms as measured over the average volume of the lending portfolio. The low level of net provisions creation for the year reflected the stable and good quality of the loans portfolio, as well as successful recovery performance. Cost of risk in the second half of 2015 was higher due to impacts from calibrating provisioning models in the retail and corporate segments and creating provisions for a few specific cases in the corporate segment.

Income from shares of associated undertakings (effectively only from Komerční pojišťovna) declined by 19.9% to CZK 153 million. That was due to the effect of lower interest rates on the yield from assets and a decline year over year in premiums written.

Following deconsolidation of the Transformed Fund, the line 'Share of profit of pension scheme beneficiaries' ceased to be reported in the consolidated income statement. The amount had been CZK 508 million a year ago. This change effectively offsets the decrease in net banking income also stemming from the deconsolidation.

Income taxes decreased by 1.2% to CZK 2,638 million.

At CZK 13,132 million, KB Group's consolidated net profit for 2015 was lower by 1.5% in comparison with the prior year. Of this amount, CZK 374 million was profit attributable to holders of minority stakes in KB's subsidiaries (-0.5% versus the year earlier). Profit attributable to the Bank's shareholders totalled CZK 12,758 million, which is 1.5% less than in 2014.

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 -3,588 million in comparison with CZK 8,313 million in 2014.

The Group's comprehensive income for 2015 amounted to CZK 9,544 million, down by CZK 12,099 million year on year.

Statement of financial position

As a result of the aforementioned deconsolidation of the Transformed Fund, the pro forma consolidated balance sheet as of 31 December 2014 contracts by CZK 41.4 billion. Smaller on the asset side are in particular the items 'Available-for-sale financial assets' (by CZK 35.4 billion) and 'Held-to-maturity investments' (by CZK 7.1 billion). On the other side of the balance sheet, the volume decreases mainly on the lines 'Amounts due to customers' (by CZK 40.1 billion) and 'Shareholders' equity' (by CZK 1.5 billion).

As of 31 December 2015, KB Group's total assets amounted to CZK 891.6 billion. Adjusting for the effect of the deconsolidation, this was 2.2% less than the volume as of 31 December 2014. If the previously consolidated assets are included, the drop comes to 6.5%.

Assets

Cash and current balances with central banks were down by 16.1% to CZK 128.3 billion. The main component of this item comprises the volume of obligatory minimum reserves in central banks.

Amounts due from banks, as adjusted for deconsolidation of the Transformed Fund, dropped by 19.4% to CZK 47.8 billion. The unadjusted volume shrank by 19.9%. The end-of-year balance was affected by the announced decision of the Bank to reflect the cost of the Resolution Fund charge in pricing of large-ticket deposits. The year-end balances influence the Resolution Fund charge imposed by the regulator.

The adjusted volume of financial assets measured at fair value through profit or loss decreased by 32.3% to CZK 29.2 billion. The unadjusted volume deteriorated by 30.4%. That line comprises the Group's trading portfolio.

1) Since 1 January 2015, KB Group has introduced accounting for the SG deferred share plan. Comparative information has been restated to reflect the presentation of the current period. The impact of recognition of deferred share plan in the income statement was an increase in the line 'Personnel expenses' by CZK 31 million for the year 2014. The volume of capital funds on the balance sheet increased by CZK 31 million. These two impacts were mutually compensated with no impact to 'Total equity'.

Total net loans and advances grew by 7.7% in comparison with the end of the previous year to reach CZK 532.6 billion. The gross amount of client loans and advances rose by 6.8% to CZK 548.5 billion. Standalone KB had a 91% 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 46%, increasing by 10.3% from the year earlier. Mortgages constitute 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 13.9%, from the year earlier to CZK 185.2 billion. The volume of Modrá pyramida's loan portfolio dropped by 3.4% to CZK 37.0 billion, but the building society observed an improving trend in sales of its loan production. The volume of other loans from KB to individuals rose by 11.5% to CZK 21.5 billion and the volume of financing by ESSOX decreased by 2.3% to CZK 9.3 billion.

The total volume of loans provided by KB Group to businesses climbed by 3.5% to CZK 296.7 billion. The overall volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia, and inclusive of factor finance outstanding at Factoring KB, advanced by 4.1% to CZK 237.2 billion. Lending to small businesses expanded by 8.7% to CZK 30.9 billion. Total credit and leasing amounts outstanding at SGEF were higher by 6.7% year over year at CZK 24.5 billion.

The loan portfolio's quality has improved compared to 2014. The share of standard loans within that total climbed to 94.1% (CZK 512.6 billion) while the proportion of loans rated watch was 1.6% (CZK 8.7 billion). Loans under special review (substandard, doubtful and loss) comprised 4.3% of the portfolio, with volume of CZK 23.2 billion. The volume of provisions created for loans reached CZK 15.8 billion. That was 16.0% less than at the end of 2014. This drop was affected by writing-off from the balance sheet of certain old and fully provisioned exposures.

The portfolio of financial assets available for sale (AFS), as adjusted for deconsolidation of the Transformed Fund, declined by 0.2% to CZK 41.9 billion. The unadjusted volume shrank by 45.9%. Of the CZK 41.9 billion in the AFS portfolio, debt securities comprised CZK 41.2 billion, including CZK 20.4 billion in Czech government bonds and foreign government bonds of CZK 7.9 billion.

The adjusted volume of securities in the held-to-maturity (HTM) portfolio was down by 3.3% to CZK 67.1 billion. The decrease unadjusted for the effect of the deconsolidation was 12.3%. Of the HTM portfolio's CZK 67.1 billion in debt securities, Czech government bonds constituted CZK 56.2 billion and foreign government bonds CZK 10.9 billion.

The net book value of tangible fixed assets dropped by 10.7% to CZK 6.8 billion, while that of intangible fixed assets added 2.9% to reach CZK 3.9 billion.

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

As of 8 December 2015, KB reduced the capital of its subsidiary Protos, uzavřený investiční fond, a.s. (Protos) by CZK 5,000 million. The decrease was made through a distribution of the premium fund of Protos. As a result of the transaction, KB's share in Protos decreased from 89.64% to 83.65%. The remaining participation in Protos is by Factoring KB, a.s., which is itself fully owned by KB.

Liabilities

Total liabilities, adjusted for the effect of the deconsolidation, were 2.3% smaller in comparison to the close of 2014 and reached CZK 785.3 billion. If the previously consolidated liabilities are included, the drop comes to 6.9%.

Amounts due to banks decreased in 2015 by 8.4% to CZK 56.2 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

The overall volume of clients' deposits within KB Group rose by 3.3% year on year to CZK 656.7 billion. Those figures exclude the impacts of deconsolidating clients' assets in the Transformed Fund of KB Penzijní společnost as of 1 January 2015 and volatile repo operations with clients[1]. Deposits from corporations and entrepreneurs climbed by 1.5% to CZK 397.2 billion. Deposits at KB from individual clients grew by 10.8% year on year to CZK 192.0 billion. The deposit book at Modrá pyramida diminished by 5.3% to CZK 68.5 billion.

Client assets managed by KB Penzijní společnost were higher by 11.3% at CZK 45.1 billion. Technical reserves in life insurance at Komerční pojišťovna expanded by 5.1% to CZK 44.8 billion.

The volume outstanding of issued securities plummeted by 50.0% to CZK 11.3 billion, as the maturing bonds were not replaced by new issues. An overview of issued bonds is provided in the chapter *Securities issued by KB*.

Provisions declined by 13.9% to CZK 1.2 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.

1) The total volume of 'Amounts due to customers' (including repo operations with clients), adjusted for effect of deconsolidation of the Tranfsformed Fund, was up by 0.7% to CZK 666.4 billion. When unadjusted for the effect of the deconsolidation, that volume dropped by 5.1%.

Shareholders' equity

Shareholders' equity decreased year over year by 3.0% to CZK 106.2 billion. The generation of net profit was offset by payment of the annual dividend (KB had paid out CZK 11.8 billion). Revaluation gains on cash flow hedges were down due to slightly higher market interest rates in comparison with the end of 2014. The revaluation of the AFS portfolio (which represents primarily reinvestment of client deposits) declined as a result of deconsolidating the Transformed Fund and amortisation of the revaluation difference on securities reclassified from the AFS to HTM portfolio in 2014. That was mitigated in part by positive revaluation of equity instruments. KB share capital remained stable at CZK 19.0 billion.

The cash flow hedging, which reflects the change in the fair value of hedging derivatives, decreased by 20.8% from CZK 16.0 billion at the end of 2014 to CZK 12.7 billion at the end of 2015 and the available-for-sale portfolio revaluation reserve declined by 25.5% in the same period from CZK 6.7 billion to CZK 5.0 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 2015

Komerční banka held 238,672 of its own shares as of 31 December 2015. 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 2015	PART OF REGISTERED SHARE CAPITAL AS OF 1 JANUARY 2015	NUMBER OF SHARES AS OF 31 DECEMBER 2015	PART OF REGISTERED SHARE CAPITAL AS OF 31 DECEMBER 2015
238,672	0.628%	238,672	0.628%

During 2015, 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 2015 intermediate transactions in KB shares for its clients through its own account.

Based upon the consent of the General Meeting convened on 23 April 2015, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions:

- The maximum amount of shares that can be held by the Bank at any specific moment shall be 3,800,985 ordinary shares representing the total nominal value of CZK 1,900,492,500.
- The share purchase value must be at least CZK 1 per share and at most CZK 7,000 per share.
- The time for which it is possible for the Bank to acquire the shares is 18 months.
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in S. 301 (b) and (c) and S. 302 of Act No. 90/2012 Coll., the Corporations and Cooperatives Act or, as the case may be, any other applicable legal rules of the Czech Republic or the European Union.

Komerční banka Group

As of 31 December 2015, Komerční banka had 11 subsidiaries and 1 associate, Komerční pojišťovna, 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 2015 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 companies in Komerční banka Group

CZK million, IFRS	GROUP HOLDING (%)	TOTAL ASSETS 2015	TOTAL ASSETS 2014	SHAREHOLDERS' EQUITY 2015	SHAREHOLDERS' EQUITY 2014	NET PROFIT 2015	NET PROFIT 2014	CONSOLIDATION METHOD
Domestic participations								
Modrá pyramida stavební spořitelna, a.s.	100	88,751	82,393	7,358	7,611	915	995	Full
Komerční pojišťovna, a.s.	49	53,173	51,487	2,483	2,514	308	387	Equity
KB Penzijní společnost, a.s.	100	1,693	1,477	1,367	1,192	176	135	Full
SG Equipment Finance Czech Republic s.r.o.	50.1	28,853	27,613	3,760	2,350	311	285	Full
ESSOX s.r.o.	50.93	9,868	10,214	3,935	3,938	481	534	Full
Factoring KB, a.s.	100	7,336	7,486	1,626	1,598	76	27	Full
Protos, uzavřený investiční fond, a.s.	100	8,677	13,882	8,623	13,822	222	228	Full
KB Real Estate, s.r.o.	100	1,013	1,040	495	494	2	0	Full
VN 42, s.r.o.	100	2,070	2,052	2,046	2,015	31	22	Full
NP 33, s.r.o.	100	892	876	878	862	16	14	Full
Cataps, s.r.o.	100	4	4	4	4	0	0	Full
Foreign participations								
Bastion European Investments S.A.	99.98	6,348	6,733	3,184	3,398	48	80	Full

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: third largest building savings bank as measured by loan volume[1] (15% market share)[2]
Main products: state-subsidised savings accounts, bridging loans, building savings loans

Financial summary (CAS[6], CZK thousand)

	31.12.2015	31.12.2014
Total assets	89,103,638	82,774,685
Shareholder's equity	7,357,501	7,611,355
Loans to clients (gross)	37,171,614	38,444,951
Volume of deposits	79,312,458	72,639,189
Net operating income	1,538,947	1,735,589
Net profit	915,071	994,684
Average number of FTEs	330	339
Number of points of sale	215	215

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Modrá pyramida stavební spořitelna, a.s.
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1) Data as of 30 September 2015
2) Source: Internal data, Ministry of Finance of the Czech Republic, www.mfcr.cz

KB Penzijní společnost, a.s.

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

Financial summary (CAS[6], CZK thousand)

	31.12.2015	31.12.2014
Assets under management[4]	48,551,032	44,062,361
of which in Transformed fund	46,614,720	43,122,337
Shareholder's equity	1,367,441	1,192,660
Net operating income	295,831	263,691
Net profit	175,568	134,974
Average number of FTEs	47	49

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3) Source: The Association of Pension Funds of the Czech Republic, www.apfcr.cz
4) 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 and other financing
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)[5]
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[6], CZK thousand)

	31.12.2015	31.12.2014
Total assets	29,655,399	28,192,034
Shareholders' equity	3,404,523	1,725,928
Volume of new financing	11,496,000	9,678,061
Net operating income	880,789	668,474
Net profit	577,909	382,401
Average number of FTEs	121	119

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5) Source: Czech Leasing and Finance Association; www.clfa.cz
6) CAS: The Czech Accounting Standards

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: 19% 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[4], CZK thousand)

	31.12.2015	31.12.2014
Total assets	9,824,268	10,110,208
Shareholders' equity	3,890,221	3,910,792
Amounts due from clients (gross)	9,451,446	9,689,223
Net operating income	1,048,421	1,166,117
Net profit	464,984	485,555
Average number of FTEs	341	348

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Factoring KB, a.s.

Shareholder structure: Komerční banka 100%
Core business: factoring
Market position: 2nd on the factoring market, managing 26% of the factoring portfolio on the Czech market[2]
Main products: domestic factoring, export factoring, import factoring, modified factoring, receivables management

Financial summary (CAS[4], CZK thousand)

	31.12.2015	31.12.2014
Total assets	12,027,931	12,214,295
Shareholder's equity	1,626,201	1,598,329
Factoring turnover	35,480,496	34,114,850
Amounts due from clients (gross)	10,801,275,	10,964,875
Net operating income	170,554	148,002
Net profit	76,215	26,647
Average number of FTEs	42	42

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Komerční pojišťovna a.s.

Shareholder structure: SOGECAP 51%; Komerční banka 49%
Core business: insurance
Market position: 10% share on the life insurance market (measured by premiums written)[3]
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[4], CZK thousand)

	31.12.2015	31.12.2014
Total assets	46,687,061	45,273,502
Shareholders' equity	2,983,090	3,113,341
Technical reserves (gross)	45,428,778	43,306,605
Gross premium written	6,577,143	10,192,285
Net profit	372,781	283,082
Average number of FTEs	166	156

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1) Source: Czech Leasing and Finance Association; www.clfa.cz
2) Source Czech Leasing and Finance Association, www.clfa.cz
3) Source: Czech Insurance Association, www.cap.cz
4) CAS: The Czech Accounting Standards

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 Komerční banka'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 2015 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 good performance of the Czech economy during 2015 and the accompanying rise in investment activity and household consumption.

KB considers its current level of net provisioning as satisfactory. Driven by low numbers of new defaults and successful recovery, the Group's cost of risk diminished to 21 basis points in 2015 from 26 basis points in 2014. The decrease was influenced by lower numbers of new defaults, as well as successful recovery.

The proportion of defaulted loans decreased year over year to 4.2% from 5.2%. Provisions coverage for defaulted loans diminished slightly to 63.0% at the end of 2015 from 66.7% a year earlier.

Risk appetite and principal activities in 2015

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.

KB Group concentrated during 2015 especially on the following activities in the credit risk area:

- development of risk tools in the area of small business financing;
- optimisation as to the setting of approval authorities with the objective of empowering business departments to take responsibility in areas with lower risk intensity;
- implementation of the new collection system with its emphasis on further automation and digitalisation of the recovery process;
- preparation for new regulatory requirements (mainly IFRS 9 and AnaCredit);
- definition of Group strategy for the risk management function in the KB subsidiaries;
- update of key risk models to reflect the latest observations of portfolio development while maintaining sufficient margins across the entire business cycle.

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 and Basel (e.g. Loss Given Default, Probability of Default) models are back-tested twice annually and any deterioration triggers corrective measures.

Credit fraud prevention

Komerční banka 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 KB's main applications. Anti-fraud tools and processes were upgraded during 2015, and their further development within the Group is planned for 2016.

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 Basel III 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 is a part of the Risk Management Arm and co-operates with a broad group of external valuation experts.

Komerční banka continuously monitors the residential real estate market and regularly revaluates residential real estates in order to react adequately to developments in market prices. Commercial real estates are revaluated individually.

Recovery activities

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 during 2014.

The inflow of clients into recovery has been relatively stable, influenced mainly by macroeconomic conditions and 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 2015.

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

Risk concentration management

Komerční banka'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; or (iii) based upon the expected loss approach.

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 financial markets activities. This department reports directly to the Bank's Chief Risk Officer and is fully 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 Komerční banka's trading portfolio:
- Value-at-Risk (VaR) is calculated using historical scenarios with a 99% confidence level and 1-day time horizon. The reliability of the VaR model's results is back-tested while checking the daily P&L against the VaR. KB's Board of Directors is regularly informed about the results of the back-testing.
- The impacts of low-probability events not covered by VaR are assessed using various stress-testing methods and scenarios.
- Volume and sensitivity metrics are used to measure exposure to all relevant risk factors (e.g. FX, interest rate, basis, flight-to-quality, commodities, and credit spread risks).

Market risk limits are approved by two members of the KB Board of Directors (Senior Executive Director Risk Management, Senior Executive Director Top Corporations) 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 financial 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 markets operations are monitored on a daily basis. Any breach of such limits 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.

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 and capital requirement calculation since 2008. Capital requirement calculation is performed by a central model of Société Générale. The Czech National Bank has prescribed that the minimum capital requirement shall not fall below 75% of the requirement according to the Standardised Approach. In addition to the standard tools utilised within the AMA approach, such as collecting data on actual operational risk losses, risk control self-assessment, key risk indicators, and scenario analysis, KB also has implemented a system of permanent supervision composed of daily and formalised controls. In 2015, the Bank implemented in its headquarters the group tool developed and used by its parent company, SG, for management and declaration of formalised control results. The process of risk self-assessment has been closely linked to the risk mapping performed by Internal Audit since 2012. Moreover, Komerční banka continuously improved its efficiency in collecting information on internal operational risk events while also enhancing the detail of information gathered for each such event. During 2015, Komerční banka Group recorded 812 operational risk events in a final amount of CZK 86.8 million, which in a year-on-year comparison represents a 25% decrease in the volume of losses. Co-operation within consolidated operational risk management has been deepened among KB Group companies. Within KB Group, the AMA approach is already used 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 Komerční banka'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 KB'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. Within the implemented information security management system, the Bank regularly performs risk assessment of information assets in terms of integrity, availability and confidentiality. Results are fully integrated with overall risk control self-assessment practice.

During 2015, Komerční banka focused on minimising information security risks by implementing advanced security measures while also improving KB staff's security awareness. Because the entire Czech banking sector had been subject to concentrated hacker attacks focused primarily on clients, KB invested considerable effort and resources into strengthening internet security in 2015. In the spirit of the '*Partnership Matters*' slogan, KB has launched a comprehensive initiative communicated as '*Securely together*'. KB has become a partner to its clients in matters of their security. The Bank communicates to its clients current threats and the principles of safe behaviour in the digital world while educating clients and offering them guidance in case of emergency. In addition to direct client communication regarding client security, KB also launched the dedicated website **www.kb.cz/security**.

Komerční banka is the first bank on the market to offer its clients Trusteer Rapport, an IBM tool focused on protection from specific threats, such as fake, harmful websites (phishing) and malware, and on preventing attempts to detect passwords (e.g. keylogging) which are aimed at users of internet banking. The Bank also significantly improved detection capability regarding fraudulent payments made via internet banking as well as other channels.

Compliance risk

A potential breach of regulatory rules, including standards of ethical conduct to which the Bank has made a commitment, might have not only direct negative financial impacts (penalties, compensations for damage caused, etc.) but also harm KB's reputation and thereby amplify the financial losses. KB 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 activities of the Compliance Department, which is an important part of the Bank's management and control system, range from monitoring regulatory developments, through co-ordinating the implementation of new regulations into internal rules, processes and systems, to subsequent control and consultation activities. Minimising compliance risk requires contributions from other specialised control and supportive departments as well as the involvement of all employees.

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 2015 included further strengthening of anti-money laundering measures and implementation of international sanctions. Another priority was to implement regulatory requirements, both domestic and international. In 2015, a barrage of new regulations was mainly concentrated in the area of prudential regulation and consumer protection in the financial market. In addition to high implementation costs, KB faced – and in 2016 will continue to face – an increasing degree of legal uncertainty arising in particular from the time-consuming implementation of European legislation whose co-ordination at the European level generally extends the legislative process and brings greater demands on interpretive practice in the implementation phase. In the area of consumer protection, implementation work culminated in the EU regulation on interchange fees for card transactions and in transposition of the Directive on Credit Agreements for Consumers Relating to Residential Immovable Property (the Mortgage Credit Directive), including forthcoming amendments to the Consumer Credit Act. Implementation work was begun, too, on EU legislation in the area of payments (i.e. the EU Directive on Payment Accounts and the amendment to the EU Directive on Payment Services).

In the area of prudential bank regulation, the Compliance Department participated in implementing requirements of the EU directive on deposit insurance and the new EU regulation on crisis management of banks. Considerable legislative changes were made in the capital markets area, where the main focal points were developing a directive and regulating against market abuse and to improve transparency, regulation of packaged retail and insurance-based investment products, regulating the integrity and transparency of the wholesale energy market, as well as preparing the regulation (MiFIR) and directive (MiFID II) on markets in financial instruments which will be transposed within the Czech Republic into the Act on Capital Market Undertakings. Implementation of EU legislation (and not just in the capital markets area), will remain the main task of the Compliance Department during 2016.

Legal risk

Managing legal risk consists in minimising 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 2015 consisted in reworking contractual documentation for retail banking and preparatory work on implementing the law on consumer credit.

Significant legal disputes

With respect to its overall financial situation, Komerční banka 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 2015, KB Group was a party to legal proceedings as a plaintiff in 11 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 842.8million. KB Group was a bankruptcy creditor with a claim exceeding CZK 50 million in 33 bankruptcy proceedings. The total amount of claims filed in relation to these proceedings was CZK 6.2 billion.

As of 31 December 2015, KB Group was a party to legal proceedings as a defendant also in 10 significant litigations. The principal that has been the subject of these legal proceedings totalled CZK 972.3 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 2015, ESSOX continued resolving claims of clients to refund fees paid for concluding consumer loan agreements and to set the level of interest on the respective loans at the CNB's discount rate inasmuch as the claimants considered that disclosure of the contractual parameters in the contracts' documentation had not been in accordance with Appendix 3 of the Consumer Credit Act. In the legally concluded court cases, ESSOX proved that it had complied with the Consumer Credit Act when concluding the consumer loan agreements, and the legally effective court decisions on these disputes were in favour of ESSOX.

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 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 of the risks and priority areas (such as embargoes and sanctions). In 2015, 67 audits were carried out, 19 of which were performed in KB Group subsidiaries. The 50 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, 415 recommendations addressing issues identified by audit engagements were implemented within KB Group during 2015, of which 42 were given high priority. Komerční banka significantly reduced the number of long-term unresolved recommendations. As of the year's end, just 7 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 to be 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 capital and prudential requirements, was performed for the fourth time and covered also KB subsidiaries.

The plan for 2016 drew upon outcomes from a risk assessment that was performed using a methodology shared across the entire SG Group.

Financial risks

In addition to credit 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 & Treasury (ALM & Treasury) 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 Komerční banka'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 Komerční banka'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 & Treasury 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 2015. KB uses such standard market instruments for hedging against interest rate risk as interest rate swaps and forward rate agreements, 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 2015, 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 selection of portfolio for a given investment is ultimately driven by the need to limit volatility in the volume of regulatory capital otherwise stemming from the Basel III regulatory concept, wherein the revaluation difference of the AFS portfolio is included into the regulatory capital. This 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. On the other hand, investments in the HTM portfolio cannot be hedged against interest rate risk due to limitations set by rules of hedge accounting. 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 Komerční banka itself. The maximum open foreign exchange position of the Group's banking book in 2015 was less than 0.12% of the Group's capital, and thus it was essentially negligible. Part of foreign exchange risk management also involves KB'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.

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.

The regulatory requirements in the European Union are established within the Basel III capital framework 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 CNB 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 2015, 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 3.9%. Therefore, the total capital requirement in Pillar II reached 14.4%, which, in view of the Pillar II's structure, means a 1.4% increase over Pillar I.

Consolidated capital and risk-weighted assets

Total shareholders' equity comprises the following main items: share capital, reserve funds and retained earnings. KB's shareholders' equity decreased by 3.0% to CZK 106.2 billion. The generation of net profit was offset by payment of the annual dividend (KB paid out CZK 11.8 billion in dividends during May). Revaluation gains on cash flow hedges were down due to slightly higher market interest rates in comparison with the end of 2014. Revaluation gains on the AFS portfolio (which represents primarily reinvestment of client deposits) declined as a result of deconsolidating the Transformed Fund and amortisation of the revaluation difference on securities reclassified in 2014 to the HTM portfolio. That was mitigated in part by positive revaluation of equity instruments. As of 31 December 2015, KB held in treasury 238,672 of its own shares constituting 0.63% of the registered capital. These shares had been acquired in previous years at a cost of CZK 726 million. The Bank did not acquire its own shares during 2015. The acquisition of its own shares had been authorised by the General Meeting, particularly for purposes of managing KB's capital adequacy.

Consolidated regulatory capital for the capital adequacy calculation stood at CZK 66.6 billion as of 31 December 2015. 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 16.3%. As from 1 January 2016, the regulator increased the minimum required level of total capital by 10 basis points to 14.5%. The regulatory capital base includes a contribution from a part of the revaluation reserve recognised within the equity account. This item, which pertains to disposable securities in the AFS portfolio, amounted to CZK 2.5 billion. It contributed 61 basis points to the capital adequacy ratio.

Komerční banka uses two advanced approaches for calculating capital requirements related to individual types of risk: 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 the Group's risk-weighted assets (RWA) stood at CZK 407.6 billion as of 31 December 2015, compared to CZK 384.2 billion as of 31 December 2014. RWA for credit risk (including credit valuation adjustments) constituted 85%, operational risk 10% and market risk 5% of the total RWA. Greater RWA was caused by growth in exposure across main client segments during 2015 and a moderate increase in average risk weights. The average risk weight for credit risk rose moderately to 37.8% as of 31 December 2015 compared to 35.2% a year earlier, driven by growth in risk weight for the Banks and Corporations segments.

Consolidated risk-weighted assets

	31 DECEMBER 2015
Total risk-weighted assets	**407,642**
for credit risk	**341,985**
for credit risk pursuant to the Standardised Approach in IRB	68,034
for credit risk pursuant to the IRB Approach	273,951
for settlement risk	**4**
for position, foreign exchange and commodity risks	**20,577**
for the operational risk	**42,270**
for credit valuation adjustment	**2,807**

Information on consolidated capital and risk-weighted assets for calculation of capital adequacy (in CZK million)

Consolidated capital

	31 DECEMBER 2015
Total capital (Tier 1) = Common Equity Tier 1 (CET1)	**66,606**
paid up share capital entered in the commercial register	19,005
share premium	154
own shares	(726)
other reserve funds	5,039
retained earnings for the previous periods	48,607
profit of the current period	12,758
unusable profit*	(11,783)
accumulated other comprehensive income (OCI)	17,576
Adjustments to CET1	**(24,024)**
gains/(losses) on hedging instruments	(12,653)
accumulated profit/loss from changes in the fair value of liabilities to changes in credit risk	0
unrealised gains/(losses) on the AFS portfolio**	(2,484)
additional value adjustment	(239)
goodwill from consolidation	(3,606)
goodwill other than from consolidation	(146)
other intangible assets (besides goodwill)	(3,642)
deductible items due to an insufficient coverage of expected credit losses	(1,254)
Total additional capital (Tier 2)	**0**
Total capital	**66,606**

* Capital adequacy ratio as of 31 December 2015 assuming retained earnings adjusted for Board of Directors' dividend proposal (92.4% payout ratio).

** As part of gradual phase-in of Basel III rules, the regulatory capital from 1 January 2015 newly includes a part of the AFS revaluation reserve related to disposable securities in the AFS portfolio. As a result, 'Total capital' and Core Tier 1 adequacy is higher by 61 bps as of 31 December 2015.

Information in accordance with Decree 163/2014 on an individual basis (CZK million)

RECONCILIATION OF ACCOUNTING AND REGULATORY CAPITAL	31 DECEMBER 2015	31 DECEMBER 2014
Items from Statement of Financial Position – Total shareholders' equity	**93,303**	**95,633**
Share capital	19,005	19,005
Share premium	134	134
Other equity	347	287
Accumulated 'Other comprehensive income'	16,880	20,002
Reserve funds	4,189	4,189
Retained earnings for the previous periods	41,050	39,974
Own shares	(726)	(726)
Net profit for the period	12,424	12,768
Total adjustments to CET1	**(31,638)**	**(36,482)**
Gains/(losses) on hedging instruments (cash flow hedging)	(12,836)	(16 009)
Additional value adjustment	(239)	(265)
Other intangible assets, net of tax	(3,202)	(3 112)
Insufficient coverage of expected credit losses (lack of provisions)	(1,266)	(1 306)
Unusable profit	(11,783)	(11 783)
Other transitional adjustments to CET 1	(2,312)	(4,007)
Total capital	**61,665**	**59,151**
Tier 1 capital	**61,665**	**59,151**
Core Tier 1 (CET1) capital	**61,665**	**59,151**

CAPITAL REQUIREMENTS	31 DECEMBER 2015	31 DECEMBER 2014
Total capital requirements	**29,619**	**27,756**
for credit risk pursuant to the Standardised Approach in IRB	**2,617**	**2,723**
Exposures to central governments or central banks	2	0
Exposures to regional governments or local authorities		
Exposures to public sector entities	13	16
Exposures to international development banks		
Exposure to international organisations		
Exposures to institutions	15	35
Exposures to corporates	1,246	1,365
Retail exposures		
Exposures secured by real estate		
Exposures in default	3	6
Exposure associated with particularly high risks		
Exposure to covered bonds		
Items representing securitisation positions		
Exposures to institutions and businesses with short-term credit rating		
Exposures in the form of units of shares or shares in collective investment undertakings		
Equity exposure	1,338	1,301
Other items		
for credit risk pursuant to the IRB Approach	**22,453**	**20,643**
Exposures to central governments or central banks	809	884
Exposures to institutions	2,357	2,276
Exposures to corporates	11,875	10,878
Retail exposures	6,572	5,949
Equity exposure	200	1
Items representing securitisation positions	0	1
Other assets that are non-credit obligation	640	654
for position risk	**1,461**	**1,440**
for large exposures exceeding the limits		
to currency risk		
to settlement risk	**0**	**0**
to commodity risk	**186**	**33**
to operation risk	**2,902**	**2,917**

CAPITAL AND RATIOS (%)	31 DECEMBER 2015	31 DECEMBER 2014
Capital ratio for common equity Tier 1	16.66	17.05
Capital ratio of Tier 1 capital	16.66	17.05
Capital ratio for total capital	16.66	17.05
Return on average assets (ROAA)	1.45	1.57
Return on average equity Tier 1 (ROAE)	20.46	21.96
Assets per employee in CZK thousand	109,005	112,530
Administrative costs per employee in CZK thousand	1,339	1,336
Profit or loss after tax per employee in CZK thousand	1,621	1,669

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 the 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.

Given the fact that Basel III capital requirements (and particularly the required capital buffers) are still being developed, the Bank is continuously assessing the impact of their changes in the process of capital planning. As the national supervisory authority, the CNB oversees KB's compliance with capital adequacy requirements on standalone and consolidated bases. During 2015, the Bank met all regulatory requirements. On a regular basis, KB also reports to the CNB mandatory information regarding 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 this basis, 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. 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 2015 confirmed that KB is resistant to impacts from potential unexpected adverse developments in 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 79.9%. KB also would meet by a large margin 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 659 billion (not including other payables to clients) comprise a crucial part (approximately 74%) 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. Due to a long-term liquidity surplus, Komerční banka continued to issue debt securities during 2015 only to a minimal extent outside KB Group, and new issuance totalled just CZK 0.5 billion in nominal value. As of the end of 2015, the total nominal amount of mortgage bonds and other debt securities placed outside KB Group reached CZK 10.8 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 the 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 2015 from its internal sources without any problems, and the use of secondary funding (e.g. issuing securities) remained limited. As of 31 December 2015, 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 CNB, the local regulator. The estimated levels of LCR and NSFR indicators have long been well above the required 100%.

Corporate social responsibility

Responsibility is the basis of every partnership and it is also our priority in relation 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 ensures that Komerční banka Group's long-term interests are being served in a responsible manner while duly considering the expectations of its major stakeholders and complying with all regulations. This responsibility is advanced in the economic, environmental and social areas, it is made an integral aspect of the entire organisation, and its observation and implementation at all levels are supported by a variety of resources.

Komerční banka, as part of the Société Générale Group, conducts its business with the utmost respect for values and principles under:

- the Universal Declaration of Human Rights and its associated covenants (namely, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights),
- the main conventions of the International Labour Organization,
- the UNESCO World Heritage Convention, and
- the OECD (Organisation for Economic Co-operation and Development) Guidelines for Multinational Enterprises.

Corporate governance and organisation, internal control

KB employs a clear and transparent governance structure, fortified with strong and independent control functions. The Bank's governance structure is defined in its Articles of Association. With its six members and presiding chairperson, the Board of Directors is responsible for directing the business of the Bank. 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 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 the way 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.

Ombudsman

In 2004, Komerční banka became the first financial institution in the Czech Republic 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 take them to the ombudsman. JUDr. Joseph Franciscus Vedlich, LLM has served 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. In 2015, the ombudsman was contacted by 199 Komerční banka Group clients. Mr Vedlich resolved 39 cases which fell within his competence for resolving complaints and claims in the third instance and in accordance with the Charter of the Ombudsman.

Five strategic priorities

Its global corporate social responsibility policy ensures that Komerční banka upholds each of its commitments and makes sustainable progress according to five strategic priorities: developing responsible finance, notably through enforcement of the general environmental and social principles in all business activities; rolling out a responsible and solidarity-based banking offer; strengthening its role as a responsible employer; exemplary management of its environmental impact and purchasing policy; and reinforcing its role as a responsible actor at the heart of today's society.

Responsible finance

Environmental and social commitments

KB's proactive role in financing the real economy makes it aware of the environmental, social and economic convergence issues at work within its sphere of influence. This has led it to enter into several voluntary commitments in these areas, based on the Bank's regulatory obligations and on institutional commitments of Société Générale Group. These are set out in the general environmental and social principles and the sector and cross-sector policies appended to them.

The assessment of environmental and social criteria and the implementation of measures for mitigating environmental and social impacts associated with transactions or customers have been progressively incorporated into KB's processes. Customer E&S evaluation criteria have been integrated into the customer review processes.

Sector and cross-sector policies

The sector and cross-sector policies now cover around 12 sectors that are considered to be potentially sensitive from an environmental, social or ethical point of view. These include dams and hydropower; coal-fired power; defence; forestry and forest products; palm oil; mining; shipping; civil nuclear power; oil and gas; and, since 2014, agriculture, fisheries and foods; and thermal power. In addition, there is a cross-sector policy on biodiversity.

Watch and exclusion lists

To facilitate the identification of controversies relating to environmental and social issues, a watch list is drawn up and updated quarterly at the level of Société Générale by internal experts. This list consists of projects, companies or sectors – whether or not they are financed by the Société Générale Group – that are the subject of controversy or public campaigns on the part of civil society.

An exclusion list has also been created in connection with a sector policy. It covers companies that produce, manufacture, stock or sell anti-personnel mines or cluster bombs as well as other types of highly controversial weapons. Through its policy, Société Générale Group has undertaken to refuse knowingly to supply banking and financial services to such companies, their parent companies or their subsidiaries. It is forbidden to establish any commercial relationship with companies on this list.

Measures against corruption

Komerční banka 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 for 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

The Bank 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, standards and the requirements of the Société Générale financial group. Even as these rules and methods are continuously validated and updated, 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 execute no transaction indicating risk of money laundering or financing of terrorism.

Solidarity-based banking offer

Komerční banka includes in its portfolio a number of products and services that can be characterised as "green" and "solidarity-promoting". The Bank also continues to devote innovation efforts to expanding its product portfolio with additional products and services linked to charity.

Finance

By funding projects that have positive impacts in meeting citizens' needs, conserving the environment or fostering economic development in the regions, the Bank contributes to sustainable development within society. Programmes benefitting from collaboration with various European institutions played a significant role in this respect.

EuroInovace – Support for small and medium-sized innovative enterprises is available through the EuroInovace (EuroInnovation) loan. It comes with advantageous terms and conditions and is provided in co-operation with the European Investment Fund (EIF). An agreement concluded in 2015 between KB and EIF gave a boost to that whole programme by improving conditions for participating and adding another CZK 4.2 billion to the volume of financing available over the following two years. More programme financing by far has been made available to KB than to any other Czech bank. In 2015, Komerční banka supported innovations of about 150 small and medium-sized entrepreneurs through EuroInnovation.

EuroPremium Young – This programme offers support in employing young people to small and medium-sized enterprises and middle-capitalisation companies. The support goes to enterprises that directly employ young workers under 30 years of age or offer them internships or other work experience. Under the programme, enterprises helping young people to secure jobs are eligible for a discounted interest rate on loans from KB. In 2015, the Bank supported about 160 entrepreneurs in this manner.

EuroMuni – The EuroMuni programme assists municipalities in carrying out their development projects by offering discounted interest rates on loans. The advantageous rates are made available in collaboration with the Council of Europe Development Bank (CEB), thereby enabling municipalities to reduce funding outlays for their development projects. During 2015, Komerční banka provided 78 loans totalling CZK 1.1 billion and contributed to the realisation of investment projects benefitting more than 200,000 residents.

EuroEnergy – Devised to support energy efficiency, this programme aims to decrease energy consumption in the EU and reduce greenhouse gas emissions at least in part. Corporate clients' projects directed to reducing energy consumption can obtain financing at a reduced interest rate and with more lenient collateral requirements. KB became the first bank in the Czech Republic to join this initiative.

Code of conduct on providing microcredit – KB has pledged to adhere to the EU's European Code of Good Conduct for Microcredit Provision. The Bank pledged its support to the document in early July 2015. With an emphasis on non-banking financial institutions, the Code aims to standardise the norms, procedures and conduct of microcredit providers.

To improve their housing standards, clients can benefit from the current account of the Housing Development Fund (FRB) and a purpose-bound credit account administered by KB. Financial support from the Housing Development Fund is available to municipalities and through municipalities also to private owners of residential properties. It is to be used in maintaining existing residential premises as well as in constructing new housing estates, expansions and defined construction modifications. The funding is available as a low-interest loan provided from the national budget to the given municipality. The loan conditions are defined by the Ministry of Regional Development.

Investment banking

Emission allowances

In addition to being involved in other ways of protecting the environment, KB is also a participant in the emissions trading system. It intermediates trades in allowances for its clients among primary pollution producers, i.e. operators of facilities under the EU Emissions Trading Scheme. Emission allowances and the emissions trading system have been devised as instruments for protecting the atmosphere from pollutants and greenhouse gases. In 2015, KB concluded with its clients emission allowance trades valued at nearly EUR 130 million. That corresponds to approximately 16.5 million traded carbon allowances.

Deposits

KB administers current accounts that are used for charitable purposes, environmental protection purposes, as well as for the purpose of providing absolute transparency.

These accounts, for instance, offer the possibility of selecting an easy-to-remember account number as they are often used for funds collection in public fundraising. Moreover, there are also "transparent" accounts that enable complete public access to the transaction history. This service is available free of charge and is most often used by various foundations and foundation funds, socially beneficial organisations, various associations, municipalities, political entities, associations of residential unit owners and housing co-operatives, as well as any other entities that wish to be completely transparent in their financial dealings. As of the end of 2015, KB was administering 435 transparent accounts.

In relation to environmental protection, the Bank also offers an escrow account that acts as a current account for depositing funds to create reserves for purposes specified by law. These include land reclamation, management of waste heaps and reclamation following a heap closure, requirements in the event of a mining accident, electronics waste disposal, pond dredging prior to cultivation, and nuclear waste management.

Special programmes

Komerční banka had first launched its *"MojeOdměny"* [MyRewards] concept back in 2011. It is currently available in connection with banking and saving products and loans. The "MojeOdměny" concept rewards KB clients for being active in using KB products. The rewards materialise as money credited to the active client's account. The concept does not require the client to sign up in order to receive these benefits, as these are paid automatically. The rewards concept also includes special programmes for seniors and families, comprising sets of products suited to the target groups and available under advantageous conditions.

Responsible employer

Key information on employees

A key aspect of Komerční banka's strategic vision is to pursue the creation of longstanding partnerships with its employees. In doing so, Komerční banka presumes there to be a professional relationship that stems from mutual trust, respect, communication, equality of opportunity, and the availability of attractive professional and career development prospects.

In 2015, unemployment in the Czech Republic fell to its lowest level since 2008. The labour market showed an increase in the number of jobs available as well as a reduction in the number of potential employees.

Trends witnessed during 2015 are reflected in new methods applied in the recruitment process and human resources marketing that involve, for example, the use of social media and creative designs in advertising vacancies.

Working environment and diversity

Komerční banka cherishes the diversity of its employees as a significant asset that helps each member of the team deliver his or her best. Diversity within working teams brings enrichment to each member as well as a better quality of shared achievement. The Bank has systematically targeted diversity since 2008, when an umbrella project was created to further career management, development and support for specific segments of the population. KB does not select new colleagues based solely upon qualifications but also provides opportunities for a broad range of talents.

Work–life balance

Flexibility in the working hours arrangement is a major factor in finding the right work–life balance, a principle that is important for the parents of small children, among others. KB offers a variety of alternative job arrangements, including working from home and various forms of part-time employment, and these are utilised by a rising number of employees.

Gender diversity

Employee education lies at the root of KB's efforts to achieve a balanced gender composition across management positions. KB supports its female employees in their career development through sharing positive examples and experiences via the tools of mentoring and networking. The Bank has even been involved in an international networking programme organised by Société Générale. Komerční banka is not an advocate of mandatory quotas. Whenever a position becomes vacant, human resources managers make it known to female candidates with the potential to take up the position. Without regard to gender, however, the most suitable candidate is always chosen.

Employees on maternity or paternity leave

Approximately 9% of Komerční banka employees have been on maternity or paternity leave, and this proportion long has remained stable. KB makes it a priority to keep in touch with such employees during their leave in order that their subsequent return to work can be as seamless as possible.

Whenever the interests of an employee on maternity or paternity leave match the needs and realistic possibilities of the Bank, maximum efforts are expended on re-engaging such an employee as soon as possible. The various alternatives for re-engagement include participation in projects, part-time employment, and combinations of working from home and the office.

People with disabilities

In 2015, Komerční banka had 85 employees with disabilities. The Bank's human resources department personnel are suitably trained in the sphere of supporting the employment of people with disabilities and the topic is included in management training on the diversity of employee teams. The headquarters in Prague–Stodůlky are free of barriers to access, thus enabling the pool of positions available to employees with disabilities to be expanded. Such employees are allowed one day of extra holiday per calendar quarter.

Moje Vitalita (My Vitality)

KB continued with, and further developed, its Moje Vitalita programme during 2015. It aims to support high performance from KB employees by looking after their physical and mental well-being. Physical well-being was given special focus in 2015, which featured Health Days and workshops on relaxation in the workplace.

Principles of employee remuneration in 2015

Remuneration is formulated to support the Bank's overall strategy as well as its specific business and financial objectives, to preclude the taking of unnecessary risks and careless conduct, to support cost efficiency and to strengthen KB's value from the perspectives of both employees and shareholders. In pursuing a remuneration policy that is designed to be both healthy and business-sensitive, Komerční banka builds upon the following core principles:

- ***Internal fairness*** is about equal remuneration for individual employees performing equally in the same job under the same transparent conditions.
- ***External competitiveness*** is achieved with the assistance of regular market surveys.
- ***Reflecting risks*** means ensuring that remuneration at KB remains consistent with, and supportive of, healthy and efficient risk management. Remuneration compliant with this principle does not encourage risk-taking beyond those risk levels tolerated by the Bank.

The remuneration structure is supported by three fundamental pillars:

- ***Basic pay for performed work.*** The pay of any employee is determined in respect of the demands of his or her particular position, especially in terms of required knowledge, experience and skills, as well as corresponding responsibilities.

- ***Flexible performance-dependent pay component.*** In addition to the basic pay, a variable pay component scheme is in place for all employees. It rewards contributions in achieving corporate, team and individual targets.

- ***Employee benefits that support employees' sense of belonging within Komerční banka Group.*** These benefits reflect the Bank's desire to be a responsible employer while offering choice to employees. The structure and level of the available benefits is subject to an annually reviewed agreement ensuing from collective negotiation.

Employee education and career development
KB's human resources strategy is geared to developing long-term partnerships with employees. This is supported through education, among other things. KB Group employees have access to a broad range of educational activities and programmes, while the principle of the employee's taking individual responsibility for his or her career development is strongly emphasised.

In 2015, KB employees dedicated an average of 6.1 days to education while voluntary training was attended by 79% of the workforce. Similarly to previous years, the Bank focused especially on developing the skills of employees in direct contact with clients throughout the branch office network. Special emphasis was given to the development of managers and high-potential employees who are participants in the Strategic Talent Management programme. More than 400 employees participated in that programme during 2015.

The M'Academy management academy focuses on enhancing long-term, personalised skills in the areas of human resources development, responsibility, innovation and the pro-client approach. Other integration and development programmes have traditionally been dedicated to new employees (StartinG), university graduates (ConnectinG and ConnectinG+) and future top managers (ChallenginG).

In pursuing its development programmes, Komerční banka continues to co-operate with the parent company Société Générale, offering KB employees an opportunity to develop their skills in an international environment.

Talent search and acquisition
The Bank continued its co-operation during 2015 with colleges, universities and student organisations.

In a project organised by the Association of Students and Graduates in co-operation with the market research agency GfK, universities, student organisations and corporate partners, Komerční banka took the number-one ranking in a Top Employers survey among students. In the global Universum survey, KB was ranked 22nd out of 100 employers among Czech students, which was the highest ranking attained by any banking institution.

Komerční banka also continued developing its collaboration with the AIESEC student organisation. Moreover, it has extended its co-operation with the Masaryk University career centre in Brno, namely by taking part in a so-called "assessment centre trial" event and the Job Academy conference. KB has also co-operated with the competence centre at the Faculty of Information Technologies of the University of Economics in Prague and has entered into a contractual relationship for research with the Czech Technical University in Prague.

Corporate values and The Leadership Model
Inasmuch as corporate culture is a stone in the foundation for achieving long-term success in business, KB is applying a new definition of its corporate values which are shared across SG Group. Those updated core values are: **team spirit, innovation, commitment and responsibility**. The values contribute to the basis of an updated model for managers and employees' conduct, known as "The Leadership Model". It is built on the following five pillars:
- Client satisfaction,
- Innovation in creativity and change management,
- Responsibility,
- Our teams' commitment, and
- Team spirit with a strong sense of achieving results together.

The updated corporate values are progressively being reflected in all associated processes, and particularly in recruitment, assessment, remuneration and education.

SG Employee Barometer
During May 2015, all employees had an opportunity to take part in the fourth round of the regular biennial satisfaction survey of all SG Group employees – the SG Employee Barometer. Exactly as two years ago, some 76% of employees took the opportunity to express their views.

According to the majority of employees, the Bank's overall situation remained stable or was improving, the speed of the implementation of changes was considered adequate and, compared to previous years, the level of informedness regarding action plans devised in response to the previous survey had also improved.

Most employees perceive that Komerční banka is dedicating sufficient attention to anticipating and resolving issues faced by its clients. Most respondents also highlighted the Bank's strengths in terms of communication within teams, responsibility, autonomy in decision-making and regular feedback from managers.

KB's results from the SG Employee Barometer have been shared with all employees and these have been used to develop corresponding action plans.

Environment and responsible sourcing

Komerční banka is developing its environmental activities and implementing measures to shrink the environmental footprint of its operations. These measures bring about such practical impacts as reduced stationery consumption, correct and considerate waste management and energy consumption, and the monitoring of business travel and shipping costs.

Sorting waste

As has been the case already since 2009, all KB employees have the facilities to sort waste right at their workplaces. Given the large variation in operating conditions across individual branch offices and KB's operations, systems have been customised to best suit specific circumstances. All premises are provided with information charts regarding waste management that provide detailed information on the waste sorting methods deployed at the particular site.

KB's participation in the nationwide *"Green Company"* programme – an initiative that contributes to environmental protection through collecting and effectively recycling electrical and electronic equipment – has since 2012 enabled employees working at KB's headquarters to dispose of their e-waste and old batteries from their households in a collection box placed in the building. The project also facilitates environmentally friendly disposal of bulk corporate e-waste. The possibility for disposing of used batteries from offices and households was extended in 2015 to all KB buildings.

Komerční banka also ensures the collection of empty printer and toner cartridges, light bulbs and tubes, construction waste, kitchen waste and air-conditioning coolants. KB's schemes also see to the proper disposal of discarded furniture and similar such items. Waste disposal in other categories is for the most part provided for KB by specialised third parties.

Energy

The year 2015 saw implementation of several new technology measures that will bring significant energy and cost savings in future and improve reliability of power supplies. These measures included optimisation of power transformers, sales of certain power production equipment, and improvements in management of reserved power supply and capacity of circuit breakers. KB will select a new provider of energy management services during 2016, and this will bring additional savings.

Relationships with suppliers

In its relationships with suppliers, KB shares best practices with respect to environmental protection, social rights and human rights, monitors adherence to the given procedures and principles, and collaborates with the suppliers in improving their application. KB utilises the Ethical Sourcing Programme that is in force across the Société Générale Group. Each supplier with which Komerční banka enters into a contractual relationship commits to observe principles set forth in the Ethical Sourcing Programme, while KB reserves the right to conduct an independent audit. Many of KB's key suppliers have obtained corporate social responsibility certification in accordance with the EcoVadis system, and this ensures the availability of sufficient information about the entity and its behaviour toward the environment.

Civil society

Sponsoring forms an integral part of Komerční banka's corporate social responsibility along with philanthropy and the community involvement of its employees.

Sponsoring

Culture, sport and education are at the focus of KB's support. The Bank serves as a partner to institutions, projects and events with society-wide impact, while it especially emphasises the exceptional human, social or artistic dimensions of projects it supports. KB particularly cherishes its long-term partnerships.

The most significant entities supported in the field of culture include the National Theatre in Prague, with which the partnership has continued for many years, and the National Gallery in Prague, which partnership has entered its second year. The collaboration with the National Gallery was extended last year to provide free admission to permanent displays for children and youths up to the age of 18 and for students up to 26 years of age. Another major cultural project supported by KB in 2015 was the musical undertaking Vivaldiano 2015. The traditional co-operation with the French Film Festival, which presents some of the best French film productions and co-productions and is seen as one of the most prominent film festivals in the Czech Republic, continued in 2015.

The sponsoring of amateur sport is mainly focused on projects that bring joy and entertainment to the broadest segments of society. KB decided to continue its long-term support of floorball, one of the most popular sports in the country, and it remained the main partner of the Czech Floorball Union. Firefighting sport is another major sport phenomenon in the Czech Republic. Pursued by professional and volunteer fire brigades, it is both physically demanding and highly popular with fans, while also corresponding to the Partnership Matters motto. KB has been a sponsor of the Czech Republic's national championship in firefighting sport since 2012.

The partnership between KB and Prague Zoo is one of the most successful link-ups. In December 2015, Komerční banka was presented the zoo's Big Richard accolade, named after its iconic silverback western lowland gorilla. This tribute recognised the Bank's support having lasted a decade and counting.

Philanthropy and community involvement

Volunteer work

Each year, Komerční banka organises a number of activities for volunteers that are open to employees of the whole Group. KB employees can thus support projects that benefit the needy as well as the environment.

In 2015, a total of seven major charity events were organised and supported on a bank-wide basis. Numerous other activities were organised by individual units of KB.

Blood donation

In co-operation with hospitals in Prague, České Budějovice, Hradec Králové, Pilsen, Liberec, Ústí nad Labem, Ostrava, Olomouc, Zlín and Brno, KB has for eight years been organising blood donation events within KB premises. More than 200 employees donated blood during 2015.

Biking to work

Komerční banka employees annually take part in the Bike to Work event. Organised by the Auto*Mat initiative, the competition attracted a total of 178 KB employees in 2015. In their quest for "green kilometres", the participants covered 36,928 km to reduce the carbon footprint by some four tonnes of carbon dioxide. Each kilometre traversed by bicycle was subsequently converted to money and the sum donated to the Sport without Prejudice non-government organisation.

Visual art competition

Directly linked to the annual World Water Day, with its emphasis on sustainable development, the first European Sustainable Development Week was declared in June 2015. As part of the event, KB organised an art competition. Children of employees created paintings on the theme "Happy Planet" or "My City of Dreams".

Eyewear collection

KB arranged a summer 2015 event aiming to collect as many pairs as possible of eyeglasses no longer used by their original owners. All spectacles collected were handed over to Lions Club International, an organisation that has been collecting and redistributing eyewear for two decades. We succeeded in collecting a total of 1,500 pairs of glasses.

Employee photograph auction

Another project with considerable drawing power vis-à-vis KB personnel is the annual auction of photographs taken by employees. In 2015, the best 13 photographs were selected to feature in the auction from a total of 364 pictures put forward. These were framed as large-format prints and auctioned off, then featured in a printed calendar available for sale. The auction and calendar sales raised almost CZK 100,000. That amount was then doubled by KB's charitable Jistota Foundation and the final sum was distributed in accordance with the expressed wishes of participating employees among four projects: Babybox for abandoned infants, The House of Three Wishes for socially disadvantaged families, Czech Wheelchair Rugby Union, and Hospice Care at the Centre for Palliative Care.

Clothing collection

In autumn 2015, a clothing collection was organised at KB's four headquarters buildings around Prague. The clothes were earmarked for the Borůvka Praha non-profit organisation. Approximately 900 kilograms of clothing was donated, either to be sold at the charity's second-hand shop or for distribution to those in need.

Movember

Each November, Komerční banka joins the Movember event in support of prostate cancer research. Male employees demonstrate their backing for the event by growing a moustache, the campaign's symbol. A campaign appealing to men to have preventive medical check-ups is conducted at this time. Thanks to the efforts of KB employees in 2015, some 4,800 men signed up for the check-up under the appeal and the Movember collection across KB yielded CZK 24,000 in donations.

Financial inclusion

Financial literacy

KB employees participated during 2015 in a project to bring bankers into the schools. It was organised by the Czech Banking Association in close collaboration with Scio, an educational assessment centre.

With the support of Komerční banka's Jistota Foundation and in co-operation with Accenture, the Bank continued in educating young people who are leaving children's homes and embarking on independent working lives. People from the branch network trained the young people from children's homes at KB branch offices. The educational programme culminated in a competition that tested their newly acquired knowledge.

Debt Advisory Centre
Komerční banka has served as a partner to the Debt Advisory Centre since its inception in summer 2008. Two of KB's employees serve on the centre's board. The Advisory Centre is a charitable organisation that provides independent debt advice at no charge. It supports clients in their efforts to resolve financial difficulties or insolvency and helps those who wish to file for debt relief. The Advisory Centre's activities also include educating consumers by providing them deeper financial and legal awareness in relation to taking on credit and loans. Komerční banka supported the Advisory Centre in 2015 with a donation of CZK 1,678,964. Those resources have been dedicated to supporting advisory services and helping to cover the Advisory Centre's operating costs.

Komerční banka's Jistota Foundation
For 20 years, the Jistota Foundation has been supporting projects in the sphere of social and medical services, with particular emphasis on senior citizens and children. In 2015, the Foundation supported 107 projects, mainly with funding from Komerční banka and its subsidiaries and associated companies but also thanks to initiatives undertaken by KB employees. Not only do the employees contribute financially but they also make up the Foundation's management and supervisory boards. The financial support provided by the Foundation during 2015 totalled in excess of CZK 9,400,000.

The Foundation continued its support for hospice facilities and for organisations that focus on activities for children and adults with health or social disadvantages. Athletes with disabilities received CZK 680,000, as the Foundation supported the Czech Wheelchair Rugby Union, the Wheelchair Athletics track and field association, and Sport without Prejudice. It also provided CZK 576,972 to maintain baby boxes for abandoned newborns.

The Jistota Foundation pledged to provide nearly CZK 2,300,000 over the next three years to The House of Three Wishes organisation to help children in crisis situations and more than CZK 750,000 to NAUTIS, an organisation working with people with autism.

The Foundation decided also to reinforce contemporary trends in hospice care by supporting a newly established Centre for Palliative Care with the amount of CZK 250,000. Similarly, the home-care hospice known as The Way Home is promised backing of CZK 360,000 over the next two years.

Non-financial forms of support also are provided. The Foundation conducted the first two rounds of a Financial Literacy Project for Low-Threshold Clubs, and contributed to a major research project on the integration into society of young people leaving children's homes. The study was carried out by the Out of Home (Mimo domov) non-profit organisation in association with Letní dům [Summer House], which is another, similar organisation.

For the third year, the Matters of the Heart project supported KB Group employees in their voluntary activities. A total of 10 projects were funded to the tune of almost CZK 900,000.

The traditional annual golf tournament organised by the Foundation yielded CZK 212,000, a sum topped up by the Foundation itself to CZK 400,000. The funds were donated to a Letní dům project to help young people leaving children's homes and to the Wheelchair Athletics association.

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 **www.mfcr.cz**.

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 it reflects the new rules in its internal procedures and regulations. There were no fundamental changes during 2015 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 2015 (per the extract from the issuers' register taken from the Central Securities Depository)

SHAREHOLDER	PROPORTION OF SHARE CAPITAL (%)
Société Générale S.A.	60.35
Nortrust Nominees Limited	4.93
Chase Nominees Limited	4.07

Shareholder structure of Komerční banka as of 31 December 2015 (according to the extract from the issuers' register taken from the Central Securities Depository)

		NUMBER OF SHARE-HOLDERS	PROPORTION IN NUMBER OF SHARE-HOLDERS (%)	PROPORTION OF SHARE CAPITAL (%)
Number of shareholders		**45,118**	**100.00**	**100.00**
of which:	legal entities	758	1.68	97.16
	private individuals	44,360	98.32	2.84
Legal entities		**758**	**1.68**	**97.16**
of which:	from the Czech Republic	164	0.36	1.43
	from other countries	594	1.32	95.73
Private individuals		**44,360**	**98.32**	**2.84**
of which:	from the Czech Republic	39,841	88.30	2.68
	from other countries	4,519	10.02	0.16

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 except in cases specified in Section 12, para.1 of the Articles of Association. 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 or the Articles of Association 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 or the Articles of Association. 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 approved 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 authorised Board of Directors or a change made on the basis of other legal circumstances;
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 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) instruct the Supervisory Board to set the ratio between the fixed and variable parts of a Board member's remuneration to be higher than 100%, while the overall variable part for any Board member shall not exceed 200% of the fixed part of his or her total remuneration;
z) approve a maximum ratio between the fixed and variable parts of an employee's remuneration higher than 100% on the condition that the overall variable part for any individual may not exceed 200% of the fixed part of his or her total remuneration
za) 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**.

Principle resolutions of Komerční banka's Annual General Meeting held in 2015

At the regular General Meeting held on 23 April 2015, 525 shareholders holding shares with nominal value representing 79.92% 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 2014 as well as the annual financial statements of Komerční banka for the year 2014, decided to distribute profit for 2014 in the total amount of CZK 12,796,223,334.21, and decided to pay out dividends in the amount of CZK 310 per share before tax.
The Annual General Meeting also:
- approved the consolidated financial statements for the year 2014;
- elected Ms Sylvie Remond as a new member of the Supervisory Board;
- consented to acquisition of the Bank's ordinary shares into treasury under specified conditions;
- appointed the company Deloitte Audit s.r.o. as the Bank's external auditor for 2015;
- approved amendments to the Bank's Articles of Association in accordance with changes in valid legal regulations;
- instructed the Supervisory Board to set the level of the variable part of the remuneration of individual members of the Board of Directors in the range of 0–200% of the fixed part, while the variable part for any individual may not exceed 200% of the fixed part of his or her remuneration; and
- approved the maximum ratio between the fixed and variable parts of the remuneration of Investment Banking Department employees at 200% of the fixed part of their remuneration, while the variable part may range from 0% to 200% of the fixed part and may not exceed 200% of the fixed part of the remuneration for any individual.

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 further ensures the creation and evaluation of the management and control system, ensures its compliance with legal regulations, is responsible for its continuous functioning and effectiveness, and creates conditions for the independent and objective performance of compliance-related operations and of internal audit. The Board of Directors ensures 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 four-year terms by an absolute majority of all Supervisory Board members at the recommendation of the Nominations Committee. The Nominations 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.

In relation to his or her work in the Bank, no person with executive power has any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Chairman of the Board of Directors 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.

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, membership terminated as of 31 March 2015)

Libor Löfler
Member of the Board of Directors (since 1 April 2015)

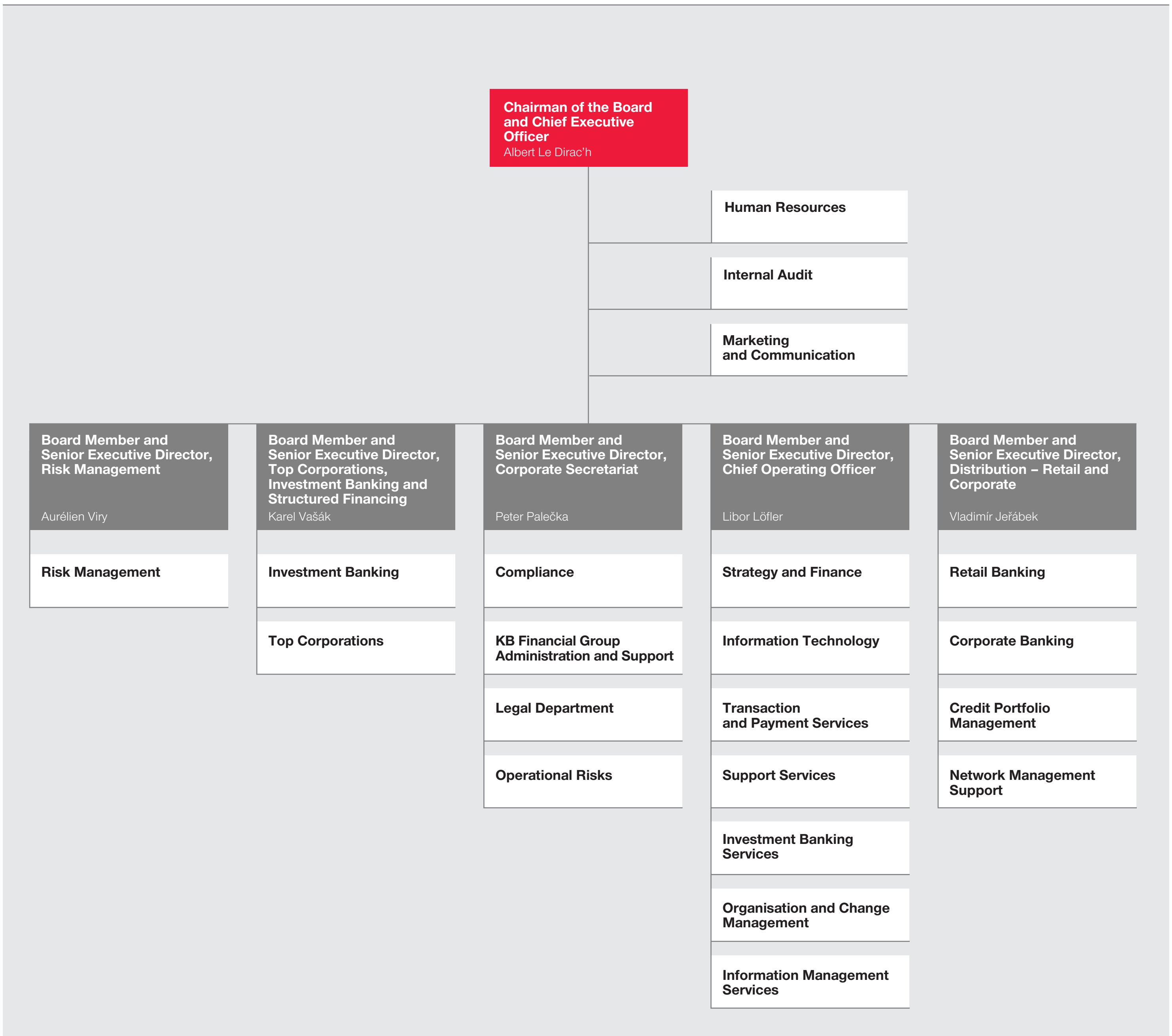
Vladimír Jeřábek
Member of the Board of Directors (since 1 June 2008, re-elected on 2 June 2012)

Peter Palečka
Member of the Board of Directors (since 13 October 1999, re-elected on 8 October 2013)

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

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

Organisational chart of Komerční banka
(as of 31 December 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.

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.

Libor Löfler
Graduated from the University of Economics, Prague and has spent his entire professional career in the banking industry. Among other positions, he worked at the National Bank of Czechoslovakia, Investiční banka and Konsolidační banka in the areas of IT projects and financial management. During 1998 and 1999, he worked as the CEO of Konsolidační banka. Since 1999, he has been working for Komerční banka in the areas of finance and the financial group management. He served as Head of Financial Management between 2002 and 2006. From 2006 to 2010, he held the position of Vice-Chairman of Modrá pyramida in charge of credit approval, IT and projects. From 2010 to 2012, he was Deputy Senior Executive Director for Strategy and Finance of Komerční banka. In 2012, he took over as the Executive Director of Strategy and Finance. With effect from 1 April 2015, 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, Investment Banking Services, Support Services, Information Technology, Organisation and Change Management and Information Management. Mr Löfler is also a member of the supervisory boards of Modrá pyramida, ESSOX and Komerční pojišťovna.

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 vice-chairman 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 international section of 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 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 meetings in 2015 and held seven remote votes in accordance with the Bank's Articles of Association. The average meeting length was 2 hours and 30 minutes and with an average participation of 89%. 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 2015, the Board of Directors discussed the annual financial results of KB Group for the year 2014, as well as KB's consolidated financial statements, separate financial statements, and their footnotes as of 31 December 2014 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 2014, 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, the 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 2014 and Half-yearly Report for 2015.

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. 163/2014 Coll. on the performance of the activity of banks, credit unions and investment firms. While taking into consideration the test of solvency, it decided on the payment of dividends for the year 2014. It also discussed capital management policy, reports on the market situation, the development of structural risks for each quarter of the year, as well as the KB Group budget for 2015.

As part of its activities, the Board of Directors regularly assessed all of 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 discussed and approved limits on 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 competences in providing the loans 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 containing also information on the results of the first level controls. The Board of Directors likewise considered the revision of insurance for banking and non-banking risks when it approved a change in insurance broker. Aon Central and Eastern Europe a.s. became the new broker as of 1 January 2016.

Compliance risks were evaluated both in the yearly report for 2014 and the quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2014 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 in the next year. It conducted a review of the committees established by the Board of Directors and decided to transform some of them into respective advisory bodies. It also approved the Group's recovery plan for 2015, in accordance with Directive No. 59/2014/EU and with Act No. 374/2015 on recovery procedures, which was subsequently submitted to the CNB. The Board of Directors identified those employees whose professional activities have a material impact on the Bank's risk profile.

In the area of Internal Audit, the Board of Directors discussed a number of documents. It discussed reports on the status of corrective measures as of the end of each quarter of 2015 and was regularly informed of all actions carried out by Internal

Audit. Management of corrective measures and their proper implementation were fully addressed. The Board monitored the status of individual projects relating to information security, updated the information security policy and approved the information management strategy. It also discussed the results of risk mapping, based upon which the annual internal audit plan for 2016 and a strategic plan for the period 2016–2020 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 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.

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 approved a two-year plan for utilisation 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. At the same time, it approved the Foundation's updated Articles of Association. It discussed and approved contractual documentation related to co-operation with the European Investment Bank, the Council of Europe Development Bank and European Investment Fund.

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 of Directors evaluated its own activities in 2014 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 and agreed the proposal for amendment of the Bank's Articles of Association.

Committees established by the Board of Directors

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

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
Libor LÖFLER	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
Karel BERAN	Executive Director, Project Organisaton and Management
Patrice BEGUE	Executive Director, Marketing and Communication
Jiří ŠPERL	Executive Director, Strategy and Finance
Antonín PRELL	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. 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
Jiří ŠPERL	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
Anna ŠÍPOVÁ	Head of Loan Portfolio Management – Corporate
Petr PARUŽEK	Head of Loan Portfolio Management – Corporate
Dana HNOJSKÁ	Head of Loan Portfolio Management – Retail
Alena KOTKOVÁ	Head of Loan Portfolio Management – Retail

MEMBERS – LEVEL 1 HRADEC KRÁLOVÉ	POSITION
Jiří DĚDEK	Manager of Regional Credit Risk Assessment
Alena SLÍPKOVÁ	Head of Loan Portfolio Management – Corporate
Vladislav BAREŠ	Head of Loan Portfolio Management – Corporate
Michal VOŠVRDA	Head of Loan Portfolio Management – Retail
Lenka KALINOVÁ	Head of Loan Portfolio Management – Retail

MEMBERS – LEVEL 1 OSTRAVA	POSITION
Lubomír ANDRLA	Manager of Regional Credit Risk Assessment
Miroslav SKLENÁŘ	Head of Loan Portfolio Management – Corporate
Milena VESELÁ	Head of Loan Portfolio Management – Corporate
Renata TOBIÁŠOVÁ	Head of Loan Portfolio Management – Retail
Svatopluk KADLČÍK	Head of Loan Portfolio Management – Retail

MEMBERS – LEVEL 1 BRNO	POSITION
Markéta RIESNEROVÁ	Manager of Regional Credit Risk Assessment
Petr LUKÁŠEK	Head of Loan Portfolio Management – Corporate
Vladimír MINICH	Head of Loan Portfolio Management – Corporate
Vlastimil DVOŘÁK	Head of Loan Portfolio Management – Retail
Libor LEGNER	Head of Loan Portfolio Management – Retail

MEMBERS – LEVEL 1 PRAGUE	POSITION
Petr PLAŠIL	Risk Manager (Prague Team)
Stanislav CHALUPA	Head of Loan Portfolio Management – Corporate
Kateřina MIKULÍKOVÁ	Head of Loan Portfolio Management – Corporate
Jana PURGEROVÁ	Head of Loan Portfolio Management – Retail
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
Libor LÖFLER	Member of the Board of Directors, Senior Executive Director, Chief Administrative Officer
Jiří ŠPERL	Executive Director, Strategy and Finance
Alan COQ	Manager of Capital Markets Risks
Slawomir KOMONSKI	Executive Director, Investment Banking
Ivan VARGA	Manager of Trading and Institutional Sales
Tomáš FUCHS	Manager of ALM & Treasury
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
Libor LÖFLER	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
Patrice BEGUE	Executive Director, Marketing and Communication
Yann DUMONTHEIL	Executive Director, Retail Banking
Iveta OCÁSKOVÁ	Executive Director, Corporate Banking
Jiří ŠPERL	Executive Director, Strategy and Finance
Jana ŠVÁBENSKÁ	Executive Director, Transaction and Payment Services
Secretary of the Committee: Klára LOUDOVÁ	

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
Pavel ŠVEJDA	Manager of Corporate Credit Analysis
Etienne LOULERGUE	Deputy Executive Director, Strategy and Finance
Tomáš DOLEŽAL	Manager of Operational Risk
Pavol BLAHO	Manager of Risk and Analytics Solutions
Milan TŮMA	Manager of Internal Audit
Secretary of the Committee: Petr ZDĚNEK	

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
Alan COQ	Manager of Capital Markets Risks
Dušan ORDELT	Manager of Credit Risk Approval
Norbert VANĚK	Manager of Investment Banking Services
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 & Treasury
Tomáš DOLEŽAL	Manager of Operational Risk
Ida BALUSKOVÁ	Manager of Accounting and Reporting
Secretary of the Committee: Norbert VANĚK	

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 a 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
Antonín PRELL	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 Risk Measurement
Etienne LOULERGUE	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 decision must be adopted by a majority of votes of those members present. If a consensus is not reached, the decision is adopted at the Board of Directors level.

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
Martin ZEMEK	Manager of Regional Support Services Management
Martin PARUCH	Deputy Senior Executive Director, Distribution – Retail and Corporate, Manager of Network Management Support
Etienne LOULERGUE	Deputy Executive Director, Strategy and Finance
Martin KADORÍK	Deputy Executive Director, Transaction and Payment Services
Miroslav KVÍČALA	Head of IT for Risk Management and Security
Sandra DORILLEAU	Manager of Risk Supervision and Prevention
Luděk NOVÝ	Head of Risk Management – Retail
David KUBĚJ	Manager of Investment Banking Global Strategy and Development
Denisa SLÁDKOVÁ	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
Norbert VANĚK	Manager of Investment Banking Services
Petr NOVÁK	Manager of Information Management
Secretary of the Committee: Dušan PAMĚTICKÝ	

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 Nominations 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 Nominations Committee ensures the trustworthiness, adequate professional qualifications and experience of the members of the Board of Directors. The Nominations 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 Nominations 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 risk management functions, compliance functions and internal audit functions, as well as the strategic and periodic plan of internal audit;
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 so that it is functional and efficient including segregation of duties and preventing potential conflicts of interest;
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 ratios, the strategy for the information and communication system's development, and the strategy for human resources management;
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 internal audit and security policies; 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 23 April 2015, 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, except for the member of the Supervisory Board Giovanni Luca Soma, who was fined EUR 15,000 by the Bank of Italy as a member of the Executive Board of Fiditalia for deficiencies in control and organisation to ensure transparency of client conditions. 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, membership terminated as of 22 April 2015)

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

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)

Sylvie Rémond
Member of the Supervisory Board (since 23 April 2015)

Pavel Jelínek
Member of the Supervisory Board elected by KB's employees (since 1 June 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 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. During 1994–1997, 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, during 1998–1999, as Corporate Sales Director for Italy in GE Capital. From 1999 to 2000, he served as CEO of Dial Italia (Barclays Group). During 2000–2005, he served as CEO of ALD Automotive Italy, 2006–2008 as Group Regional Director and Deputy CEO of the ALD Automotive Group France, and 2008–2011 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. During 1996–1998, 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 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. He has been a Member of the Supervisory Board of Komerční banka since 2013.

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 electricity, gas and 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. Since 2014, he has been Chairman of the Supervisory Board of LafargeHolcim, Česká republika.

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 moved over time 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. From 1 July 2009 to 31 December 2015, she was the director of the Jihlava branch. From 1 January 2016, she is director of the Pelhřimov branch. She has been a union member since joining Komerční banka and 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.

Sylvie Rémond
Graduate of the Rouen Business School. In 1985, she joined Société Générale, working first in the Development Division and then, between 1985 and 1989, as a product manager within the Individual Client Division. During 1989–1992, she worked as an aerospace group credit analyst within the Large Corporate Division. In 1992, she started work within the Structured Finance Department, first in a senior position in the area of acquisition finance, and later, in 2000, in the position of Co-Head of Corporate and Acquisition Finance Syndication. Between 2004 and 2008, she served as Co-head and, between 2008 and 2010, as Head of Credit Risk for Corporate and Investment Banking. During 2010–2014, she served as Deputy Chief Risk Officer. In 2015, she became Co-Head of Corporate and Investment Banking. She is also a member of the Group Management Committee. The General Meeting elected Ms Rémond a Member of the Supervisory Board of Komerční banka with effect from 23 April 2015.

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 its members.

In 2015, the Supervisory Board held four regular meetings. The average meeting length was 1 hour and 10 minutes. The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2014 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 sets of 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 2014 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities for 2014 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) and stated that, based on the presented documents, Komerční banka did not incur during the accounting period from 1 January 2014 to 31 December 2014 any damages resulting from the contracts and agreements made with related entities. At the same time, upon recommendation of the Audit Committee, the Supervisory Board agreed to submit a proposal to the General Meeting to approve Deloitte Audit s.r.o. as the external auditor of the Bank for the year 2015.

During 2015, 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 2014 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 2015 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 Supervisory Board properly investigated three complaints which had been addressed to it and was informed of the measures taken. The Activity Report of the Board of Directors for 2014 also was presented to the Supervisory Board. The Supervisory Board discussed the resignation of a member of the Board of Directors of the Bank and with effect from 1 April 2015 based on the Nominations Committee proposal elected a new member of the Board of Directors.

The Supervisory Board regularly discussed the Bank's quarterly financial results and its position on the market with a view to development of the macroeconomic environment. Furthermore, it discussed the actions of the Internal Audit and their results in individual periods of the year, changes in the audit plan for 2015, as well as the internal audit plan for 2016 and the strategic plan for 2016–2020. In the course of its activities, the Supervisory Board continued to rely on the opinion of its Risk, Remuneration and Nominations committees and was informed of the issues discussed by the Audit Committee.

The Supervisory Board's committees

The Supervisory Board established within its competences the Risk Committee, the Nominations Committee and the Remuneration Committee as its advisory and initiative bodies. Committees of the Supervisory Board provide the Supervisory Board with regular reports on their activities and within the areas entrusted to their jurisdiction submit to the Supervisory Board recommendations directed to preparing resolutions for adoption by the Supervisory Board.

Risk Committee

The Risk Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. 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.

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 committee held two regular meetings in 2015. The average length of the sessions was 1 hour and 30 minutes. The committee discussed all issues of the Bank's risk management system including the Bank's credit risk profile. It provided recommendations to the Supervisory Board within the scope of its powers.

Remuneration Committee

The Remuneration Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. 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.

Composition of the Remuneration Committeeí

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)

The committee held three regular meetings in 2015. The average length of the sessions was 1 hour. The committee discussed issues of 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 for remunerating members of the Board of Directors, and it provided information in relation to updating the remuneration principles. The committee was informed on the progress of collective bargaining.

Nominations Committee

The Nominations Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. 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.

Composition of the Nominations Committee

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

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

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

The committee held three regular meetings in 2015. The average length of the sessions was 1 hour. The committee discussed issues of the Bank's personnel policy, proposed election of a new member of the Board of Directors and election of a new member of the Supervisory Board.

Audit Committee

The Audit Committee is established 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 an 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 terms 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 2015. The average meeting length was 55 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, and 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 2014, the consolidated and separate financial statements and notes thereto as of 31 December 2014 prepared under International Financial Reporting Standards (IFRS), and the proposal for distribution of net profit for 2014. It evaluated the independence of the external auditor and recommended that the Supervisory Board submit to the General Meeting for approval a proposal to appoint Deloitte Audit s.r.o. as the Bank's external auditor for 2015. KB Group's budget for 2015 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 discussed the Management Letter prepared by the external auditor, Ernst & Young Audit, s.r.o. It was informed about the external auditor's plan in compiling the financial statements for 2015. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2016, and the strategic plan for 2016–2020.

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 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 that it evaluated. The committee also approved an update to its Rules of Procedure.

Emoluments and benefits to members of 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 term of office of each member of the Board of Directors. The contracts provide no benefits upon termination of service. Certain members of the Board of Directors also have concluded contracts with the Bank's subsidiaries to serve as members of their supervisory boards. In these cases, the contracting parties ensue from the descriptions of functions within the subsidiaries stated in the section "Composition of the Board of Directors". 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 have been assigned to serve as the Bank's directors.

Principles of remuneration for members of the Board of Directors

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

Remuneration for members of the Board of Directors consists of fixed and variable parts. The fixed remuneration is paid monthly, and its amount reflects the experience and responsibilities of the respective member of the Board of Directors. The variable part of the remuneration (the annual performance bonus) is not an automatic entitlement, reflects the performance of the member of the Board of Directors during the year and is closely linked with the results of the Bank. In deciding the amount of the variable remuneration, the Supervisory Board and its Remuneration Committee assess all relevant financial and business indicators, including the development of net profit, market shares, net banking income, costs, and cost of risk. In deciding the amount of the variable remuneration, the Supervisory Board and its Remuneration Committee also take into account the results of an independent evaluation made by Compliance and Risk Management as to the quality of the performance of individual members of the Board of Directors in terms of risk management. The maximum amount of the variable remuneration may not exceed 200% of the basic salary, while variable remuneration greater than 100% of the basic salary is subject to approval by the General Meeting.

The budget for the variable remuneration as a whole is set in accordance with the financial plan for the given fiscal year. In accordance with its strategy, KB takes into account planned year-on-year changes in net operating income, operating expenses, allowances for loan losses and other risks (the cost of risk), and net profit at Komerční banka's separate (unconsolidated) level, excluding the effect of dividends received.

The budget for the variable remuneration as a whole is drawn depending on KB's business plan being fulfilled in all its main indicators. It may be decreased by 0–100% depending on fulfilment of the key indicators net banking income, business performance, operating expenses, cost of risk, net profit including exceptional items, capital adequacy and the Bank's liquidity, as well as in accordance with quarterly results and cumulative results from the beginning of the fiscal year.

Payment of the variable remuneration is paid with substantial delay in relation to the entire deferred remuneration and a retained part of the non-deferred remuneration. As a result, payment of 70% of remuneration and 80% of the variable part is delayed. Given the ratio between the variable remuneration and the basic salary, the variable remuneration is paid in two distinct regimes.

If the variable part is greater than 100% and at the same time less than or equal to 150% of the basic salary, then 70% of the variable part is spread over three years. The first deferred part of 30% is transformed into a non-monetary instrument linked to the price of KB shares and is paid after a deferral period of nine months. Payment of the remaining 40% of the deferred amount is made on a straight-line basis over three years as follows: The first payment is made in March of the year following the year the bonus was awarded (N+1).The remaining two parts are transformed into non-monetary instruments linked to the price of KB shares, awarded in March of years N+2 and N+3, and always paid after a deferral period of nine months. The non-deferred part of the variable remuneration amounting to 30% of the awarded amount is paid in March of the year the bonus was awarded (year N).

If the variable part is greater than 150% of the basic salary, 80% of the variable part is spread over three years. The first deferred part of 20% is transformed into a non-monetary instrument linked to the price of KB shares which is paid after a retention period of nine months. Payment of the remaining 60% of the deferred amount is made on a straight-line basis over three years, similarly as in the aforementioned case. The non-deferred part of the variable remuneration amounting to 20% of the awarded amount is paid in March of the year the bonus was awarded (N).

Settlement (payment) of the part of the bonus linked to the KB share price is in cash. Members of the Board of Directors may not hedge price movements of the non-monetary instruments. The awarded variable remuneration need not be paid in part or in full in cases where a member of the Board of Directors exposes the Bank to a level of risk above that considered acceptable by the Bank, where his or her conduct causes material damage to the Bank, or where he or she materially breaches the Bank's internal regulations (e.g. by behaving unethically) or legal regulations. The bonus also need not be paid in the case that it was awarded based upon deliberately incorrect or misleading information.

The reference price of the non-monetary instrument is determined as the arithmetic mean of the daily closing prices for KB shares on the Prague Stock Exchange (PSE) in the 20 days preceding the record date. In 2015, the record date for determining the initial reference price of the non-monetary instrument was 13 March. The number of non-monetary instruments awarded to members of the Board of Directors was calculated as of this date. In 2015, the next record date for determining the final amount for payment of the respective variable remuneration according to the number of non-monetary instruments awarded and KB share price on the PSE was 14 December 2015. Both record dates were fixed by the Remuneration Committee of the Supervisory Board.

In addition to the aforementioned remuneration, those members of the Board of Directors having Czech citizenship are entitled to the following additional consideration:

- contributions to supplementary pension insurance or supplementary pension savings in the amount of 3.5% of the base for social security and state employment policy contributions,
- above-standard health care (Santé Silver Card),
- contributions to capital life insurance in the amount of CZK 650 per month,
- meal vouchers valued at CZK 85 per day,
- points in the application for drawing employee benefits (so-called cafeteria plan) with the total value of CZK 6,700 per employee per year, and potentially, subject to the given conditions:
- extra points in the cafeteria-plan application with total value of CZK 1,200 per year for employees with physical disabilities, and
- extra points in the cafeteria-plan application with total value of CZK 600 per year for employees over 55 years of age.

Members of the Board of Directors temporarily assigned to the Czech Republic are entitled to receive the same consideration as members of the Board of Directors with Czech citizenship, except for contributions to supplementary pension insurance or supplementary pension savings and contributions to capital life insurance. In contrast to the members of the Board of Directors with Czech citizenship, members temporarily delegated to the Czech Republic are entitled to consideration relating to their stay abroad (e.g. covering costs for moving and transport at the start and end of the assignments, accommodation costs, insurance including health insurance and social security, support during the immigration process, traveling costs within a defined budget, and tuition fees for children).

In order to carry out their duties as well as for private use, the Bank provides members of the Board of Directors with: a company car, contributions to fuel costs, a mobile telephone with an unlimited voice and data tariff, and a personal computer.

The value of all in-kind and monetary payments to the members of the Board of Directors is given in the section "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

Remuneration for members of the Supervisory Board consists of a fixed monthly part and a part dependent on the members' attendance at meetings. 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 members' attendance at Supervisory Board meetings is limited to a maximum of six meetings per year.

Members of the Supervisory Board elected by employees are additionally entitled as employees of the Bank to a basic monthly salary and other compensation in lieu of salary according to their employment contracts pursuant to the Labour Code.

Members of the Supervisory Board who fulfil established conditions are entitled by their employment with KB under the same conditions as other KB employees to the following additional consideration: employer contributions to supplementary pension insurance, employer contributions to capital life insurance, contributions to sport and cultural activities in the form of funds allocated to the cafeteria-plan application for drawing employee benefits, employer contributions to meals, and contributions to purchasing SG employee shares.

Komerční banka has concluded service contracts with all members of the Supervisory Board, and these were approved by the General Meeting and concluded on 30 April 2014. The contracts are concluded for the term of office of each member of the Supervisory Board. The contracts provide no benefits upon termination of service. Information on all in-kind and monetary 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

The total value of remuneration to members of the Board of Directors in 2015 net of overlapping inclusion of full-year remuneration of newly elected and outgoing members and including all remuneration recognised (but not necessarily paid) during the year was as follows:

Board of Directors

	CZK
A	31,046,610
B	797,518
C	21,499,265
D	0
E	0
F	7,048,607
TOTAL	**60,392,000**

Note:
(A) total amount of remuneration paid and remuneration recognised but not yet paid for services performed in the given fiscal year;
(B) remuneration and benefits received from any company within the KB Group;
(C) bonuses to members of the Board of Directors awarded in 2015 regardless of when individual parts become due;
(D) remuneration to members of the audit committee;
(E) paid or payable compensation for former members of the Board of Directors in connection with termination of their activities during the given fiscal year; and
(F) total estimated value of non-monetary income considered as remuneration not included in points (A) to (E).

The management of KB is convinced that the aforementioned net summary most faithfully describes the trend of remuneration for the given group of the Bank's representatives.

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended, Komerční banka also releases information on all monetary and in-kind income received during the 2015 financial reporting period by members (including former members) of the Board of Directors from Komerční banka and from entities controlled by the Bank. The data are published in a structure similar to that from the provisions of Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):
(A) total amount of remuneration paid for services performed in the given fiscal year;
(B) remuneration and benefits received from any company within the KB Group;
(C) remuneration paid in the form of profit sharing and/or bonuses;
(D) significant additional remuneration paid for special services beyond the scope of usual duties;
(E) paid or payable compensation for former members of the Board of Directors in connection with termination of their activities during the given fiscal year; and
(F) total estimated value of non-monetary income considered as remuneration not included in points (A) to (E).

Board of Directors (in total nine current and former members)

	CZK
A	31,046,610
B	797,518
C	25,795,805
D	0
E	0
F	7,184,429
TOTAL	**64,824,362**

The table above presents in the aforementioned structure all compensation received during 2015 by the members of the Board of Directors of Komerční banka, including compensation received in 2015 by former members as deferred payments (in total nine current and former members of the Board of Directors). If no value is shown, then no such compensation was made within the given year to the member by Komerční banka or entities controlled by KB.

Information on monetary and in-kind income to members the Supervisory Board

The total value of remuneration to members of the Supervisory Board in 2015 net of overlapping inclusion of full-year remuneration of newly elected and outgoing members and including all remuneration recognised (but not necessarily paid) during the year was as follows:

Supervisory Board

	CZK
A	4,705,052
B	61,186
C	220,400
D	290,000
E	0
F	126,924
TOTAL	**5,403,562**

Note:
(A) total amount of remuneration paid and remuneration recognised but not yet paid for services performed in the given fiscal year, including remuneration for meetings attendance approved by the General Meeting of shareholders;
(B) remuneration and benefits received from any company within the KB Group – concerns only members who are employees;

(C) bonuses to employees who are members of the Supervisory Board awarded in 2015 regardless of when individual parts become due;
(D) remuneration to members of the audit committee;
(E) paid or payable compensation for former members of the Supervisory Board in connection with termination of their activities during the given fiscal year; and
(F) total estimated value of non-monetary income considered as remuneration not included in points (A) to (E) – concerns only members who are employees.

The management of KB is convinced that the aforementioned net summary most faithfully describes the trend of remuneration for the given groups of the Bank's representatives.

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended, Komerční banka also releases information on all monetary and in-kind income received during the 2015 financial reporting period by members (including former members) of the Supervisory Board from Komerční banka and from entities controlled by the Bank. The data are published in a structure similar to that from the provisions of Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):
(A) total amount of remuneration paid for services performed in the given fiscal year, including remuneration for meeting attendance approved by the General Meeting of shareholders;
(B) remuneration and benefits received from any company within the Group (note: KB Financial Group) – concerns only members who are employees;
(C) remuneration paid in the form of profit sharing and/or bonuses – concerns only members who are employees;
(D) significant additional remuneration paid for special services beyond the scope of usual duties;
(E) paid or payable compensation for former members of the Supervisory Board in connection with termination of their activities during the given fiscal year; and
(F) total estimated value of non-monetary income considered as remuneration not included in points (A) to (E) – concerns only members who are employees.

Supervisory Board – excluding compensation related to employment contract (in total 10 current and former members)

	CZK
A	3,399,000
B	0
C	0
D	290,000
E	0
F	0
TOTAL	**3,689,000**

The table above presents in the aforementioned structure the compensation received during 2015 by the members of the Supervisory Board of Komerční banka for the performance of the duties of a member of the Supervisory Board or the Audit Committee[1]. If no value is shown for a given category, then no such compensation was made within the given year to the member by Komerční banka or entities controlled by KB.

Moreover, the Bank implemented a new scheme for paying remuneration to 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. Among other effects, the new scheme defers payment of part of remuneration awarded in a given year into the following three years provided predefined conditions are met. The number of people to whom the new scheme applies was substantially expanded in 2012, leading temporarily in the three subsequent years to increases in total paid amounts as the parts of remuneration deferred from previous years were gradually paid out.

Information on shares and share options held by members of the Board of Directors and the 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 2015 by members of the Board of Directors and members of the Supervisory Board and related persons, as well as information on options and comparable investment instruments whose values are linked to the price of KB shares and which were concluded by or on behalf of the listed persons.

31 DECEMBER 2015	SHARES	OPTIONS
Members of the Board of Directors in 2015 (total)	3,400	0
Members of the Supervisory Board in 2015 (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 to any option or similar contract concerning comparable investment instruments whose values are linked to KB shares, nor were any such contracts concluded on their behalf.

1) In addition, those members of the Supervisory Board who are employees of the Bank received during 2015 remuneration for the performance of their employment duties in the total amount of CZK 1,714,562, in the following structure (in CZK): (A) 1,306,052; (B) 61,186; (C) 220,400 and (F) 126,924.

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 of the Supervisory Board

Throughout 2015, 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 2015 to 31 December 2015, 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 Group's accounting and financial situation.

The Supervisory Board recommends that the general meeting approve the annual (separate) and consolidated financial statements and the distribution of profit for the year 2015 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2015 drawn up under S. 82 et seq. of the Corporations Act, and states on the basis of the presented documents that, during the accounting period from 1 January 2015 to 31 December 2015, Komerční banka, a.s. did not suffer any harm resulting from the contracts, agreements, other legal acts made or adopted by the Bank or from any influence otherwise exerted by Société Générale.

Prague, 10 March 2016

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 2015, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 18 March 2016

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.

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Tax Id. Nr.: CZ49620592

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Komerční banka, a.s.

Having its registered office at: Na Příkopě 33, 114 07 Praha 1
Identification number: 453 17 054

Report on Separate Financial Statements

We have audited the accompanying separate financial statements of Komerční banka, a.s. prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes which are included in this annual report on pages 163 to 248.

Statutory Body's Responsibility for the Separate Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by 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 about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements give a true and fair view of the financial position of Komerční banka, a.s. as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other Matter

The separate financial statements of Komerční banka, a.s. for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 27 February 2015.

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and subsidiaries prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes which are included in this annual report on pages 75 to 161.

Statutory Body's Responsibility for the Consolidated Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, 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 and the related application guidelines issued by 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 about 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 the 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 give a true and fair view of the financial position of Komerční banka, a.s. and subsidiaries as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Other Matter

The consolidated financial statements of Komerční banka, a.s. for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 27 February 2015.

Other information

The other information comprises the information included in the annual report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of opinion thereon. However, in connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and consider whether the other information in the annual report is not materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, the annual report has been prepared in accordance with the applicable legal requirements, or the other information does not otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that the above is not true, we are required to report such facts.

Based on the work we have performed, we have nothing to report in this regard.

Report on Related Party Transactions Report

We have reviewed the factual accuracy of the information included in the accompanying related party transactions report of Komerční banka, a.s. for the year ended 31 December 2015 which is included in this annual report on pages 249 to 268. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Komerční banka, a.s. for the year ended 31 December 2015 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

In Prague on 18 March 2016

Audit firm:	Statutory auditor:
Deloitte Audit s.r.o. registration no. 079	David Batal registration no. 2147

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2015

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income for the year ended 31 December 2015

Consolidated Statement of Income for the year ended 31 December 2015

(CZKm)	NOTE	2015	RESTATED 2014
Interest income and similar income	5	28,622	31,222
Interest expense and similar expense	5	(8,168)	(9,801)
Dividend income	5	2	2
Net interest income and similar income		**20,456**	**21,423**
Net fee and commission income	6	6,956	6,752
Net profit/(loss) on financial operations	7	2,610	2,386
Other income	8	109	116
Net operating income		**30,131**	**30,677**
Personnel expenses	9	(6,793)	(6,785)
General administrative expenses	10	(4,406)	(4,489)
Depreciation, impairment and disposal of assets	11	(2,240)	(1,791)
Total operating expenses		**(13,439)**	**(13,065)**
Profit before allowances/provisions for loan and investment losses, other risk and income taxes		**16,692**	**17,612**
Allowances for loan losses	12	(1,306)	(1,271)
Provisions for other risk expenses	12	231	(25)
Cost of risk		**(1,075)**	**(1,296)**
Income from share of associated undertakings		153	191
Share of profit of pension scheme beneficiaries		0	(508)
Profit before income taxes		**15,770**	**15,999**
Income taxes	13	(2,638)	(2,669)
Net profit for the period	14	**13,132**	**13,330**
Profit attributable to the Non-controlling owners		374	376
Profit attributable to the Group's equity holders		12,758	12,954
Earnings per share/diluted earnings per share (in CZK)	15	**337.77**	**342.96**

Consolidated Statement of Comprehensive Income for the year ended 31 December 2015

(CZKm)	NOTE	2015	RESTATED 2014
Net profit for the period	14	**13,132**	**13,330**
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax	39	(16)	(13)
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	40	136	11,124
– Transfer to net profit/(loss), net of tax	40	(3,402)	(3,324)
Foreign exchange gain/(loss) on translation of a foreign net investment		(5)	1
Net value gain/(loss) on available-for-sale financial assets, net of tax	41	(273)	449
Net value gain/(loss) on available-for-sale financial assets, net of tax (associated undertakings)	24	(28)	76
Other comprehensive income for the period, net of tax		**(3,588)**	**8,313**
Comprehensive income for the period, net of tax		**9,544**	**21,643**
Comprehensive income attributable to the non-controlling owners		374	377
Comprehensive income attributable to the Group's equity holders		9,170	21,266

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

Consolidated Statement of Financial Position as of 31 December 2015

(CZKm)	NOTE	31 DEC 2015	31 DEC 2014
ASSETS			
Cash and current balances with central banks	16	128,336	152,903
Financial assets at fair value through profit or loss	17	29,198	41,968
Positive fair value of hedging financial derivatives	42	23,701	29,216
Available-for-sale financial assets	18	41,864	77,440
Assets held for sale	19	385	63
Amounts due from banks	20	47,799	59,698
Loans and advances to customers	21	532,617	494,706
Revaluation differences on portfolios hedge items		18	29
Held-to-maturity investments	22	67,083	76,519
Current tax assets		367	233
Deferred tax assets	34	70	93
Prepayments, accrued income and other assets	23	4,436	3,983
Investments in associates	24	1,219	1,234
Intangible assets	25	3,867	3,758
Tangible assets	26	6,844	7,666
Goodwill	27	3,752	3,752
Total assets		**891,556**	**953,261**
LIABILITIES AND EQUITY			
Amounts due to central banks		1	2
Financial liabilities at fair value through profit or loss	28	19,494	23,470
Negative fair value of hedging financial derivatives	42	10,055	14,777
Amounts due to banks	29	56,230	61,360
Amounts due to customers	30	666,407	701,867
Revaluation differences on portfolios hedge items		610	761
Securities issued	31	11,283	22,584
Current tax liabilities		83	109
Deferred tax liabilities	34	4,584	5,308
Accruals and other liabilities	32	15,419	12,181
Provisions	33	1,161	1,348
Total liabilities		**785,327**	**843,767**
Share capital	35	19,005	19,005
Share premium and reserves		83,408	87,358
Non-controlling interest		3,816	3,131
Total equity		**106,229**	**109,494**
Total liabilities and equity		**891,556**	**953,261**

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

These Consolidated Financial Statements were approved by the Board of Directors on 3 March 2016.

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 Chief Operating Officer

Consolidated Statement of Changes in Equity for the year ended 31 December 2015

(CZKm)	SHARE CAPITAL	CAPITAL 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 2013	**19,005**	**60,266**	**(9)**	**8,181**	**5**	**6,211**	**93,659**	**2,879**	**96,538**
Treasury shares, other	0	180	0	0	0	0	180	1	181
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)	(126)	(8,868)
Transactions with owners	**0**	**(8,562)**	**0**	**0**	**0**	**0**	**(8,562)**	**(125)**	**(8,687)**
Profit for the period	0	12,954	0	0	0	0	12,954	376	13,330
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**	**13,030**	**(13)**	**7,799**	**1**	**449**	**21,266**	**377**	**21,643**
Balance as of 31 Dec 2014	**19,005**	**64,734**	**(22)**	**15,980**	**6**	**6,660**	**106,363**	**3,131**	**109,494**
Deconsolidation of Transformed Fund***	0	0	0	(61)	0	(1,427)	(1,488)	0	(1,488)
Treasury shares, other	0	151	0	0	0	0	151	549	700
Payment of dividends	0	(11,783)	0	0	0	0	(11,783)	(238)	(12,021)
Transactions with owners	**0**	**(11,632)**	**0**	**0**	**0**	**0**	**(11,632)**	**311**	**(11,321)**
Profit for the period	0	12,758	0	0	0	0	12,758	374	13,132
Other comprehensive income for the period, net of tax	0	(28)**	(16)	(3,266)	(5)	(273)	(3,588)	0	(3,588)
Comprehensive income for the period	**0**	**12,730**	**(16)**	**(3,266)**	**(5)**	**(273)**	**9,170**	**374**	**9,544**
Balance as of 31 Dec 2015	**19,005**	**65,832**	**(38)**	**12,653**	**1**	**4,960**	**102,413**	**3,816**	**106,229**

* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 4,670 million (2014: CZK 4,670 million), share premium, treasury shares and share-based transactions in the amount of CZK -203 million (2014: CZK -267 million), net profit from the period in the amount of CZK 12,758 million (2014: CZK 12,954 million) and retained earnings in the amount of CZK 48,607 million (2014: CZK 47,376 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).

*** As of 1 January 2015, Transformovaný fond KB Penzijní společnost, a.s. (Transformed Fund) was deconsolidated from the consolidating group of Komerční banka (refer to Note 2).

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

Consolidated Statement of Cash Flows for the year ended 31 December 2015

(CZKm)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	26,084	27,016
Interest payments	(7,092)	(7,804)
Fee and commission receipts	8,542	8,438
Fee and commission payments	(1,721)	(1,764)
Net income from financial operations	1,735	657
Other income receipts	100	14
Cash payments to employees and suppliers, and other payments	(10,576)	(10,663)
Operating cash flow before changes in operating assets and operating liabilities	**17,072**	**15,894**
Amount due from banks	11,309	65,420
Financial assets at fair value through profit or loss	12,660	(4,561)
Loans and advances to customers	(39,621)	(22,612)
Other assets	(550)	(480)
(Increase)/decrease in operating assets	**(16,202)**	**37,767**
Amounts due to banks	7,813	(852)
Financial liabilities at fair value through profit or loss	(3,979)	5,724
Amounts due to customers	4,312	52,635
Other liabilities	3,358	549
Increase/(decrease) in operating liabilities	**11,504**	**58,056**
Net cash flow from operating activities before taxes	12,374	111,717
Income taxes paid	(2,696)	(3,404)
Net cash flow from operating activities	**9,678**	**108,313**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received	142	120
Purchase of held-to-maturity investments	(3,369)	(7,912)
Maturity of held-to-maturity investments*	6,454	5,177
Purchase of available-for-sale financial assets	(4,525)	(9,667)
Sale and maturity of available-for-sale financial assets *	5,963	11,110
Purchase of tangible and intangible assets	(1,921)	(1,574)
Sale of tangible and intangible assets	41	26
Net cash flow from investment activities	**2,785**	**(2,720)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(11,750)	(8,656)
Paid dividends (non-controlling interest)	(238)	(126)
Securities issued	794	1,766
Securities redeemed*	(13,958)	(3,264)
Increase/decrease in share capital and share premium	549	0
Net cash flow from financing activities	**(24,603)**	**(10,280)**
Net increase/(decrease) in cash and cash equivalents	**(12,140)**	**95,313**
Cash and cash equivalents at the beginning of the year	138,698	43,367
FX differences on cash and cash equivalents at beginning of year	(7)	18
Deconsolidation of Transformed Fund	(419)	0
Cash and cash equivalents at the end of the year (refer to Note 36)	**126,132**	**138,698**

* The amount also includes coupons received and paid.

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

Notes to the Consolidated Financial Statements as of 31 December 2015

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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 eleven subsidiaries and two associated undertakings. The parent company of the Group is the Bank which is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follows:

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

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

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

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

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2014: 60.35%) of the Bank's issued share capital.

The main activities of the Bank's subsidiary companies as of 31 December 2015:

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.	83.65	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
VN 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

* As of 1 January 2015, the Transformovaný fond KB Penzijní společnost, a.s. (Transformed Fund) was deconsolidated from the Group.

The main activities of the Bank's associated undertakings as of 31 December 2015:

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 2015

Dividends declared in respect of the year ended 31 December 2014

At the General Meeting, held on 23 April 2015, the shareholders approved a dividend for the year ended 31 December 2014 of CZK 310 per share before tax. The dividend was declared in the aggregate amount of CZK 11,783 million and the remaining balance of the net profit was allocated to retained earnings. Moreover, the Group paid out CZK 238 million in dividends to non-controlling owners of ESSOX s.r.o.

Changes in the Bank's financial group

In May 2015 the equity in Bastion European Investments S.A. was decreased by EUR 3.2 million (equivalent to CZK 91 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

In June 2015 the Bank and SG Equipment Finance International GmbH increased shareholders' equity of SG Equipment Finance Czech Republic s.r.o. by CZK 1,100 million in the form of increasing other capital funds. The Bank's contribution was CZK 551.1 million.

In December 2015, the Bank decreased the capital of its subsidiary Protos, uzavřený investiční fond, a.s. by CZK 5,000 million. The decrease was made through a distribution of the company's premium fund . The Bank's ownership in the company decreased from 89.64% to 83.65%. The remaining participation in the company is held by Factoring KB, a.s. which is fully owned by the Bank.

Deconsolidation of Transformovaný fond KB Penzijní společnost, a.s.

As of 1 January 2015, Transformovaný fond KB Penzijní společnost, a.s. (hereafter "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 the Czech National Bank (hereafter "CNB") with the effective date of 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 proforma consolidated balance sheet as of 31 December 2014 decreased by CZK 41.4 billion. In particular the following items decreased ***'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).

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 2015.

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 2015 are prepared on the basis of current best estimates. The management of the Group believes that these 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.

INDEPENDENT AUDITOR'S REPORT
CONSOLIDATED FINANCIAL STATEMENTS
SEPARATE FINANCIAL STATEMENTS
REPORT ON RELATIONS
SECURITIES ISSUED BY KB
OTHER INFORMATION

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 permitted or explicitly required 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 prior reclassification into *'Assets held for sale'*.

3.3.3 Significant accounting judgements and estimates

In applying the accounting policies for the purpose of preparing the Separate Financial Statements in accordance with IFRS, it is necessary for the Group's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, 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 and judgements are based on the information available as of the financial statements date and they relate especially 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);
- 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); and
- Assessment of the substance of participation interest in Group entities (refer to Note 3.3.4).

Information about the key judgements and 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. When assessing the control the Group considers all relevant facts and circumstances taking into account particularly voting rights, potential voting rights and contractual arrangements. This assessment may require usage of accounting judgements. 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 Application of new and revised IFRS

3.4.1 Standards and interpretations newly applied by the Group in the current period

The following standards, interpretations and amendments were newly applied by the Group as from 1 January 2015. They have no impact in the current period (and/or prior period).

STANDARD	IMPACT/COMMENTS
IFRIC 21 Levies*	This interpretation provides guidance on the timing of accounting for a liability to pay a levy imposed by government. It is designated for both liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount is certain. A levy is an outflow of resources embodying economic benefits that is imposed by government on entities in accordance with law or regulation other than: (a) outflows of resources that are within the scope of other standards (such as IAS 12 Income Taxes); (b) fines or other penalties that are imposed for breaches of a law or regulation. IFRIC 21 identifies the obligating event giving rise to a liability to pay the levy as the activity that triggers the payment of the levy, as identified by the relevant legislation. The liability is recognised progressively if the obligating event occurs over a period of time. In accordance with new EU legislation, the CNB has decided to create the Resolution Fund via nine annual contributions starting in 2016. As this regulation has not been transposed into the Czech legislation for 2015, no obligating event exists as of the financial statements date and therefore no liability in respect of the contribution to the Resolution Fund has been recognised for 2015.
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.

* The European Commission has approved IFRIC 21 Levies for reporting periods beginning on or after 17 June 2014. According to the IASB, the interpretation is effective already for reporting periods beginning on or after 1 January 2014. The European Commission has approved Annual Improvements to IFRS 2011-2013 Cycle for reporting periods beginning on or after 1 January 2015. According to the IASB, these are effective already for reporting periods beginning on or after 1 July 2014.

3.4.2 Issued standards and interpretations not applied for the current period

Although the following standards, interpretations and amendments had been issued, they are not yet effective for the reporting period beginning on 1 January 2015 and the Group has decided not to adopt them early. The Group has decided not to adopt early the standards and interpretations which were already approved by the European Commission.

Currently, 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 and rules 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 must 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 to collect and sell, other business models) and the financial asset's contractual cash flow characteristics. Financial assets will be 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 as 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 need to decide upon the initial application of the standard whether it will measure these through profit or loss or whether it will use the FVOCI option and thus 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 most advanced methodology as regards to data quality, existing parameters and experience in modelling (Advanced Internal Ratings-Based approach, the so-called A-IRB approach), no large changes in methodology and systems are expected. Different parameters will be used, however and so the impact will be observable. Implementation of the new impairment methodology (credit risk provisioning) is the subject of a specific project centrally managed by SG. Within the scope of the project the reference approach methodology for the Group containing IFRS 9 rules and methods is being developed. Currently, the Group is considering IT architecture with the aim to implement this methodology and new provisioning models into the rating/provisioning IT systems. The project should also support subsidiaries in implementing IFRS 9 and update current interfaces necessary for preparing the Consolidated Financial Statements. The project's closing date is 1 January 2018, and a parallel run (IAS 39 and IFRS 9) is expected from the beginning of 2017.

STANDARD	SUMMARISED CONTENT	EFFECTIVE FOR REPORTING PERIOD BEGINNING ON OR AFTER
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 EU 1 February 2015
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 procedures for contributions the amounts of which are not dependent upon length of service and those the amounts of which are so dependent.	1 July 2014 EU 1 February 2015
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.	1 January 2016 EU will not endorse
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 acquirer is required to apply, to the extent of its share, the principles of business combination accounting and disclosure in IFRS 3 and other IFRS, if not conflicting with the guidance in IFRS 11.	1 January 2016 EU 1 January 2016

STANDARD	SUMMARISED CONTENT	EFFECTIVE FOR REPORTING PERIOD BEGINNING ON OR AFTER
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets)	The amendments prohibit the use of revenue-based depreciation for property, plant and equipment (IAS 16). In case of intangible assets (IAS 38), this depreciation method can be used only in very limited circumstances for intangible rights.	1 January 2016 EU 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 EU 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 IAS 39/IFRS 9.	1 January 2016 EU 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. In such case, the gain or loss is recognised in full.	The effective date of 1 January 2016 was withdrawn and deferred indefinitely. EU postponed
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 EU 1 January 2016
Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	Given that the amendments clarify existing requirements in IAS 1 which 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 EU 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 further clarify application of the consolidation exception to entities in group structures involving investment entities.	1 January 2016 EU not yet endorsed
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 Income Taxes)	The amendments to IAS 12 clarify how to account for a deferred tax asset that is related to debt instruments measured at fair value for accounting purposes and at cost for tax purposes in circumstances in which changes in the market interest rate decrease the fair value below cost. This applies irrespective of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use. The amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits.	1 January 2017 EU not yet endorsed
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.	1 January 2018 EU not yet endorsed

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, new impairment methodology and new hedge accounting rules for micro hedges. Accounting and rules for macro hedging were separated from the IFRS 9 project and are part of a separate project (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 should reflect 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 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 a prospective effectiveness test remaining that is newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) replacing the range of 80-125%. As a consequence of the new general hedge accounting rules in IFRS 9, additional hedge accounting disclosure requirements were introduced into IFRS 7 Financial Instruments: Disclosures.	1 January 2018 EU not yet endorsed

STANDARD	SUMMARISED CONTENT	EFFECTIVE FOR REPORTING PERIOD BEGINNING ON OR AFTER
IFRS 16 Leases – new standard	The new standard, superseding IAS 17 Leases, establishes principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. From the lessee's point of view the standard newly provides a single on-balance sheet accounting model. Lessees are required to recognise assets and liabilities (so-called right-of-use assets and lease liabilities) for all leases unless the lease term is 12 months or less or the underlying asset is of a low value, in which case the lessees have an accounting policy choice to apply a method similar to operating leases under IAS 17. The right-of-use asset is treated similarly as are other non-financial assets; it is depreciated in accordance with the requirements in IAS 16 Property, Plant and Equipment and tested for impairment under IAS 36 Impairment of Assets. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate. Lessors continue to classify leases as operating or finance, with an accounting approach substantially unchanged from IAS 17. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease. For a finance lease, the lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. The net investment in the lease (lease receivable) is subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments. For operating leases, the lessor recognises lease income on either a straight-line basis or another systematic basis that is more representative of the pattern in which benefit from use of the underlying asset is diminished.	1 January 2019 EU not yet endorsed

3.4.3 Standards and interpretations not yet adopted by the European Union

The European Commission decides on the applicability of IFRS issued by the 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). Should the full version of IAS 39 requirements be applied, the impact would be insignificant, as the Group does not use interest rate hedging on a portfolio basis for banking deposits.

Those effective or issued standards and interpretations and/or amendments there to not approved by the European Commission are highlighted in the previous chapter.

3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2015

The Group did not make use of the possibility for the voluntary early application of standards or interpretations in the reporting period beginning 1 January 2015.

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; and
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 the CNB at the end of the reporting period);
II. Income and expenses presenting profit or loss are translated using the average rate for the period (monthly average of exchange rates announced by the CNB during the period);
III. All resulting exchange differences are recognised in other comprehensive income and presented in the line ***'Share premium and reserves'*** being part of ***'Capital funds and retained earnings'***.

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. This item also includes obligatory minimum reserves. The Group can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

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

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

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

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

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

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

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

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

(ii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity and which do not meet the definition of loans and receivables (i.e. are quoted on an active market).

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 an isolated event that is beyond the Group's control, which is non-recurring and could not reasonably have been anticipated by the Group – due to a significant decrease of a client's creditworthiness, changes in tax laws, major business combination or major disposition (including sale of a 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 for the type of debtor.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or 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 its 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 be 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 rare 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. 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 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 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 a 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, such as

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.); or
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 market 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 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 Group incorporates into the valuation an 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 expense over the relevant period.

3.5.5.8 Forborne loans

Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debt or and for which the discontinuation conditions are not met. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in payment schedule, interest rate reductions, penalty interest waivers) or refinancing. 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 significant 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 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 whether there was an impairment on all significant credit exposures on an individual basis (i.e. those classified as Watch, Substandard, Doubtful or Loss according to the CNB classification). For corporate clients in the category Watch, the estimated loss amount approach is used, but the Provisioning Committee has the right to approve an individual provisions rate, if it is adequately justified. Provisions assessed on an individual basis for credit exposures in the categories Substandard, Doubtful or Loss are calculated using discounted expected future cash flows. Assets classified as Standard are included in the collective assessment of impairment and impaired for incurred but not reported losses, due to the fact that impairment for the Standard classification is not identified on an individual basis. The remaining insignificant impaired exposures are assessed using statistical models based on a collective approach (refer to Note 42(A)).

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

The future cash flows of 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 a provisioning model. Historical loss experience is adjusted on the basis of currently 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 an 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 Statement of Income 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 an amount greater 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, and it 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.

Held for trading derivatives 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. Hedging 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. Hedging 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'*.

It is on this basis that the Group hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rates 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 a 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 Group revoked the designation of respective interest rate swaps as fair value hedges 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 hedging derivatives classified as cash flow hedges and that prove to be highly effective in relation to the hedged risks 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 items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Group hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a 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 constituting 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 the 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, the estimates of which 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 valid as of 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 set off current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.5.7.2 Deferred income tax

Using the balance sheet liability method, deferred income tax is recorded 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 valid 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 (such 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.

The Group as lessor

Operating leases

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

Leasing payments received from operating leases are recognised as the Group's income on a straight-line basis over the term of the relevant lease and 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'*.

The Group as lessee

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 within 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 (mainly software). Tangible assets include plant, property and equipment that are used by the Group in supplying its 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 as established in the lease contract. The Group assumes no residual value for other assets. Depreciation is reported in the Statement of Income on the line *'Depreciation, impairment and disposal of assets'*.

The Group does not depreciate land and works of art. Tangible and intangible assets in the course of construction and technical improvements are depreciated only once they have been brought into a condition fit for use.

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

	2015	2014
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
– Facades	30	30
– Roofs	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, economic or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Group estimates the recoverable amount of the asset concerned, i.e. the higher amount of its fair value less costs to sell in comparison with the asset's carrying value. If the asset's carrying amount is greater than its recoverable amount, the Group reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line *'Depreciation, impairment and disposal of assets'*.

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

3.5.10 Goodwill
Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 2010 it represents the excess of the acquisition cost (including acquisition-related costs) for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired from 2010 it represents the difference between the fair value of the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary identifiable net assets at fair value on one side and the net of the identifiable assets and the liabilities assumed both at fair value 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 as of 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 and including a growth rate derived from the 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 in the 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'* and
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 in accordance with 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 the two components are further split between 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 as 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 shares granted 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 20 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 12 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 40 free shares of Société Générale S.A. upon the achievement of two performance conditions and completing a specific period of employment.

The allotment of the shares proceeds in two tranches:

- The first tranche accounts for 40% of the planned allocation (i.e. 16 shares) and it is contingent on the 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 received 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 the Société Générale S.A. Group's three core businesses (French Networks, International Retail Banking, Corporate and Investment Banking). This condition having been met the Group's employees will receive those shares on 31 March 2016.

To enhance loyalty and motivation to contribute to the long-term growth in the value of the Société Générale Group, the Group can award some of its key employees further free shares (deferred share plan). These free shares are subject to a vesting condition (i.e. presence in the Group at the end of vesting period which is 4 years) and for certain beneficiaries are also subject to the condition that the Société Générale Group records positive net income.

Expenses related to the Free share and Deferred share plans provided by the Société Générale to the Group´s employees is recognised in the Group's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the grant date, is spread over the vesting period and recorded 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 adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under *'Personnel expenses'* from the start of the plan are then adjusted accordingly.

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 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 through 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 also exists in the case of 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 include, for example, 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 such interest and foreign currency instruments as forwards, swaps, options and futures. More information regarding derivative operations is presented in note 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 Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Group nevertheless 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 expense 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.

3.6 Changes in accounting policies and reclassifications

From 1 January 2015, the Group has introduced accounting for SG´s deferred share plan (refer to Note 3.5.12.3). Comparative information has been restated to reflect the presentation of the current period.

The impact of accounting for the Deferred share plan in the Statement of Income was an increase in the line *'Personnel expenses'* of CZK 31 million for the year ended 31 December 2014. The impacts on the Statement of Changes in Equity for the year ended 31 December 2014 were mutually offset, meaning no impact on *'Total equity'*. An increase of CZK 31 million in capital funds (line *'Treasury shares, other'*) was matched by a decrease of CZK 31 million in the line *'Net profit for the period'*.

4 Segment reporting

	RETAIL BANKING		CORPORATE BANKING		INVESTMENT BANKING		OTHER		TOTAL	
(CZKm)	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net interest income and similar income	11 684	12,596	6,928	7,002	120	135	1,724	1,690	20,456	21,423
Net fee and commission income	4,612	4,385	2,119	2,231	(29)	(68)	254	204	6,956	6,752
Net profit/(loss) on financial operations	876	846	1,311	1,114	432	376	(9)	50	2,610	2,386
Other income	64	83	1	(4)	110	132	(66)	(95)	109	116
Net operating income	**17,236**	**17,910**	**10,359**	**10,343**	**633**	**575**	**1,903**	**1,849**	**30,131**	**30,677**

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% (2014: 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)	2015	2014
Interest income and similar income	28,622	31,222
Interest expense and similar expense	(8,168)	(9,801)
Dividend income	2	2
Net interest income and similar income	**20,456**	**21,423**
Of which net interest income and similar income from		
– Loans and advances	17,072	17,972
– Held-to-maturity investments	2,000	1,523
– Available-for-sale financial assets	1,036	2,705
– Financial liabilities at amortised cost	(3,676)	(4,578)

'Interest income and similar income' includes interest on Substandard, Doubtful and Loss loans due from customers of CZK 433 million (2014: CZK 444 million).

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 8,497 million (2014: CZK 9,025 million) and *'Interest expense and similar expense'* includes interest expenses from hedging financial derivatives of CZK 4,475 million (2014: CZK 5,226 million). Net interest income from these derivatives amounts to CZK 4,022 million (2014: CZK 3,799 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 799 million (2014: CZK 856 million).

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2015	2014
Transactions	4,047	4,179
Loans and deposits	2,263	2,440
Others	2,242	1,793
Total fee and commission income	**8,552**	**8,412**
Transactions	(967)	(1,042)
Loans and deposits	(334)	(380)
Others	(295)	(238)
Total fee and commission expenses	**(1,596)**	**(1,660)**
Total net fee and commission income	**6,956**	**6,752**

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 496 million (2014: CZK 95 million) and fee expense for these services in the amount of CZK 13 million (2014: CZK 66 million).

7 Net profit/(loss) on financial operations

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

(CZKm)	2015	2014
Net realised gains/(losses) on securities held for trading	335	435
Net unrealised gains/(losses) on securities held for trading	166	515
Net realised gains/(losses) on securities available for sale	0	5
Net realised and unrealised gains/(losses) on security derivatives*	(343)	(347)
Net realised and unrealised gains/(losses) on interest rate derivatives	159	(350)
Net realised and unrealised gains/(losses) on trading commodity derivatives	32	33
Net realised and unrealised gains/(losses) on foreign exchange operations	1,109	909
Net realised gains/(losses) on foreign exchange from payments	1,152	1,186
Total net profit/(loss) on financial operations	**2,610**	**2,386**

* This line also includes the impacts of derivative trades in emission allowances.

A gain of CZK 492 million (2014: loss of CZK 2,732 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 Group reports *'Other income'* in the amount of CZK 109 million (2014: CZK 116 million). In both 2015 and 2014, *'Other income'* was predominantly composed of income from intermediation and property rental income

9 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2015	2014
Wages, salaries and bonuses	4,850	4,872
Social costs	1,943	1,913
Total personnel expenses	**6,793**	**6,785**
Physical number of employees at the end of the period*	8,575	8,573
Average recalculated number of employees during the period*	8,426	8,520
Average cost per employee (CZK)	**806,195**	**796,362**

* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 89 million (2014: CZK 89 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 44 million (2014: CZK 49 million) incurred in contributing to the employees' capital life insurance scheme.

Indexed bonuses
In 2015, 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 32 million (2014: CZK: 29 million) and the total amount of CZK 49 million (2014: CZK 48 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 11 million (2014: CZK 5 million). The total number of Société Générale shares according to which bonuses indexed on the Société Générale share price are calculated is 0 shares (2014: 6,232 shares). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 16,572 shares (2014: 17,310 shares).

The changes in the numbers of shares were as follows:

	2015		2014	
(in shares)	SG SHARES	KB SHARES	SG SHARES	KB SHARES
Balance as of 1 January	**6,232**	**17,310**	**12,461**	**15,137**
Paid out during the period	(6,232)	(5,840)	(6,229)	(3,242)
Presumed number of newly guaranteed shares	0	5,102	0	5,415
Balance as of 31 December	**0**	**16,572**	**6,232**	**17,310**

Free shares and Deferred share plans
For 2015, the total amount relating to the free shares program and deferred share plans recognised in *'Personnel expenses'* is CZK 64 million (2014: CZK 92 million).

The changes in the numbers of shares were as follows:

	2015		2014	
(in shares; EUR)	NUMBER OF SHARES	AVERAGE PRICE	NUMBER OF SHARES	AVERAGE PRICE
Balance as of 1 January	**475,568**	**35.17**	**465,130**	**34.64**
Granted during the year	44,798	33.02	47,359	39.92
Forfeited during the year	(11,121)	35.04	(13,829)	34.39
Exercised during the year	(156,103)	34.47	(23,092)	36.52
Balance as of 31 December	**353,142**	**35.10**	**475,568**	**35.17**

10 General administrative expenses

General administrative expenses comprise the following:

(CZKm)	2015	2014
Insurance	89	117
Marketing and representation	608	629
Sale and banking products expenses	311	309
Other employees expenses and travelling	140	145
Real estate expenses	1,050	1,083
IT support	1,051	964
Equipment and supplies	143	165
Telecommunications, postage and data transfer	281	311
External consultancy and other services	583	594
Other expenses	150	172
Total general administrative expenses	**4,406**	**4,489**

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise the following:

(CZKm)	2015	2014
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,796	1,790
Impairment and disposal of fixed assets	444	1
Total depreciation, impairment and disposal of assets	**2,240**	**1,791**

12 Cost of risk

Allowance for loan losses and provisions for other credit commitments

'Allowances for loan losses' in the total amount of CZK 1,306 million (2014: CZK 1,271 million) include a net loss from allowances and provisions for loan losses in the amount of CZK 1,712 million (2014: CZK 1,846 million), a net gain from loans written off and transferred in the amount of CZK 420 million (2014: CZK 575 million) and a net loss from allowances for other receivables in the amount of CZK 14 million (2014: CZK 0 million).

The movements in allowances and provisions were as follows:

(CZKm)	2015	2014
Balance as of 1 January	**(19,552)**	**(19,109)**
Charge of portfolio allowances and provisions for loans to banks	(3)	0
Release of portfolio allowances and provisions for loans to banks	0	0
Charge of allowances and provisions for loans to banks	(18)	0
Release of allowances and provisions for loans to banks	1	0
Charge of portfolio allowances and provisions for for loans and advances to customers		
– Individuals	(342)	0
– Corporates*	(276)	0
Release of portfolio allowances and provisions for loans and advances to customers		
– Individuals	0	0
– Corporates*	1	0
Charge of allowances and provisions for loans and advances to customers		
– Individuals	(3,397)	(2,474)
– Corporates*	(4,995)	(5,299)
Release of allowances and provisions for loans and advances for costumers		
– Individuals	2,709	1,838
– Corporates*	4,608	4,089
Impact of loans written off and transferred (use)		
– Individuals	463	546
– Corporates*	4,276	1,178
Foreign exchange rate differences attributable to provisions	(110)	(321)
Balance as of 31 December	**(16,635)**	**(19,552)**

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

The balances of allowances and provisions as of 31 December 2015 and 2014 comprise the following:

(CZKm)	2015	2014
Portfolio allowances for loans to banks (refer to Note 20)	(3)	0
Allowances for loans to banks (refer to Note 20)	(15)	0
Portfolio allowances for loans to customers (refer to Note 21)	(617)	0
Allowances for loans to customers (refer to Note 21)	(15,201)	(18,834)
Allowances for other loans to customers (refer to Note 21)	(16)	(16)
Provisions for guarantees and other credit related commitments (refer to Note 33)	(783)	(702)
Total	**(16,635)**	**(19,552)**

Allowances for impairment of securities

The balance of provisions for impairment of securities was CZK 0 million as of 31 December 2015 (2014: CZK 153 million).

Provisions for other risk expenses

The net gain of ***'Provisions for other risk expenses'*** of CZK 231 million (2014: CZK 25 million) consists mainly of the charge for provisions of CZK 14 million (2014: CZK 23 million) and the release and use of provisions of CZK 287 million (2014: CZK 4 million) for legal disputes, together with the net costs incurred by the Group as a result of the outcome of legal disputes of CZK 42 million (2014: CZK 6 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)	2015	2014
Tax payable – current year, reported in profit or loss	(2,535)	(2,667)
Tax paid – prior year	16	45
Deferred tax (refer to Note 34)	(96)	(1)
Hedge of a deferred tax asset against foreign currency risk	(23)	(46)
Total income taxes	**(2,638)**	**(2,669)**
Tax payable – current year, reported in equity	0	8
Total tax expense	**(2,638)**	**(2,661)**

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

(CZKm)	2015	2014
Profit before tax	**15,770**	**16,030**
Theoretical tax calculated at a tax rate of 19% (2014: 19%)	2,996	3,046
Tax on pre-tax profit adjustments	23	(199)
Non-taxable income	(1,934)	(1,104)
Expenses not deductible for tax purposes	1,540	1,039
Use of tax losses carried forward	(34)	(2)
Tax allowance	(2)	(3)
Tax credit	0	0
Hedge of a deferred tax asset against foreign currency risk	23	46
Movement in deferred tax	96	1
Tax losses	0	13
Impact of various tax rates of subsidiary undertakings	(25)	(92)
Tax effect of share of profits of associated undertakings	(29)	(31)
Income tax expense	**2,654**	**2,714**
Prior period tax expense	(16)	(45)
Total income taxes	**2,638**	**2,669**
Tax payable on available-for-sale financial assets reported in equity*	0	(8)
Total tax expense	**2,638**	**2,661**
Effective tax rate	16.73%	16.65%

* 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 2015 is 19% (2014: 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 2015, the Group records unused tax losses in the amount of CZK 636 million (2014: CZK 1,248 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	332	304			

Further information about deferred tax is presented in Note 34.

14 Distribution of net profit

For the year ended 31 December 2015, the Group generated a net profit of CZK 13,132 million (2014: CZK 13,361 million). Distribution of profits for the year ended 31 December 2015 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 (2014: CZK 310 per share), which represents a total amount of CZK 11,783 million (2014: CZK 11,783 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 23 April 2015, the aggregate balance of the net profit of CZK 13,361 million for the year ended 31 December 2014 was allocated as follows: CZK 11,783 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings.

Moreover, the Group paid out dividends to non-controlling owners in the total amount of CZK 238 million (2014: CZK 126 million), of which CZK 238 million (2014: CZK 0 million) was paid to the non-controlling owners of ESSOX s.r.o. and CZK 0 million (2014: CZK 126 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 337.77 (2014: CZK 342.96 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 12,758 million (2014: CZK 12,954 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, which was 238,672 (2014: 238,672 shares).

16 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Cash and cash values	11,357	7,161
Current balances with central banks	116,979	145,742
Total cash and current balances with central banks (refer to Note 36)	**128,336**	**152,903**

Obligatory minimum reserves in the amount of CZK 89,701 million (2014: CZK 126,755 million) are included in ***'Current balances with central banks'*** and they bear interest. As of 31 December 2015, the interest rate was 0.05% (2014: 0.05%) in the Czech Republic and 0.05% (2014: 0.05%) in the Slovak Republic.

17 Financial assets at fair value through profit or loss

As of 31 December 2015 and 2014, 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 2015	31 DEC 2014
Securities	10,672	20,208
Derivative financial instruments	18,526	21,760
Total financial assets at fair value through profit or loss	**29,198**	**41,968**

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 2015		31 DEC 2014	
(CZKm)	FAIR VALUE	COST*	FAIR VALUE	COST*
Emission allowances	**2,800**	**2,379**	**1,443**	**1,198**
Fixed income debt securities	4,509	4,390	10,403	10,042
Variable yield debt securities	1,026	1,022	2,520	2,512
Bills of exchange	186	185	1,873	1,872
Treasury bills	2,151	2,150	3,969	3,969
Total debt securities	**7,872**	**7,747**	**18,765**	**18,395**
Total trading securities	**10,672**	**10,126**	**20,208**	**19,593**

* 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 2,151 million (2014: CZK 3,969 million).

As of 31 December 2015, the portfolio of trading securities includes securities at fair value of CZK 8,213 million (2014: CZK 13,839 million) that are publicly traded on stock exchanges and securities at fair value of CZK 2,459 million (2014: CZK 6,369 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 2015	31 DEC 2014
Emission allowances		
– Other currencies	2,800	1,443
Total emission allowances	**2,800**	**1,443**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Emission allowances issued by:		
– Foreign financial institutions	2,800	1,443
Total emission allowances	**2,800**	**1,443**

Debt trading securities at fair value comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Variable yield debt securities		
– Czech crowns	640	2,307
– Other currencies	386	213
Total variable yield debt securities	**1,026**	**2,520**
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	4,909	14,238
– Other currencies	1,937	2,007
Total fixed income debt securities	**6,846**	**16,245**
Total trading debt securities	**7,872**	**18,765**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Debt trading securities issued by:		
– State institutions in the Czech Republic	5,628	15,657
– Foreign state institutions	2,044	2,550
– Financial institutions in the Czech Republic	146	546
– Other entities in the Czech Republic	54	12
– Other foreign entities	0	0
Total trading debt securities	**7,872**	**18,765**

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

(CZKm)	31 DEC 2015	31 DEC 2014
COUNTRY OF ISSUER	FAIR VALUE	FAIR VALUE
European Investment Bank	52	85
Poland	1	63
Slovakia	1,991	2,402
Total	**2,044**	**2,550**

Of the debt securities issued by State institutions in the Czech Republic, CZK 3,106 million (2014: CZK 9,786 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 2015		31 DEC 2014	
(CZKm)	FAIR VALUE	COST*	FAIR VALUE	COST*
Shares and participation certificates	**675**	**1**	**2**	**2**
Fixed income debt securities	27,095	23,984	54,576	49,377
Variable yield debt securities	14,094	13,563	22,862	22,308
Total debt securities	**41,189**	**37,547**	**77,438**	**71,685**
Total available-for-sale financial assets	**41,864**	**37,548**	**77,440**	**71,687**

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

As of 31 December 2015, the *'Available-for-sale financial assets'* portfolio includes securities at fair value of CZK 40,225 million (2014: CZK 76,766 million) that are publicly traded on stock exchanges and securities at fair value of CZK 1,639 million (2014: CZK 674 million) that are not publicly traded.

Based on the binding agreement for Visa Inc. to acquire Visa Europe Limited the Bank revalued as of 31 December 2015 its one Visa share (nominal value of EUR 10) up to the amount of CZK 674 million (EUR 24.9 million). This acquisition is expected to take place in 2016 subject to its approval by the appropriate European authorities.

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

(CZKm)	31 DEC 2015	31 DEC 2014
Shares and participation certificates		
– Other currencies	675	2
Total shares and participation certificates available-for-sale	**675**	**2**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Shares and participation certificates available-for-sale issued by:		
– Other foreign entities	675	2
Total shares and participation certificates available-for-sale	**675**	**2**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Fixed income debt securities		
– Czech crowns	20,337	40,382
– Other currencies	6,758	14,194
Total fixed income debt securities	**27,095**	**54,576**
Variable yield debt securities		
– Czech crowns	11,375	17,989
– Other currencies	2,719	4,873
Total variable yield debt securities	**14,094**	**22,862**
Total debt securities available-for-sale	**41,189**	**77,438**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Debt securities available-for-sale issued by:		
– State institutions in the Czech Republic	20,376	39,911
– Foreign state institutions	7,919	9,107
– Financial institutions in the Czech Republic	12,062	20,117
– Foreign financial institutions	832	5,662
– Other entities in the Czech Republic	0	1,708
– Other foreign entities	0	933
Total debt securities available-for-sale	**41,189**	**77,438**

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

(CZKm)	31 DEC 2015		31 DEC 2014	
COUNTRY OF ISSUER	FAIR VALUE	COST*	FAIR VALUE	COST*
Poland	786	676	1,447	1,265
Romania	1,904	1,889	0	0
Slovakia	4,067	3,338	6,209	5,416
European Investment Bank	1,162	1,000	1,451	1,250
Total	**7,919**	**6,903**	**9,107**	**7,931**

* 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 20,375 million (2014: CZK 33,812 million) consist of securities eligible for refinancing with the CNB.

During the year ended 31 December 2015, the Group acquired bonds with nominal values of CZK 2,200 million and EUR 70 million (CZK equivalent of 1,892 million), i.e. with the total CZK equivalent of CZK 4,092 million, of which CZK 2,200 million comprised bonds issued by State institutions in the Czech Republic and EUR 70 million (CZK equivalent of 1,892 million) bonds issued by Foreign state institutions. During 2015, the Group had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 4,082 million, EUR 30 million (a total CZK equivalent of CZK 4,895 million), of which CZK 813 million were issued by State institutions in the Czech Republic and CZK 4,082 million by Financial institutions in the Czech Republic.

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 bonds issued by Financial institutions in the Czech Republic in the amount of CZK 282 million and bonds issued by Foreign financial institutions in the amount of CZK 700 million, EUR 31 million (CZK equivalent of 863 million) and 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.

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 2015, the Group reported assets held for sale at a carrying amount of CZK 385 million (2014: CZK 63 million) mainly comprising buildings and land owned by the Group which the management of the Group decided to sell as a component of a plan to optimise the distribution network, equipment obtained by taking possession of leasing collateral. The depreciation of these assets has been discontinued since their classification as assets held for sale. The aggregate impairment loss on the assets held for sale for the year ended 31 December 2015 amounted to CZK 418 million (2014: CZK 0 million) and is reported in the Statement of Income within the line *'Depreciation, impairment and disposal of fixed assets'*.

20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Current account with other banks (refer to Note 36)	536	838
Debt securities	8,255	11,977
Loans and advances to banks	12,278	12,108
Advances due from central bank (reverse repo transactions)	9,900	20,000
Term placements with other banks	16,848	14,775
Total amounts due from banks, gross	**47,817**	**59,698**
Portfolio allowances for loans to banks (refer to Note 12)	(3)	0
Allowances for loans to banks (refer to Note 12)	(15)	0
Total amounts due from banks, net	**47,799**	**59,698**

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 2015	31 DEC 2014
Treasury bills	9,726	19,605
Debt securities issued by state institutions	426	2,368
Shares	607	573
Investment certificates	83	83
Total	**10,842**	**22,629**

Securities acquired as loans and receivables

As of 31 December 2015, the Group maintains in its portfolio bonds at an amortised cost of CZK 8,255 million (2014: CZK 11,977 million) and a nominal value of CZK 7,997 million (2014: CZK 11,622 million), of which CZK 3,058 million (2014: CZK 5,817 million) is comprised of bonds issued by the parent company, Société Générale S. A., and acquired by the Group under initial offering and normal market conditions in 2006 and 2010. A bond with the nominal value of CZK 3,058 million (2014: CZK 3,227 million) is denominated in EUR, bears floating interest and will mature in 2026. During the year ended 31 December 2015, there was a partial repayment of the nominal value of this bond in the amount of EUR 3.2 million, an equivalent of CZK 91 million (2014: EUR 2.9 million, an equivalent of CZK 82 million). In this portfolio, the Group holds a portfolio of securities with a nominal value of CZK 2,099 million (2014: CZK 2,910 million) and EUR 79 million (2014: EUR 79 million) issued by Financial institutions in the Czech Republic and CZK 705 million (2014: CZK 705 million) issued by Foreign financial institutions, i.e. a total CZK equivalent of CZK 4,939 million (2014: CZK 5,805 million).

During the year ended 31 December 2015, the Group acquired bonds with a nominal value of CZK 500 million issued by Financial institutions in the Czech Republic. During the year ended 31 December 2015, the Group had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 4,000 million, of which CZK 1,410 million were issued by Financial institutions in the Czech Republic and CZK 2,590 million by the parent company, Société Générale S.A. 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.

21 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Loans to customers	544,009	510,353
Bills of exchange	302	318
Forfaits	272	673
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**544,583**	**511,344**
Debt securities	3,654	2,072
Other amounts due from customers	214	140
Total loans and advances to customers, gross	**548,451**	**513,556**
Portfolio allowances for loans to customers (refer to Note 12)		
– Individuals	(342)	0
– Corporates*	(275)	0
Allowances for loans to customers (refer to Note 12)		
– Individuals	(7,320)	(7,250)
– Corporates*	(7,881)	(11,584)
Total allowances for loans to customers (refer to Note 12)	**(15,818)**	**(18,834)**
Allowances for other amounts due from customers (refer to Note 12)	(16)	(16)
Total allowances for loans and other amounts due from customers	**(15,834)**	**(18,850)**
Total loans and advances to customers, net	**532,617**	**494,706**

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2015, loans and advances to customers include interest due of CZK 1,248 million (2014: CZK 1,303 million), of which CZK 576 million (2014: CZK 601 million) relates to overdue interest.

As of 31 December 2015, loans provided to customers under reverse repurchase transactions in the amount of CZK 819 million (2014: CZK 90 million) are collateralised by securities with a fair value of CZK 1,177 million (2014: CZK 45 million).

As of 31 December 2015, 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	512,644	237,901	274,743	(617)*	512,027	0%
Watch	8,742	3,367	5,375	(583)	8,159	11%
Substandard	7,172	3,550	3,622	(2,577)	4,595	71%
Doubtful	2,029	1,246	783	(654)	1,375	84%
Loss	13,996	1,082	12,914	(11,387)	2,609	88%
Total	**544,583**	**247,146**	**297,437**	**(15,818)**	**528,765**	

* This item includes portfolio allowances (due to losses incurred but not reported).

As of 31 December 2014, 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	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**	

* This item includes portfolio allowances (due to losses incurred but not reported).

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

(CZKm)	31 DEC 2015	31 DEC 2014
Food industry and agriculture	16,903	17,077
Mining and extraction	5,948	3,914
Chemical and pharmaceutical industry	6,114	6,329
Metallurgy	10,764	9,728
Automotive industry	10,526	10,245
Manufacturing of other machinery	8,958	10,145
Manufacturing of electrical and electronic equipment	3,575	3,403
Other processing industry	8,240	7,827
Power plants, gas plants and waterworks	17,319	21,182
Construction industry	10,498	9,863
Retail	14,134	11,582
Wholesale	28,092	31,351
Accommodation and catering	1,451	996
Transportation, telecommunication and warehouses	24,764	23,255
Banking and insurance industry	19,963	20,269
Real estate	43,070	36,092
Public administration	32,235	33,908
Other industries	31,605	26,782
Individuals	250,424	227,396
Total loans to customers	**544,583**	**511,344**

The majority of loans, more than 90% (2014: more than 89%), 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 2015			31 DEC 2014
(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	2,613	2,262	2,254	4,284	2,171	2,153
Bank guarantee	14,635	13,925	13,540	18,259	15,453	15,321
Guaranteed deposits	9,064	8,956	7,811	8,205	8,152	7,707
Pledge of real estate	407,379	262,467	192,656	371,292	237,621	171,589
Pledge of movable assets	12,971	1,263	1,214	14,597	2,586	2,529
Guarantee by legal entity	32,665	20,907	14,256	22,904	13,155	11,798
Guarantee by individual (natural person)	3,357	354	329	3,862	446	419
Pledge of receivables	42,657	626	0	34,863	608	26
Insurance of credit risk	13,955	13,258	13,128	14,980	14,231	14,231
Other	2,979	2,199	1,958	884	504	333
Nominal value of collateral	**542,275**	**326,217**	**247,146**	**494,130**	**294,927**	**226,106**

* 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 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 (2014: 10%).

Debt securities designated as loans and receivables

As of 31 December 2015, the Group holds in its portfolio bonds at an amortised cost of CZK 2,749 million (2014: CZK 899 million) and a nominal value of CZK 2,687 million (2014: CZK 877 million), of which bonds with a nominal value of CZK 450 million (2014: CZK 450 million) are issued by State institutions in the Czech Republic, CZK 1,790 million (2014: CZK 99 million) by Other entities in the Czech Republic and EUR 17 million (2014: EUR 12 million) by Other foreign entities. Additionally, the Group holds in this portfolio bills of exchange at an amortised cost of CZK 878 million (2014: CZK 1,132 million) and a nominal value of CZK 880 million (2014: CZK 1,133 million), of which bills of exchange in the nominal value of CZK 80 million (2014: CZK 183 million) are issued by State institutions in the Czech Republic and CZK 800 million (2014: CZK 950 million) by Other entities in the Czech Republic. The portfolio is hedged using fair value hedge derivatives with a fair value of CZK 27 million (2014: CZK 41 million).

During the year ended 31 December 2015, the Group acquired bonds with a nominal value of CZK 1,790 million and EUR 5 million (a total CZK equivalent of CZK 1,931 million), of which CZK 1,790 million comprised bonds issued by Other entities in the Czech Republic and CZK 141 million by Other foreign entities. The Group also acquired bills of exchange with a nominal value of CZK 2,786 million and EUR 67 million (a total CZK equivalent of CZK 4,603 million), of which CZK 1,186 million comprised bills of exchange issued by State institutions in the Czech Republic and CZK 3,417 million by Other entities in the Czech Republic. During 2015, the Group had regular repayment of bills of exchange at maturity in the aggregate nominal value of CZK 3,040 million and EUR 67 million (a total CZK equivalent of CZK 4,841 million), of which CZK 1,289 million were issued by State institutions in the Czech Republic and CZK 3,552 million by Other entities in the Czech Republic.

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 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.

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2015

(CZKm)	NEITHER PAST DUE NOR IMPAIRED	PAST DUE NOT IMPAIRED	IMPAIRED	TOTAL FORBORNE	ALLOWANCES	COLLATERAL APPLIED
Individuals	498	55	1,781	2,334	482	1,752
Corporates*	156	27	2,307	2,490	1,378	776
Total	**654**	**82**	**4,088**	**4,824**	**1,860**	**2,528**

* This item also includes loans granted to individual entrepreneurs.

Forborne loans and advances to customers as of 31 December 2014

(CZKm)	NEITHER PAST DUE NOR IMPAIRED	PAST DUE NOT IMPAIRED	IMPAIRED	TOTAL FORBORNE	ALLOWANCES	COLLATERAL APPLIED
Individuals	362	40	1,446	1,848	199	1,440
Corporates*	284	67	3,761	4,112	2,381	1,437
Total	**646**	**107**	**5,207**	**5,960**	**2,580**	**2,877**

* This item also includes loans granted to individual entrepreneurs.

The carrying value of forborne assets in comparison with the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers):

			31 DEC 2015			31 DEC 2014
(CZKm)	GROSS RECEIVABLE	FORBORNE ASSETS	SHARE IN GROSS RECEIVABLE	GROSS RECEIVABLE	FORBORNE ASSETS	SHARE IN GROSS RECEIVABLE
Individuals	247,860	2,334	0.94%	224,792	1,848	0.82%
Corporates*	296,723	2,490	0.84%	286,552	4,112	1.43%
Total	**544,583**	**4,824**	**0.89%**	**511,344**	**5,960**	**1.17%**

* This item also includes loans granted to individual entrepreneurs.

Portfolio and specific allowances for forborne assets:

			31 DEC 2015			31 DEC 2014
(CZKm)	PORTFOLIO ALLOWANCES	SPECIFIC ALLOWANCES	TOTAL	PORTFOLIO ALLOWANCES	SPECIFIC ALLOWANCES	TOTAL
Individuals	1	481	482	0	199	199
Corporates*	0	1,378	1,378	0	2,381	2,381
Total	**1**	**1,859**	**1,860**	**0**	**2,580**	**2,580**

* 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 60 months (2014: 72 months), technology with an average lease instalment period of 37 months (2014: 37 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 64 months (2014: 65 months), agricultural vehicles and machines with an average lease instalment period of 59 months (2014: 57 months), machine technology with an average lease instalment period of 61 months (2014: 61 months), air transport equipment with an average lease instalment period of 100 months (2014: 92 months), hardware and software technology with an average lease instalment period of 51 months (2014: 52 months) and real estate with an average lease instalment period of 11 years (2014: 12 years).

Loans and advances to customers – leasing

(CZKm)	31 DEC 2015	31 DEC 2014
Due less than 1 year	4,431	4,526
Due from 1 to 5 years	7,549	7,072
Due over 5 years	453	650
Total	**12,433**	**12,248**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Due less than 1 year	324	372
Due from 1 to 5 years	415	484
Due over 5 years	23	44
Total	**762**	**900**

As of 31 December 2015, the provisions recognised against uncollectible lease receivables amount to CZK 289 million (2014: CZK 295 million).

Trade finance losses

During 1999, the Group incurred losses relating to products provided to a foreign client of the Group. As of 31 December 2015, the Statement of Financial Position included loans to this client in the amount of CZK 0 million (2014: CZK 1,593 million) which were fully provided for. During 2015, these loans were fully written off based on a final legal judgment.

22 Held-to-maturity investments

Held-to-maturity investments comprise the following:

	31 DEC 2015		31 DEC 2014	
(CZKm)	CARRYING VALUE	COST*	CARRYING VALUE	COST*
Fixed income debt securities	67,083	65,578	76,519	74,780
Total held–to-maturity investments	**67,083**	**65,578**	**76,519**	**74,780**

* Amortised acquisition cost excluding coupon.

As of 31 December 2015, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 63,486 million (2014: CZK 76,519 million) that are publicly traded on stock exchanges and bonds of CZK 3,597 million that are not publicly traded.

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

(CZKm)	31 DEC 2015	31 DEC 2014
Fixed income debt securities		
– Czech Crowns	53,265	63,152
– Foreign currencies	13,818	13,367
Total fixed income debt securities	**67,083**	**76,519**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Fixed income debt securities issued by:		
– State institutions in the Czech Republic	56,224	66,245
– Foreign state institutions	10,859	10,274
Total fixed income debt securities	**67,083**	**76,519**

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

(CZKm)	31 DEC 2015		31 DEC 2014	
COUNTRY OF ISSUER	FAIR VALUE	COST*	FAIR VALUE	COST*
Slovakia	5,146	4,812	5,163	5,039
Poland	6,023	5,778	5,111	5,001
Total	**11,169**	**10,590**	**10,274**	**10,040**

* Amortised acquisition cost excluding coupon.

During the year ended 31 December 2015, the Group acquired bonds with a nominal value of CZK 1,600 million and EUR 47 million (a total CZK equivalent of CZK 2,877 million), of which CZK 1,600 million comprised bonds issued by State institutions in the Czech Republic and CZK 1,277 million by Foreign state institutions. During 2015, the Group had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 3,133 million and USD 25 million (a total CZK equivalent of CZK 3,733 million), of which CZK 3,133 million were issued by State institutions in the Czech Republic and CZK 600 million by Foreign state institutions.

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 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 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 18 and 41).

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Prepayments and accrued income	560	481
Settlement balances	343	338
Receivables from securities trading	337	18
Other assets	3,196	3,146
Total prepayments, accrued income and other assets	**4,436**	**3,983**

'Other assets' include receivables of CZK 698 million (2014: CZK 718 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 251 million (2014: CZK 255 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 2015	31 DEC 2014
Investments in associated undertakings	1,219	1,234
Total investments in associates	**1,219**	**1,234**

The following companies are associated undertakings of the Group as of 31 December 2015:

(CZKm) ASSOCIATES	%	31 DEC 2015 NET BOOK VALUE	31 DEC 2015 SHARE OF NET ASSETS	31 DEC 2014 NET BOOK VALUE	31 DEC 2014 SHARE OF NET ASSETS
Komerční pojišťovna, a.s.	49.00	837	1,217	837**	1,232
Czech Banking Credit Bureau, a.s.*	20.00	0	2	0	2
Total investments in associates		**837**	**1,219**	**837**	**1,234**

* 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: CZK 0 million) 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 analysis of 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.

(CZKm) ASSOCIATES	31 DEC 2015 ASSETS	LIABILITIES	OPERATING INCOME	PROFIT
Komerční pojišťovna, a.s.	53,173	50,690	679	308
Czech Banking Credit Bureau, a.s.	18	5	117	11

(CZKm) ASSOCIATES	31 DEC 2014 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

Movements in share of associated undertakings

(CZKm)	KOMERČNÍ POJIŠŤOVNA, A.S.	CZECH BANKING CREDIT BUREAU, A.S.	TOTAL
As of 1 January 2014	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**
Dividend payment	(138)	(2)	(140)
Share of profit / loss	151	2	153
Share of revaluation on Available-for-sale assets	(28)	0	(28)
As of 31 December 2015	**1,217**	**2**	**1,219**

Main financial information about subsidiaries over which the Bank that has non-controlling interests are the following:

(CZKm)	31 DEC 2015 ASSETS	31 DEC 2015 LIABILITIES	31 DEC 2015 PROFIT	31 DEC 2014 ASSETS	31 DEC 2014 LIABILITIES	31 DEC 2014 PROFIT
SG Equipment Finance Czech Republic s.r.o.*	28,875	25,098	278	27,613	25,263	285
ESSOX s.r.o.**	9,780	5,845	481	10,214	6,276	534

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

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

Movements of non-controlling interests:

(CZKm)	SG EQUIPMENT FINANCE CZECH REPUBLIC S.R.O.	ESSOX S.R.O.	TOTAL
As of 1 January 2014	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**
Dividend payment	0	(238)	(238)
Profit / loss	138	236	374
Share – based payment	(1)	1	0
Increasing of shareholders' equity	549	0	549
Cash flow hedging	0	0	0
As of 31 December 2015	**1,885**	**1,931**	**3,816**

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 2014	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
Additions	673	327	0	1,274	2,274
Disposals/transfers	(20)	(132)	(25)	(1,000)	(1,177)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2015	**10,812**	**2,855**	**31**	**1,093**	**14,791**
Accumulated amortisation and allowances					
As of 1 January 2014	(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)
Additions	(947)	(194)	(1)	0	(1,142)
Disposals	20	115	23	0	158
Impairment charge	0	(4)	0	0	(4)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2015	**(8,672)**	**(2,221)**	**(31)**	**0**	**(10,924)**
Net book value					
As of 31 December 2014	2,414	522	3	819	3,758
As of 31 December 2015	**2,140**	**634**	**0**	**1,093**	**3,867**

* Internally generated assets comprise mainly software.

During the year ended 31 December 2015, the Group invested CZK 144 million (2014: CZK 204 million) into research and development (when conditions for capitalisation were not met) through a charge to *'Operating expenses'*.

As of 31 December 2015, the Group recognised allowances against intangible assets of CZK 4 million (2014: CZK 0 million). These allowances primarily included allowances charged in respect of software.

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 2014	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
Reallocation from/to assets held for sale	(29)	(1,587)	0	0	(1,616)
Additions	0	216	271	649	1,136
Disposals/transfers	0	(108)	(586)	(487)	(1,181)
Foreign exchange rate difference	0	0	1	0	1
As of 31 December 2015	**329**	**10,963**	**4,865**	**438**	**16,595**
Accumulated depreciation and allowances					
As of 1 January 2014	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)
Reallocation of accumulated depreciation of assets held for sale	0	839	0	0	839
Additions	0	(357)	(296)	0	(653)
Disposals	0	88	568	0	656
Impairment charge	0	0	(5)	0	(5)
Foreign exchange rate difference	0	0	1	0	1
As of 31 December 2015	**0**	**(5,803)**	**(3,948)**	**0**	**(9,751)**
Net book value					
As of 31 December 2014	358	6,069	963	276	7,666
As of 31 December 2015	**329**	**5,160**	**917**	**438**	**6,844**

As of 31 December 2015, the Group recognised allowances against tangible assets of CZK 7 million (2014: CZK 2 million). These allowances primarily included allowances charged in respect of computer equipment.

27 Goodwill

Goodwill by individual companies as of 31 December 2015 was as follows:

(CZKm)	31 DEC 2015	31 DEC 2014
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 2015 and 2014, 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 financial liabilities as *'Financial liabilities at fair value through profit or loss'*.

(CZKm)	31 DEC 2015	31 DEC 2014
Sold securities	305	1,992
Derivative financial instruments	19,189	21,478
Total financial liabilities at fair value through profit or loss	**19,494**	**23,470**

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 2015	31 DEC 2014
Current accounts (refer to Note 36)	2,740	15,041
Amounts due to banks	53,490	46,319
Total amounts due to banks	**56,230**	**61,360**

The fair value of securities and treasury bills used as collateral for repurchase loans received from banks was CZK 117 million (2014: CZK 1,378 million). The carrying amount of liabilities associated with securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'* in the amount of CZK 0 million (2014: CZK 1,378 million) was CZK 117 million (2014: CZK 1,361 million).

30 Amounts due to customers

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

(CZKm)	31 DEC 2015	31 DEC 2014
Current accounts	449,672	416,106
Savings accounts	163,600	172,232
Term deposits	26,215	27,594
Depository bills of exchange	10,120	12,663
Amounts received from customers	9,699	25,745
Other payables to customers	7,101	47,527
Total amounts due to customers	**666,407**	**701,867**

The fair value of securities and treasury bills used as collateral for repurchase loans received from customers was CZK 9,709 million (2014: CZK 25,673 million). The carrying amount of liabilities associated with securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'* in the amount of CZK 0 million (2014: CZK 7,630 million) was CZK 9,699 million (2014: CZK 7,697 million).

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

(CZKm)	31 DEC 2015	31 DEC 2014
Private companies	233,715	226,350
Other financial institutions, non-banking entities	29,165	32,015
Insurance companies	2,586	2,882
Public administration	2,141	1,948
Individuals	259,539	284,963
Individuals – entrepreneurs	29,435	26,933
Government agencies	70,581	84,621
Other	15,679	14,317
Non-residents	23,566	27,838
Total amounts due to customers	**666,407**	**701,867**

31 Securities issued

Securities issued comprise mortgage bonds of CZK 11,283 million (2014: CZK 22,584 million). The Group issues mortgage bonds to fund its mortgage activities.

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

(CZKm)	31 DEC 2015	31 DEC 2014
In less than one year	0	11,682
In one to five years	1,761	1,731
In five to ten years	1,008	1,009
In ten to twenty years	0	0
More than twenty years	8,514	8,162
Total debt securities	**11,283**	**22,584**

During the year ended 31 December 2015, the Group had regular repayment of mortgage bonds at maturity in the aggregate nominal volume of CZK 11,499 million and increased the nominal volume in issue by CZK 533 million.

During the year ended 31 December 2014, the Group repurchased mortgage bonds with aggregate nominal volume of CZK 1,333 million and increased the nominal volume in issue by CZK 1,500 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 2015 CZKm	31 DEC 2014 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	0	610
HZL Komerční banky, a.s., CZ0002000664	4.40%	CZK	21 Oct 2005	21 Oct 2015	0	11,072
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	8,514	8,162
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,008	1,009
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,761	1,731
Total debt securities					**11,283**	**22,584**

Six-month PRIBOR was 37 bps as of 31 December 2015 (2014: 41 bps).
The value of the interest rate swap CZK sale average for ten years as of 31 December 2015 was 103 bps (2014: 87 bps).

32 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Accruals and deferred income	237	240
Settlement balances and outstanding items	0	13
Payables from securities trading and issues of securities	2,790	1,930
Payables from payment transactions	6,981	5,287
Other liabilities	5,411	4,711
Total accruals and other liabilities	**15,419**	**12,181**

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 19 million (2014: CZK 19 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 2015	31 DEC 2014
Provisions for contracted commitments (refer to Notes 12 and 37)	378	646
Provisions for other credit commitments (refer to Note 12)	783	702
Total provisions	**1,161**	**1,348**

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, self-insurance and the retirement benefits plan.

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

(CZKm)	31 DEC 2015	31 DEC 2014
Provision for off-balance sheet commitments	728	625
Provision for undrawn loan facilities	55	77
Total (refer to Note 12)	**783**	**702**

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

(CZKm)	RETIREMENT BENEFITS PLAN	PROVISIONS FOR LOYALTY AND JUBILEE BONUSES	OTHER PROVISIONS FOR CONTRACTED COMMITMENTS	TOTAL
Balance as of 1 January 2014	160	3	410	573
Charge	9	1	116	126
Release	0	(1)	(66)	(67)
Use	(11)	0	0	(11)
Accrual	4	0	0	4
Remeasurement	16	0	0	16
Foreign exchange difference	0	0	5	5
Balance as of 31 December 2014	**178**	**3**	**465**	**646**
Charge	13	0	97	110
Release	0	(1)	(340)	(341)
Use	(13)	0	(49)	(62)
Accrual	3	0	0	3
Remeasurement	20	0	0	20
Foreign exchange difference	0	0	2	2
Balance as of 31 December 2015	**201**	**2**	**175**	**378**

34 Deferred tax

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

Net deferred tax assets are as follows:

(CZKm)	31 DEC 2015	31 DEC 2014
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions	60	83
Difference between accounting and tax net book value of assets	1	0
Leases	5	3
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	0	0
Revaluation of hedging derivatives – equity impact (refer to Note 40)	1	2
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	0	0
Other temporary differences	3	5
Net deferred tax assets	**70**	**93**

Net deferred tax liabilities are as follows:

(CZKm)	31 DEC 2015	31 DEC 2014
Banking provisions and allowances	184	326
Allowances for assets	81	106
Non-banking provisions	141	30
Difference between accounting and tax net book value of assets	(941)	(842)
Leases	(100)	(150)
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	9	5
Revaluation of hedging derivatives – equity impact (refer to Note 40)	(2,971)	(3,735)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 41)	(1,034)	(1,067)
Other temporary differences	47	19
Net deferred tax liabilities	**(4,584)**	**(5,308)**

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

(CZKm)	2015	2014
Balance as of the beginning of the period	**(5,215)**	**(3,460)**
Movement in the net deferred tax – profit and loss impact (refer to Note 13)	(96)	(1)
Movement in the net deferred tax – equity impact (refer to Notes 39, 40 and 41)	797	(1,754)
Balance as of the end of the period	**(4,514)**	**(5,215)**

35 Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926,000 and consists of 38,009,852 ordinary shares issued as dematerialised securities 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 Corporations 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 in issue as of 31 December 2015 was 119,475 shares (2014: 167,442 shares).

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 2015:

NAME OF THE ENTITY	REGISTERED OFFICE	OWNERSHIP PERCENTAGE
SOCIETE GENERALE S.A.	29 Bld Haussmann, Paris	60.35
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	4.93
CHASE NOMINEES LIMITED	25 Bank Street, Canary Wharf, London	4.07

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 et seq, of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2015, the Bank held 238,672 treasury shares at a cost of CZK 726 million (2014: 238,672 treasury shares at a cost of CZK 726 million).

Capital management

The Basel III rules, known in EU regulation as CRR/CRD IV effective from 2014, 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 as concerns in particular an 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 2015, the countercyclical buffer was not effectively applied. The total required capital ratio under Pillar 1 is thus set at 13.0%, i.e. on the same level as in 2014. The systemic risk buffer of 2.5% and the specific Pillar 2 buffer of 3.9% (increased by 0.5%) were applied to the Group under Pillar 2, meaning that the total required capital ratio under Pillar 2 is set at 14.4%. 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 1.4% over Pillar 1. The Group meets the required levels of the capital ratio with adequate reserve under both Pillars 1 and Pillar 2 because its capital ratio level stands well above the minimum level.

The Group manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements 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.

The 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 a situation that the 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 2015, and as of 31 December 2015 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 2014: 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, typically the countercyclical buffer) can vary over time and a part of the implementation 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 on both 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 (i.e. internal capital adequacy assessment process) and submits it to the CNB.

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

(CZKm)	31 DEC 2015	31 DEC 2014	CHANGE IN THE YEAR
Cash and current balances with central banks (refer to Note 16)	128,336	152,903	(24,567)
Amounts due from banks – current accounts with other banks (refer to Note 20)	536	838	(302)
Amounts due to central banks	(1)	(2)	1
Amounts due to banks – current accounts (refer to Note 29)	(2,740)	(15,041)	12,301
Cash and cash equivalents at the end of the year	**126,131**	**138,698**	**(12,567)**

37 Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2015. 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 43 million (2014: CZK 302 million) for these legal disputes (refer to Note 33). The Group has also recorded a provision of CZK 46 million (2014: CZK 58 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2015, 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 the third parties. These assurances carry the same credit risk as do loans, and therefore the Group makes provisions for these instruments (according to a customer's credit worthiness) on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2015, the Group had capital commitments of CZK 458 million (2014: CZK 279 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 is applicable to loans.

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

Principal off-balance sheet exposures include undrawn limits 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 2015	31 DEC 2014
Non-payment guarantees, including commitments to issued non-payment guarantees	35,358	36,302
Payment guarantees, including commitments to issued payment guarantees	12,716	11,952
Committed facilities and unutilised overdrafts	14,351	10,917
Undrawn credit commitments	48,082	40,260
Unutilised overdrafts and approved overdraft loans	13,309	12,613
Unutilised limits under framework agreements to provide financial services	10,820	11,992
Open customer/import letters of credit uncovered	566	618
Standby letters of credit uncovered	1,336	2,524
Confirmed supplier/export letters of credit	52	134
Total commitments and contingencies	**136,590**	**127,312**

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 the collateral obtained. As of 31 December 2015, the Group recorded provisions for these risks in the amount of CZK 783 million (2014: CZK 702 million). Refer to Note 33.

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

(CZKm)	31 DEC 2015	31 DEC 2014
Food industry and agriculture	8,259	8,374
Mining and extraction	419	784
Chemical and pharmaceutical industry	3,432	2,761
Metallurgy	5,251	4,328
Automotive industry	1,350	1,442
Manufacturing of other machinery	7,283	6,988
Manufacturing of electrical and electronic equipment	1,894	2,531
Other processing industry	1,564	1,856
Power plants, gas plants and waterworks	7,231	8,335
Construction industry	32,866	30,942
Retail	2,966	2,464
Wholesale	7,840	8,044
Accommodation and catering	417	364
Transportation, telecommunication and warehouses	9,429	5,059
Banking and insurance industry	4,106	3,479
Real estate	2,885	1,137
Public administration	3,143	4,149
Other industries	12,642	16,370
Individuals	23,613	17,905
Total commitments and contingencies	**136,590**	**127,312**

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 2015			31 DEC 2014
(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	0	0	0	673	12	12
Bank guarantee	975	918	873	947	897	853
Guaranteed deposits	2,161	2,131	2,003	2,144	2,124	1,917
Pledge of real estate	10,122	6,173	5,030	8,352	4,940	3,976
Pledge of movable assets	226	22	22	586	60	57
Guarantee by legal entity	7,452	5,247	5,034	8,171	4,498	4,145
Guarantee by individual (natural person)	65	6	6	40	4	4
Pledge of receivables	3,317	0	0	2,196	0	0
Insurance of credit risk	2,097	1,925	1,925	1,984	1,810	1,810
Other	22	0	0	88	60	60
Total nominal value of collateral	**26,437**	**16,422**	**14,893**	**25,181**	**14,405**	**12,834**

* 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, on Supplementary pension saving, and in accordance with the statutes of Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the "Fund") created after 1 January 2013, the Group 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 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 and based on sensitivity analysis, the usage of the guarantee is not probable in the near future as of the financial statements 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 2015, 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 are carried out on an arm's length basis.

Amounts due to and from the Group companies

As of 31 December 2015, the Group had deposits of CZK 1,253 million (2014: CZK 1,049 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 1,911 million (2014: CZK 2,217 million) and the negative fair value to CZK 47 million (2014: CZK 1 million). Komerční pojišťovna, a.s. held the Bank's mortgage bonds in amortised cost of CZK 806 million (2014: CZK 806 million).

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 1,241 million (2014: CZK 922 million) and interest expense on financial derivatives totalled CZK 946 million (2014: CZK 630 million). Interest expense from deposits amounted to CZK 1 million (2014: CZK 1 million), fee income of the Group arising from intermediation totalled CZK 309 million (2014: CZK 322 million), fee expense amounted to CZK 62 million (2014: CZK 61 million), insurance expenses came to CZK 24 million (2014: CZK 47 million) and other income totalled CZK 12 million (2014: CZK 13 million).

Amounts due to and from the Société Générale Group entities

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

	31 DEC 2015		31 DEC 2014	
(CZKm)	TOTAL	OF WHICH DERIVATIVES	TOTAL	OF WHICH DERIVATIVES
ALD Automotive, s.r.o. (Czech Republic)	3,820	0	3,773	0
ALD Automotive, s.r.o. (Slovak Republic)	648	0	0	0
BRD Romania	0	0	10	0
Rosbank	67	0	66	0
SG Bruxelles	2	0	20	0
SG Expressbank	10	0	2	0
SG Paris	9,527	4,230	13,123	4,166
SG Warsaw	1	0	257	7
SGA Société Générale Acceptance	3,098	0	3,295	0
Société Générale Algerie	2	0	0	0
Splitska Banka	5	0	3	0
SGBT Luxembourg	0	0	1	0
Société Générale Newedge UK Ltd	3	0	9	0
Société Générale (China) Ltd	19	0	45	0
Total	**17,202**	**4,230**	**20,604**	**4,173**

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

	31 DEC 2015		31 DEC 2014	
(CZKm)	TOTAL	OF WHICH DERIVATIVES	TOTAL	OF WHICH DERIVATIVES
ALD Automotive Czech Republic, s.r.o	186	0	0	0
BRD Romania	3	1	1	0
Crédit du Nord	0	0	18	0
Inter Europe Conseil	2	0	4	0
Investiční kapitálová společnost KB	0	0	63	0
PEMA Praha	13	0	2	0
Rosbank	0	0	1	0
SG Amsterdam	46	0	15	0
SG Banques au Liban (SG Cyprus)	14	0	15	0
SG CONSUMER FINANCE	0	0	15	0
SG Frankfurt	1	0	2,560	0
SG Expressbank	0	0	1	0
SG London	11	0	12	0
SG New York	2	0	4	0
SG Paris	25,604	6,925	28,827	8,520
SG Private Banking /Suisse/ S.A.	280	0	334	0
SG Warsaw	3	0	334	21
SG Zurich	1	0	0	0
SGBT Luxemburg	978	0	1,472	0
Splitska Banka	1	0	45	0
SOGEPROM Česká republika s.r.o.	6	0	7	0
Total	**27,151**	**6,926**	**33,730**	**8,541**

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 2015, the Group also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 257,090 million (2014: CZK 267,213 million) and CZK 250,973 million (2014: CZK 258,694 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 2015 and 2014, the Group also carried other amounts due to and from the Société Générale Group entities which are not significant.

During the year ended 31 December 2015, the Group had total income of CZK 20,485 million (2014: CZK 26,264 million) and total expenses of CZK 18,969 million (2014: CZK 29,716 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 members of the Board of Directors and Supervisory Board

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

(CZKm)	2015	2014
Remuneration to the Board of Directors members*	61	62
Remuneration to the Supervisory Board members**	5	6
Total	**66**	**68**

* Remuneration to the Board of Directors members includes wages paid during the year ended 31 December 2015 to the current and former directors under mandate and management contracts and other compensation and benefits granted in 2015. It also includes a part of bonuses awarded in 2015. The remuneration includes as well benefits arising to the Bank's employees under a collective bargaining agreement.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2015 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.

	31 DEC 2015	31 DEC 2014
Number of the Board of Directors members	6	6
Number of the Supervisory Board members	9	9

In respect of loans and guarantees as of 31 December 2015, the Group recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 21 million (2014: CZK 13 million). During 2015, draw-downs of CZK 10 million (2014: CZK 9 million) were made under the loans granted. Loan repayments during 2015 amounted to CZK 11 million (2014: CZK 0 million). The increase of loans in 2015 is affected by new members already having loans in the amount of CZK 9 million.

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

(CZKm)	2015	2014
Remeasurement of retirement benefits plan as of 1 January	(27)	(11)
Deferred tax asset/(liability) as of 1 January	5	2
Balance as of 1 January	**(22)**	**(9)**
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	(20)	(16)
Deferred tax	4	3
	(16)	**(13)**
Remeasurement of retirement benefits plan as of 31 December	(47)	(27)
Deferred tax asset/(liability) as of 31 December (refer to Note 34)	9	5
Balance as of 31 December	**(38)**	**(22)**

40 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.

Changes in fair values of cash flow hedges due to the deconsolidation of Transformed Fund

(CZKm)	
Cash flow hedge fair value as of 31 December 2014	19,713
Deferred tax asset/(liability) as of 31 December 2014	(3,733)
Balance as of 31 December 2014	**15,980**
Decrease of fair value due to the Deconsolidation of Transformed Fund	(61)
Decrease of tax asset/(liability due to the Deconsolidation of Transformed Fund	0
	(61)

Balance of hedging instruments in Equity at the beginning of the period

(CZKm)	2015	2014
Cash flow hedge fair value as of 1 January	19,652	10,096
Deferred tax asset/(liability) as of 1 January	(3,733)	(1,915)
Balance as of 1 January	**15,919**	**8,181**
Movements during the year		
Gains/(losses) from changes in fair value	172	13,726
Deferred tax	(36)	(2,603)
	136	**11,123**
Transferred to interest income/expense	(4,193)	(4,105)
Deferred tax	798	784
	(3,395)	**(3,321)**
Transferred to personnel expenses	(8)	(4)
Deferred tax	1	1
	(7)	**(3)**
Cash flow hedge fair value as of 31 December	15,623	19,713
Deferred tax asset/(liability) as of 31 December (refer to Note 34)	(2,970)	(3,733)
Balance as of 31 December	**12,653**	**15,980**

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

Changes in the revaluation of available-for-sale financial assets due to the Deconsolidation of Transformed Fund

(CZKm)	
Reserve from fair value revaluation as of 31 December 2014	7,725
Deferred tax /income tax asset/(liability) as of 31 December 2014	(1,065)
Balance as of 31 December 2014	**6,660**
Decrease of fair value due to the Deconsolidation of Transformed Fund	(1,427)
Decrease of tax asset/(liability due to the Deconsolidation of Transformed Fund	0
	(1,427)

Balance of the revaluation of available-for-sale financial assets in the Equity at the beginning of the period

(CZKm)	2015	2014
Reserve from fair value revaluation as of 1 January	6,298	7,346
Deferred tax /income tax asset/(liability) as of 1 January	(1,065)	(1,135)
Balance as of 1 January	**5,233**	**6,211**
Movements during the year		
Gains/(losses) from changes in fair value	681	1,217
Deferred tax/income tax	(156)	(91)
	525	**1,126**
(Gains)/losses from the sale	0	5
Deferred tax	0	1
	0	**6**
(Gains)/losses from reclassified financial assets (refer to Notes 18 and 22)	(985)	(843)
Deferred tax	187	160
	(798)	**(683)**
Reserve from fair value revaluation as of 31 December	5,994	7,725
Deferred tax /income tax asset/(liability) as of 31 December (refer to Note 34)	(1,034)	(1,065)
Balance as of 31 December	**4,960**	**6,660**

Unrealised gains from Available-for-sale financial assets recognised in the equity of Transformovaný fond KB Penzijní společnosti, a.s. in the amount of CZK 1,427 million as of 31 December 2014 (31 December 2013: CZK 971 million) were included within the available-for-sale reserve. When Available-for-sale financial assets are disposed of, the gain or loss on the disposal is posted to the Income Statement. In accordance with Czech law, 85% of the total pension fund profit for the year is distributed to pension plan holders.

42 Risk management and financial instruments

(A) Credit risk

Assessment of borrower's credit rating

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

In 2015, 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 effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management; and (3) optimising the setting of approval authority with the objective of empowering business departments with responsibility 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, data on client behaviour within the Group and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour within 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 on 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 within the Group, and data available from external credit bureaus; and (2) a behavioural rating which is based on the evaluation of the information on the clients' behaviour within 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 upgrade of processes and controls preventing credit fraud is in its implementation process. Extension of these activities at the Group level will be discussed in 2016.

Credit concentration risk

The Group's credit concentration risk is actively managed as a part of overall credit risk management using standard tools, credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses and stress testing. 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 2015:

	TOTAL EXPOSURE			COLLATERAL APPLIED		
(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	**116,979**	**x**	**116,979**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**29,198**	**x**	**29,198**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**23,701**	**x**	**23,701**	**0**	**x**	**0**
Available-for-sale financial assets	**41,864**	**x**	**41,864**	**0**	**x**	**0**
Amounts due from banks	**47,817**	**1,575**	**49,392**	**14,573**	**269**	**14,842**
Loans and advances to customers	**548,451**	**135,015**	**683,466**	**247,146**	**14,624**	**261,770**
– Individuals	247,860	23,490	271,350	180,120	3,213	183,333
of which: mortgage loans	185,151	11,673	196,824	153,097	3,094	156,191
consumer loans	24,680	2,346	27,026	4,632	17	4,649
constructions savings scheme loans	34,416	2,563	36,979	22,311	63	22,374
– Corporates**	296,723	111,525	408,248	67,026	11,411	78,437
of which: top corporate clients	125,160	70,943	196,103	34,682	7,385	42,067
– Debt securities	3,654	x	3,654	0	x	0
– Other amounts due from customers	214	x	214	0	x	0
Revaluation differences on portfolios hedge items	**18**	**x**	**18**	**0**	**x**	**0**
Held-to-maturity investments	**67,083**	**x**	**67,083**	**0**	**x**	**0**
Total	**875,111**	**136,590**	**1,011,701**	**261,719**	**14,893**	**276,612**

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

	TOTAL EXPOSURE			COLLATERAL APPLIED		
(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	**145,742**	**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, i.e. without 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.

When forbearance measures are granted, the forborne exposures receive non-performing default status (i.e. are classified as Substandard, Doubtful or Loss according to the CNB classification). The forbearance classification discontinues after fulfilment of the pre-defined conditions:

I. In the first place, after 12 months reclassification to the performing forborne exposures (i.e. those classified as Standard or Watch) category based on an analysis of the debtor's financial condition;
II. Followed by a minimum 2-year probation period.

In addition, proper payments must be made throughout the probation period, i.e. the material days past due must not exceed 30 days. Otherwise the exposure is downgraded to the non-performing default status.

Characteristics of receivables that are not classified

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

Allowances for receivables

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; or (iii) taking into account the estimated loss amount.

In 2015, 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 2015		31 DEC 2014	
(CZKm)	INDIVIDUALLY	STATISTICAL MODEL	INDIVIDUALLY	STATISTICAL MODEL
Individuals	2,290	10,599	4,771	9,239
Corporates*	15,592	3,458	15,206	7,311
Total	**17,882**	**14,057**	**19,977**	**16,550**

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2015, the Group reported the following loans not past due and past due loans not impaired:

	LOANS NOT	PAST DUE LOANS, NOT IMPAIRED						
(CZKm)	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	45,529	0	0	0	0	0	0	45,529
– Watch	0	0	0	0	0	0	0	0
Total	**45,529**	**0**	**0**	**0**	**0**	**0**	**0**	**45,529**
Customers								
– Standard	508,438	3,658	468	33	47	0	4,206	512,644
– Watch	661	4	8	3	0	0	15	676
Total	**509,099**	**3,662**	**476**	**36**	**47**	**0**	**4,221**	**513,320**

As of 31 December 2014, the Group reported the following loans not past due and past due loans not impaired:

	LOANS NOT	PAST DUE LOANS, NOT IMPAIRED						
(CZKm)	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**

The amount of the collateral applied in respect of past due loans not impaired was CZK 1,747 million (2014: CZK 2,700 million).

Loan collateral

The Group uses collateral as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Group's business lines.

The Group has fully implemented in its internal system the rules for assessing of collateral's eligibility according to CNB Regulation No. 163/2014. In compliance with the CNB validation the Group uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Group uses the Standardised (STD) approach for assessing 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 estate 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 2015, together with the principal activity involving real estate valuation, the Group 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 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, adjustment 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. During 2015, the Group continued in regular sales of uncollateralised retail receivables to selected investors so that the maximum achievable recovery rate is obtained. The Group implemented a new collection system in 2015. The main emphasis is put on further automation and digitisation 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 2015, the Group was exposed to a credit exposure of CZK 30,945 million (2014: CZK 23,437 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement costs at market rates as of 31 December 2015 for all outstanding agreements. The netting agreement and parameters of collateral agreement are 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 separated into two books: the Market Book and the Structural Book. The Market Book includes capital market transactions concluded by the Group's dealers for trading on the Group's own account, market making 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, cross currency swaps, forward rate agreements, interest rate futures and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash and carry exposure in emission allowances.

Derivatives traded on the Market Book are used either for trading on the Bank's own account, for clients' service or to hedge derivatives done with 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 in the interbank market mostly, with Société Générale. This ensures that the Group is not exposed to market risks associated with these derivatives (e.g. volatility risk, correlation risk, etc.).

Market risk in the Market Book
The Group has developed a complex system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure. 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 1-day historical 99% Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using full revaluation of the position using historical market price 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 past 260 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 260 considered scenarios.

The Group successfully implemented at the end of April 2015 new Société Générale Group software for market risk management named KARE. This replaced the obsolete application TRAAB. The aim of the KARE implementation was to enable improvement of the methodology and accuracy of the Bank's VaR and stress tests.

The VaR for a one-day horizon with a confidence level of 99% was CZK -16 million as of 31 December 2015 (2014: CZK -17 million). The average VaR was CZK -17 million in 2015 (2014: CZK -23 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 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 the risk exposure 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 performance of the Market Book.

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 2015, the CZK interest rate risk sensitivity was CZK -904 million (2014: CZK -682 million), the EUR sensitivity was CZK 139 million (2014: CZK -57 million), the USD sensitivity was CZK 25 million (2014: CZK -77 million) and for other currencies it was CZK -74 million (2014: CZK -66 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:

(CZKm)	31 DEC 2015 NOMINAL VALUE ASSETS	31 DEC 2015 NOMINAL VALUE LIABILITIES	31 DEC 2014 NOMINAL VALUE ASSETS	31 DEC 2014 NOMINAL VALUE LIABILITIES	31 DEC 2015 FAIR VALUE POSITIVE	31 DEC 2015 FAIR VALUE NEGATIVE	31 DEC 2014 FAIR VALUE POSITIVE	31 DEC 2014 FAIR VALUE NEGATIVE
Interest rate instruments								
Interest rate swaps	581,225	581,225	637,149	637,149	8,685	9,435	12,099	12,825
Interest rate forwards and futures*	23,107	23,107	61,639	61,639	2	2	7	2
Interest rate options	7,532	7,532	6,905	6,905	33	33	24	24
Total interest rate instruments	**611,864**	**611,864**	**705,693**	**705,693**	**8,720**	**9,470**	**12,130**	**12,851**
Foreign currency instruments								
Currency swaps	166,808	166,682	198,939	198,709	1,058	966	1,387	1,165
Cross currency swaps	125,518	125,602	102,897	102,402	5,697	5,384	5,437	4,808
Currency forwards	29,885	29,761	20,339	19,948	294	229	470	113
Purchased options	58,646	59,099	42,697	43,391	984	0	844	0
Sold options	59,098	58,646	43,391	42,697	0	983	0	844
Total currency instruments	**439,955**	**439,790**	**408,263**	**407,147**	**8,033**	**7,562**	**8,138**	**6,930**
Other instruments								
Futures on debt securities	0	0	83	83	0	0	0	0
Forwards on emission allowances	4,570	4,978	1,375	1,597	68	472	15	238
Commodity forwards	2,590	2,590	1,461	1,461	68	66	38	37
Commodity swaps	13,912	13,912	19,080	19,080	1,588	1,570	1,268	1,251
Commodity cross currency swaps	0	0	738	738	0	0	46	46
Purchased commodity options	356	356	924	924	49	0	125	0
Sold commodity options	356	356	924	924	0	49	0	125
Total other instruments	**21,784**	**22,192**	**24,585**	**24,807**	**1,773**	**2,157**	**1,492**	**1,697**
Total	**1,073,603**	**1,073,846**	**1,138,541**	**1,137,647**	**18,526**	**19,189**	**21,760**	**21,478**

* 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 contractual maturity as of 31 December 2015:

(CZKm)	UP TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate instruments				
Interest rate swaps	112,230	307,440	161,555	581,225
Interest rate forwards and futures*	23,107	0	0	23,107
Interest rate options	88	6,436	1,008	7,532
Total interest rate instruments	**135,425**	**313,876**	**162,563**	**611,864**
Foreign currency instruments				
Currency swaps	165,242	1,566	0	166,808
Cross currency swaps	17,825	48,643	59,050	125,518
Currency forwards	26,129	3,756	0	29,885
Purchased options	31,865	26,781	0	58,646
Sold options	32,366	26,732	0	59,098
Total currency instruments	**273,427**	**107,478**	**59,050**	**439,955**
Other instruments				
Futures on debt securities	0	0	0	0
Forwards on emission allowances	1,610	2,960	0	4,570
Commodity forwards	2,590	0	0	2,590
Commodity swaps	12,090	1,822	0	13,912
Commodity cross currency swaps	0	0	0	0
Purchased commodity options	145	211	0	356
Sold commodity options	145	211	0	356
Total other instruments	**16,580**	**5,204**	**0**	**21,784**
Total	**425,432**	**426,558**	**221,613**	**1,073,603**

* 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 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	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	**558,966**	**371,007**	**208,568**	**1,138,541**

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

Financial derivative instruments designated as hedging are as follows:

	31 DEC 2015 NOMINAL VALUE		31 DEC 2014 NOMINAL VALUE		31 DEC 2015 FAIR VALUE		31 DEC 2014 FAIR VALUE	
(CZKm)	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**	**POSITIVE**	**NEGATIVE**	**POSITIVE**	**NEGATIVE**
Cross currency swaps for cash flows hedging	39,449	41,486	50,768	54,812	280	1,966	8	3,922
Cross currency swaps for fair value hedging	0	0	348	468	0	0	0	121
Currency swaps for fair value hedging	0	0	0	0	0	0	0	0
Forwards on stocks for cash flow hedging	49	49	46	46	9	0	11	0
Interest rate swaps for cash flow hedging	582,625	582,625	535,271	535,271	22,671	5,957	28,366	8,233
Interest rate swaps for fair value hedging	18,585	18,585	16,556	16,556	106	2,099	74	2,451
Interest rate swaps for portfolio fair value hedging	17,650	17,650	18,150	18,150	635	33	757	50
Total	**658,358**	**660,395**	**621,139**	**625,303**	**23,701**	**10,055**	**29,216**	**14,777**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2015:

(CZKm)	**UP TO 1 YEAR**	**1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Cross currency swaps for cash flow hedging	13,276	24,940	1,233	39,449
Forwards on stocks for cash flow hedging	21	28	0	49
Interest rate swaps for cash flow hedging	103,896	271,687	207,042	582,625
Interest rate swaps for fair value hedging	900	300	17,385	18,585
Interest rate swaps for portfolio fair value hedging	2,050	5,450	10,150	17,650
Total	**120,143**	**302,405**	**235,810**	**658,358**

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
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**

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 2015			31 DEC 2014		
(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	(210)	(1,225)	(1,227)	(387)	(1,681)	(1,566)

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 2015, 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 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, short-term loans on the interbank market) or foreign currency liabilities (short-term client liabilities), respectively;
   b. The Group hedged the fair value of a deferred tax asset, the amount of which was derived from a foreign currency asset and was therefore dependent on the foreign exchange rate developments, by selected foreign currency liabilities (e.g. short-term client liabilities). The hedge relationship ended correctly in 2015.

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. in the short-term to clients).

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 that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

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. The table includes an analysis of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(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	128,336	0	0	0	0	**128,336**
Financial assets at fair value through profit or loss	7,186	3,487	0	0	18,525	**29,198**
Positive fair values of hedging financial derivatives	0	0	0	0	23,701	**23,701**
Available-for-sale financial assets	4,343	8,234	17,225	12,062	0	**41,864**
Assets held for sale	0	0	0	0	385	**385**
Amounts due from banks	37,615	2,147	4,559	2,674	804	**47,799**
Loans and advances to customers, net	214,308	73,360	206,591	29,698	8,660	**532,617**
Revaluation differences on portfolios hedge items	0	0	0	0	18	**18**
Held-to-maturity investments	6,344	48	19,567	41,124	0	**67,083**
Current tax assets	0	30	0	0	337	**367**
Deferred tax assets	0	0	0	0	70	**70**
Prepayments, accrued income and other assets	0	698	0	0	3,738	**4,436**
Investments in subsidiaries and associates	0	0	0	0	1,219	**1,219**
Intangible assets	0	0	0	0	3,867	**3,867**
Tangible assets	0	0	0	0	6,844	**6,844**
Goodwill	0	0	0	0	3,752	**3,752**
Total assets	**398,132**	**88,004**	**247,942**	**85,558**	**71,920**	**891,556**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss	305	0	0	0	19,189	**19,494**
Negative fair values of hedging financial derivatives	0	0	16	0	10,039	**10,055**
Amounts due to banks	43,762	6,060	0	0	6,408	**56,230**
Amounts due to customers	65,949	22,109	25,950	1,609	550,790*	**666,407**
Revaluation differences on portfolios hedge items	0	0	0	0	610	**610**
Securities issued	129	0	10,282	872	0	**11,283**
Current tax liabilities	0	0	0	0	83	**83**
Deferred tax liabilities	0	0	37	0	4,547	**4,584**
Accruals and other liabilities	262	0	0	0	15,157	**15,419**
Provisions	0	0	0	0	1,161	**1,161**
Total liabilities	**110,408**	**28,169**	**36,285**	**2,481**	**607,984**	**785,327**
Statement of Financial Position interest rate gap as of 31 December 2015	**287,724**	**59,835**	**211,657**	**83,077**	**(536,064)**	**106,229**
Nominal value of derivatives**	505,961	284,007	300,023	305,700	0	**1,395,691**
Total off-balance sheet assets	**505,961**	**284,007**	**300,023**	**305,700**	**0**	**1,395,691**
Nominal value of derivatives**	608,839	264,426	342,061	182,486	0	**1,397,812**
Undrawn portion of loans***	(2,936)	(5,663)	6,040	2,559	0	**0**
Undrawn portion of revolving loans***	0	0	0	0	0	**0**
Total off-balance sheet liabilities	**605,903**	**258,763**	**348,101**	**185,045**	**0**	**1,397,812**
Net off-balance sheet interest rate gap as of 31 December 2015	**(99,942)**	**25,244**	**(48,078)**	**120,655**	**0**	**(2,121)**
Cumulative interest rate gap as of 31 December 2015	**187,782**	**272,861**	**436,440**	**640,172**	**104,108**	**X**

* 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.
** 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	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 gap as of 31 December 2014	**260,818**	**66,447**	**210,592**	**92,082**	**(520 445)**	**109,494**
Nominal value of 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**
Nominal value of 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 gap as of 31 December 2014	**(330 331)**	**20,681**	**28,701**	**277,280**	**0**	**(3 669)**
Cumulative interest rate gap as of 31 December 2014	**(69 513)**	**17,615**	**256,908**	**626,270**	**105,825**	**X**

* 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.
** 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 2015 and 2014 were as follows:

	31 DEC 2015			31 DEC 2014		
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and current balances with central banks	0.04%	x	x	0.05%	x	x
Treasury bills	0.01%	x	x	0.08%	x	x
Amounts due from banks	0.06%	0.02%	0.39%	0.23%	0.28%	0.51%
Loans and advances to customers	2.53%	2.39%	1.87%	3.19%	1.96%	1.90%
Interest earning securities	1.39%	0.00%	1.48%	1.55%	0.62%	1.53%
Total assets	**1.55%**	**1.06%**	**1.37%**	**1.62%**	**1.27%**	**1.39%**
Total interest earning assets	**1.80%**	**1.29%**	**1.40%**	**1.90%**	**1.27%**	**1.42%**
Liabilities						
Amounts due to central banks and banks	0.04%	0.86%	0.43%	0.01%	0.27%	0.52%
Amounts due to customers	0.05%	0.06%	0.06%	0.10%	0.06%	0.11%
Debt securities	2.93%	x	0.00%	2.25%	x	0.00%
Total liabilities	**0.25%**	**0.15%**	**0.17%**	**0.28%**	**0.08%**	**0.23%**
Total interest bearing liabilities	**0.26%**	**0.16%**	**0.19%**	**0.29%**	**0.09%**	**0.25%**
Off-balance sheet assets						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.09%	2.62%	1.03%	1.28%	2.42%	1.01%
Undrawn portion of loans	1.90%	2.25%	1.48%	2.27%	2.97%	1.99%
Undrawn portion of revolving loans	5.62%	x	0.29%	5.72%	x	0.89%
Total off-balance sheet assets	**1.32%**	**2.60%**	**1.02%**	**1.50%**	**2.42%**	**1.02%**
Off-balance sheet liabilities						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.79%	2.23%	1.04%	0.95%	2.15%	1.02%
Undrawn portion of loans	1.90%	2.25%	1.48%	2.27%	2.97%	1.99%
Undrawn portion of revolving loans	5.62%	x	0.29%	5.72%	x	0.89%
Total off-balance sheet liabilities	**1.04%**	**2.21%**	**1.03%**	**1.18%**	**2.15%**	**1.02%**

Note: The above table sets out the average interest rates for December 2015 and 2014 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 2015. Czech crown money market rates (PRIBOR) decreased by as much as 0.05% (1-12M). Interest rates in the derivatives market increased by 0.02-0.15% (2-10Y).

Euro money market rates decreased during 2015 from 0.21% (3-6M) to 0.27% (1Y). Derivative market rates changed from -0.21% (2Y) to 0.19% (10Y).

Dollar money market rates increased during 2015 by as much as 0.55% (12M), and derivative market rates changed from -0.06% (10Y) to 0.29% (2Y).

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

(CZKm)	31 DEC 2015 FIXED INTEREST RATE	FLOATING INTEREST RATE	NO INTEREST	TOTAL	31 DEC 2014 FIXED INTEREST RATE	FLOATING INTEREST RATE	NO INTEREST	TOTAL
Assets								
Cash and current balances with central banks	13,800	101,201	13,335	**128,336**	0	126,755	26,148	152,903
Financial assets at fair value through profit or loss	6,846	1,026	21,326	**29,198**	16,245	2,520	23,203	41,968
Positive fair values of hedging financial derivatives	0	0	23,701	**23,701**	0	0	29,216	29,216
Available-for-sale financial assets	27,094	14,095	675	**41,864**	55,021	22,417	2	77,440
Amounts due from banks	8,160	39,556	83	**47,799**	8,000	51,680	18	59,698
Loans and advances to customers	339,959	188,112	4,546	**532,617**	308,180	182,290	4,236	494,706
Revaluation differences on portfolios hedge items	0	0	18	**18**	0	0	29	29
Held-to-maturity investments	67,083	0	0	**67,083**	76,519	0	0	76,519
Liabilities								
Amounts due to central banks	1	0	0	**1**	2	0	0	2
Financial liabilities at fair value through profit or loss	0	0	19,494	**19,494**	0	0	23,470	23,470
Negative fair values of hedging financial derivatives	16	0	10,039	**10,055**	0	0	14,777	14,777
Amounts due to banks	13,947	42,114	169	**56,230**	12,692	48,480	188	61,360
Amounts due to customers	65,370	594,202	6,835	**666,407**	63,494	591,245*	47,128	701,867
Revaluation differences on portfolios hedge items	0	0	610	**610**	0	0	761	761
Securities issued	542	10,741	0	**11,283**	12,081	10,503	0	22,584

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. The table includes an analysis of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(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	38,268	0	0	0	0	90,068	**128,336**
Financial assets at fair value through profit or loss	0	1,562	2,371	2,612	635	22,018	**29,198**
Positive fair values of hedging financial derivatives	0	0	0	0	0	23,701	**23,701**
Available-for-sale financial assets	0	2,480	326	15,703	20,208	3,147	**41,864**
Assets held for sale	0	0	360	0	0	25	**385**
Amounts due from banks	2,735	26,784	2,325	8,219	1,292	6,444	**47,799**
Loans and advances to customers, net	4,310	54,233	61,443	155,833	239,966	16,832	**532,617**
Revaluation differences on portfolios hedge items	0	0	0	0	0	18	**18**
Held-to-maturity investments	0	6,460	1,088	19,083	40,452	0	**67,083**
Current tax assets	0	28	305	0	0	34	**367**
Deferred tax assets	0	0	0	0	0	70	**70**
Prepayments, accrued income and other assets	389	366	692	0	0	2,989	**4,436**
Investments in subsidiaries and associates	0	0	0	0	0	1,219	**1,219**
Intangible assets	0	0	0	0	0	3,867	**3,867**
Tangible assets	0	0	0	0	0	6,844	**6,844**
Goodwill	0	0	0	0	0	3,752	**3,752**
Total assets	**45,702**	**91,913**	**68,910**	**201,450**	**302,553**	**181,028**	**891,556**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss	305	0	0	0	0	19,189	**19,494**
Negative fair values of hedging financial derivatives	0	0	0	16	0	10,039	**10,055**
Amounts due to banks	23,126	4,685	9,087	12,167	7,165	0	**56,230**
Amounts due to customers	568,383	50,416	20,205	25,822	1,565	16	**666,407**
Revaluation differences on portfolios hedge items	0	0	0	0	0	610	**610**
Securities issued	0	5	16	1,756	9,506	0	**11,283**
Current tax liabilities	0	0	62	0	0	21	**83**
Deferred tax liabilities	0	0	0	38	0	4,546	**4,584**
Accruals and other liabilities	12,947	747	0	0	0	1,725	**15,419**
Provisions	8	110	269	354	1	419	**1,161**
Equity	0	0	0	0	0	106,229	**106,229**
Total liabilities	**604,770**	**55,963**	**29,639**	**40,153**	**18,237**	**142,794**	**891,556**
Statement of Financial Position liquidity gap as of 31 December 2015	**(559,068)**	**35,950**	**39,271**	**161,297**	**284,316**	**38,234**	**0**
Off-balance sheet assets*	49,522	151,449	88,241	132,405	60,284	0	**481,901**
Off-balance sheet liabilities*	56,215	174,045	139,122	170,597	64,340	16,047	**620,366**
Net off-balance sheet liquidity gap as of 31 December 2015	**(6,693)**	**(22,596)**	**(50,881)**	**(38,192)**	**(4,056)**	**(16,047)**	**(138,465)**

* 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	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 December 2015	**(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 December 2015	**(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.

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 2015.

(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)	305	0	0	0	0	0	**305**
Amounts due to banks	23,101	4,649	9,067	12,403	7,185	0	**56,405**
Amounts due to customers	568,476	50,739	20,390	27,502	1,807	16	**668,930**
Securities issued	132	57	234	2,907	9,972	0	**13,302**
Current tax liabilities	0	0	62	0	0	21	**83**
Deferred tax liabilities	0	0	0	38	0	4,546	**4,584**
Accruals and other liabilities	12,947	747	0	0	0	1,725	**15,419**
Provisions	7	110	269	355	1	419	**1,161**
Total non-derivative financial liabilities	**604,969**	**56,302**	**30,022**	**43,205**	**18,965**	**6,727**	**760,190**
Other loans commitment granted	5,172	14,817	32,125	18,729	1,649	15,972	**88,464**
Guarantee commitments granted	1,556	7,861	17,596	18,567	2,471	75	**48,126**
Total contingent liabilities	**6,728**	**22,678**	**49,721**	**37,296**	**4,120**	**16,047**	**136,590**

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**

(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	126,081	1,764	237	254	**128,336**
Financial assets at fair value through profit or loss	20,478	8,237	482	1	**29,198**
Positive fair values of hedging financial derivatives	21,249	2,081	371	0	**23,701**
Available-for-sale financial assets	33,616	8,246	2	0	**41,864**
Assets held for sale	385	0	0	0	**385**
Amounts due from banks	18,256	24,506	4,885	152	**47,799**
Loans and advances to customers, net	433,087	90,155	8,616	759	**532,617**
Revaluation differences on portfolios hedge items	18	0	0	0	**18**
Held-to-maturity investments	53,265	13,818	0	0	**67,083**
Current tax assets	339	28	0	0	**367**
Deferred tax assets	37	33	0	0	**70**
Prepayments, accrued income and other assets	3,682	411	328	15	**4,436**
Investments in subsidiaries and associates	1,219	0	0	0	**1,219**
Intangible assets	3,867	0	0	0	**3,867**
Tangible assets	6,840	4	0	0	**6,844**
Goodwill	3,752	0	0	0	**3,752**
Total assets	**726,171**	**149,283**	**14,921**	**1,181**	**891,556**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	15,652	3,399	443	0	**19,494**
Negative fair values of hedging financial derivatives	8,000	2,044	11	0	**10,055**
Amounts due to banks	14,783	37,918	3,496	33	**56,230**
Amounts due to customers	585,609	66,537	11,735	2,526	**666,407**
Revaluation differences on portfolios hedge items	610	0	0	0	**610**
Securities issued	11,283	0	0	0	**11,283**
Current tax liabilities	83	0	0	0	**83**
Deferred tax liabilities	4,577	7	0	0	**4,584**
Accruals and other liabilities	12,848	2,117	347	107	**15,419**
Provisions	725	391	33	12	**1,161**
Equity	102,582	3,647	0	0	**106,229**
Total liabilities	**756,753**	**116,060**	**16,065**	**2,678**	**891,556**
Net FX position as of 31 Dec 2015	**(30,582)**	**33,223**	**(1,144)**	**(1,497)**	**0**
Off-balance sheet assets*	1,222,235	375,250	120,140	17,797	**1,735,422**
Off-balance sheet liabilities*	1,192,838	410,102	118,403	16,353	**1,737,696**
Net off-balance sheet FX position as of 31 Dec 2015	**29,397**	**(34,852)**	**1,737**	**1,444**	**(2,274)**
Total net FX position as of 31 Dec 2015	**(1,185)**	**(1,629)**	**593**	**(53)**	**(2,274)**

* 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	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.

(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 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 Group's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

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

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

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

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

(d) Held-to-maturity investments

The fair value of 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 2015		31 DEC 2014	
(CZKm)	**CARRYING VALUE**	**FAIR VALUE**	**CARRYING VALUE**	**FAIR VALUE**
Financial assets				
Cash and current balances with central banks	128,336	128,336	152,903	152,903
Amounts due from banks	47,799	49,468	59,698	60,090
Loans and advances to customers	532,617	548,622	494,706	509,297
Held-to-maturity investments	67,083	72,264	76,519	80,873
Financial liabilities				
Amounts due to central banks	1	1	2	2
Amounts due to banks	56,230	56,222	61,360	61,380
Amounts due to customers	666,407	665,059	701,867	699,828
Securities issued	11,283	10,395	22,584	23,253

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

	31 DEC 2015				31 DEC 2014			
(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	128,336	11,357	0	116,979	152,903	7,161	0	145,742
Amounts due from banks	49,468	0	0	49,468	60,090	0	0	60,090
Loans and advances to customers	548,622	0	0	548,622	509,297	0	0	509,297
Held-to-maturity investments	72,264	72,264	0	0	80,873	80,873	0	0
Financial liabilities								
Amounts due to central banks	1	0	0	1	2	0	0	2
Amounts due to banks	56,222	0	0	56,222	61,380	0	0	61,380
Amounts due to customers	665,059	0	0	665,059	699,828	0	0	699,828
Securities issued	10,395	0	0	10,395	23,253	0	0	23,253

(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 2015	LEVEL 1	LEVEL 2	LEVEL 3	31 DEC 2014	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets								
Financial assets at fair value through profit or loss								
– Emission allowances	2,800	2,800	0	0	1,443	1,443	0	0
– Debt securities	7,872	5,184	2,688	0	18,765	11,558	7,207	0
– Derivatives	18,526	68	18,458	0	21,760	15	21,745	0
Financial assets at fair value through profit or loss	**29,198**	**8,052**	**21,146**	**0**	**41,968**	**13,016**	**28,952**	**0**
Positive fair value of hedging financial derivatives	**23,701**	**0**	**23,701**	**0**	**29,216**	**0**	**29,216**	**0**
Available-for-sale financial assets								
– Shares and participation Certificates	675	0	0	675	2	0	0	2
– Debt securities	41,189	28,294	12,895	0	77,438	55,601	21,837	0
Available-for-sale financial assets	**41,864**	**28,294**	**12,895**	**675**	**77,440**	**55,601**	**21,837**	**2**
Revaluation differences on portfolios hedge items	**18**	**0**	**18**	**0**	**29**	**0**	**29**	**0**
Financial assets at fair value	**94,781**	**36,346**	**57,760**	**675**	**148,653**	**68,617**	**80,034**	**2**
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– Sold securities	305	305	0	0	1,992	1,992	0	0
– Derivatives	19,189	472	18,717	0	21,478	238	21,240	0
Financial liabilities at fair value through profit or loss	**19,494**	**777**	**18,717**	**0**	**23,470**	**2,230**	**21,240**	**0**
Negative fair value of hedging financial derivatives	**10,055**	**0**	**10,055**	**0**	**14,777**	**0**	**14,777**	**0**
Revaluation differences on portfolios hedge items	**610**	**0**	**610**	**0**	**761**	**0**	**761**	**0**
Financial liabilities at fair value	**30,159**	**777**	**29,382**	**0**	**39,008**	**2,230**	**36,778**	**0**

Financial assets at fair value – Level 3:

		2015		2014
(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	674	674	0	0
Sales	(1)	(1)	0	0
Settlement	0	0	0	0
Balance as of 31 December	**675**	**675**	**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 2015:

	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	42,226	0	42,226	25,065	10,667	6,494
Negative fair value of derivatives	29,224	0	29,244	25,065	4,179	0

* 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 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	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.

44 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

	31 DEC 2015		31 DEC 2014	
(CZKm)	CASH	SECURITIES	CASH	SECURITIES
Assets in custody	2,789	479,433	1,930	349,756
Assets under management	0	1,760	0	473

45 Post balance sheet events

Headquarters building

In line with its long-term strategy of optimising the headquarters buildings, the Bank launched activities targeting the sale of its subsidiary NP 33, s.r.o. If realised, the transaction will be presented as a decrease of the ***'Tangible assets'*** line of the Consolidated Statement of Financial Position. The result of the transaction will be presented in the line ***'Depreciation, impairment and disposal of assets'*** of the Consolidated Statement of Income.

Transaction and payment services

In February 2016, the Bank signed a Letter of Intent with a strategic partner targeting the sale of its card acquiring business. This transaction is expected to take place in 2016 subject to its approval by the appropriate regulatory authorities.

Separate Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2015

Separate Statement of Income and Statement of Comprehensive Income for the year ended 31 December 2015

Separate Statement of Income for the year ended 31 December 2015

(CZKm)	NOTE	2015	RESTATED 2014
Interest income and similar income	5	24,703	25,979
Interest expense and similar expense	5	(7,368)	(8,706)
Dividend income	5	1,698	1,602
Net interest income and similar income		**19,033**	**18,875**
Net fee and commission income	6	6,275	6,370
Net profit/(loss) on financial operations	7	2,665	2,363
Other income	8	160	154
Net operating income		**28,133**	**27,762**
Personnel expenses	9	(6,085)	(6,065)
General administrative expenses	10	(4,153)	(4,238)
Depreciation, impairment and disposal of assets	11	(2,013)	(1,568)
Total operating expenses		**(12,251)**	**(11,871)**
Profit before allowances/provisions for loan and investment losses, other risk and income taxes		**15,882**	**15,891**
Allowances for loan losses	12	(1,327)	(1,027)
Provisions for other risk expenses	12	230	(25)
Cost of risk		**(1,097)**	**(1,052)**
Profit/(loss) on subsidiaries and associates	13	0	355
Profit before income taxes		**14,785**	**15,194**
Income taxes	14	(2,361)	(2,426)
Net profit for the period	15	**12,424**	**12,768**

Separate Statement of Comprehensive Income for the year ended 31 December 2015

(CZKm)	NOTE	2015	RESTATED 2014
Net profit for the period	15	**12,424**	**12,768**
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax	38	(16)	(13)
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
–Net fair value gain/(loss), net of tax	39	232	11,072
–Transfer to net profit/(loss), net of tax	39	(3,405)	(3,358)
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	68	28
Other comprehensive income for the period, net of tax		**(3,123)**	**7,731**
Comprehensive income for the period, net of tax		**9,301**	**20,499**

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

Separate Statement of Financial Position as of 31 December 2015

(CZKm)	NOTE	31 DEC 2015	31 DEC 2014
ASSETS			
Cash and current balances with central banks	16	116,257	152,229
Financial assets at fair value through profit or loss	17	29,889	43,867
Positive fair value of hedging financial derivatives	41	23,066	28,453
Available-for-sale financial assets	18	32,700	34,552
Assets held for sale	19	360	0
Amounts due from banks	20	54,589	54,238
Loans and advances to customers	21	484,474	449,180
Held-to-maturity investments	22	61,003	62,114
Current tax assets		303	130
Deferred tax assets	33	33	61
Prepayments, accrued income and other assets	23	2,804	2,741
Investments in subsidiaries and associates	24	22,177	26,717
Intangible assets	25	3,427	3,337
Tangible assets	26	4,444	5,147
Total assets		**835,526**	**862,766**
LIABILITIES AND EQUITY			
Amounts due to central banks		1	2
Financial liabilities at fair value through profit or loss	27	20,185	25,417
Negative fair value of hedging financial derivatives	41	10,002	13,592
Amounts due to banks	28	46,079	54,779
Amounts due to customers	29	603,640	601,412
Securities issued	30	43,717	55,321
Current tax liabilities		0	65
Deferred tax liabilities	33	3,886	4,552
Accruals and other liabilities	31	13,564	10,657
Provisions	32	1,149	1,335
Total liabilities		**742,223**	**767,132**
Share capital	34	19,005	19,005
Share premium and reserves		74,298	76,629
Total equity		**93,303**	**95,634**
Total liabilities and equity		**835,526**	**862,766**

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

These Separate Financial Statements were approved by the Board of Directors on 3 March 2016.

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 Chief Operating Officer

Separate Statement of Changes in Equity for the year ended 31 December 2015

(CZKm)	SHARE CAPITAL	CAPITAL FUNDS AND RETAINED EARNINGS*	REMEA-SUREMENT 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 2013	**19,005**	**52,425**	**(9)**	**8,295**	**6**	**3,980**	**83,702**
Treasury shares, other	0	175	0	0	0	0	175
Payment of dividends	0	(8,742)	0	0	0	0	(8,742)
Transactions with owners	**0**	**(8,567)**	**0**	**0**	**0**	**0**	**(8,567)**
Net profit for the period	0	12,768	0	0	0	0	12,768
Other comprehensive income for the period, net of tax	0	0	(13)	7,714	2	28	7,731
Comprehensive income for the period	**0**	**12,768**	**(13)**	**7,714**	**2**	**28**	**20,499**
Balance as of 31 December 2014	**19,005**	**56,626**	**(22)**	**16,009**	**8**	**4,008**	**95,634**
Treasury shares, other	0	151	0	0	0	0	151
Payment of dividends	0	(11,783)	0	0	0	0	(11,783)
Transactions with owners	**0**	**(11,632)**	**0**	**0**	**0**	**0**	**(11,632)**
Net profit for the period	0	12,424	0	0	0	0	12,424
Other comprehensive income for the period, net of tax	0	0	(16)	(3,173)	(2)	68	(3,123)
Comprehensive income for the period	**0**	**12,424**	**(16)**	**(3,173)**	**(2)**	**68**	**9,301**
Balance as of 31 December 2015	**19,005**	**57,418**	**(38)**	**12,836**	**6**	**4,076**	**93,303**

* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 4,189 million (2014: CZK 4,189 million), share premium, treasury shares and share-based transactions in the amount of CZK -245 million (2014: CZK -305 million), net profit from the period in the amount of CZK 12,424 million (2014: CZK 12,768 million) and retained earnings in the amount of CZK 41,050 million (2014: CZK 39,974 million).

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

Separate Statement of Cash Flows for the year ended 31 December 2015

(CZKm)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	21,797	22,850
Interest payments	(5,895)	(6,683)
Fee and commission receipts	7,566	7,708
Fee and commission payments	(1,300)	(1,329)
Net income from financial operations	2,003	687
Other income receipts	168	90
Cash payments to employees and suppliers, and other payments	(9,520)	(9,777)
Operating cash flow before changes in operating assets and operating liabilities	**14,819**	**13,546**
Amounts due from banks	(510)	64,950
Financial assets at fair value through profit or loss	13,866	(5,706)
Loans and advances to customers	(36,897)	(26,529)
Other assets	(86)	(493)
(Increase)/decrease in operating assets	**(23,627)**	**32,222**
Amounts due to banks	4,155	(3,668)
Financial liabilities at fair value through profit or loss	(5,236)	6,871
Amounts due to customers	1,837	49,593
Other liabilities	2,579	846
Increase/(decrease) in operating liabilities	**3,335**	**53,642**
Net cash flow from operating activities before taxes	(5,472)	99,410
Income taxes paid	(2,462)	(3,184)
Net cash flow from operating activities	**(7,935)**	**96,226**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received	1,702	1,603
Purchase of held-to-maturity investments	(3,369)	(4,785)
Maturity of held-to-maturity investments*	5,136	4,794
Purchase of available-for-sale financial assets	(2,615)	(5,649)
Sale and maturity of available-for-sale financial assets*	5,639	8,118
Purchase of tangible and intangible assets	(1,794)	(1,470)
Sale of tangible and intangible assets	40	17
Purchase of investments in subsidiaries and associates	(551)	(224)
Sale/decrease of investments in subsidiaries and associates	5,091	82
Net cash flow from investment activities	**9,279**	**2,486**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(11,750)	(8,656)
Securities issued	794	8,753
Securities redeemed*	(13,958)	(3,264)
Net cash flow from financing activities	**(24,914)**	**(3,167)**
Net increase/(decrease) in cash and cash equivalents	**(23,570)**	**95,545**
Cash and cash equivalents at the beginning of the year	137,536	41,975
FX differences on cash and cash equivalents at beginning of year	(6)	16
Cash and cash equivalents at the end of the year (refer to Note 35)	**113,960**	**137,536**

* The amount also includes coupons received and paid.

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

Notes to the Separate Financial Statements as of 31 December 2015

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1 Principal activities

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

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

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

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2014: 60.35%) of the Bank's issued share capital.

2 Events for the year ended 31 December 2015

Dividends declared in respect of the year ended 31 December 2014
At the General Meeting, held on 23 April 2015, the shareholders approved a dividend for the year ended 31 December 2014 of CZK 310 per share before tax. The dividend was declared in the aggregate amount of CZK 11,783 million and the remaining balance of the net profit was allocated to retained earnings.

Changes in the Bank's financial group
In May 2015, the equity in Bastion European Investments S.A. was decreased by EUR 3.2 million (equivalent to CZK 91 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.

In June 2015, the Bank and SG Equipment Finance International GmbH increased shareholders' equity of SG Equipment Finance Czech Republic s.r.o. by CZK 1,100 million in the form of increasing other capital funds. The Bank's contribution was CZK 551.1 million.

In December 2015, the Bank decreased the capital of its subsidiary Protos, uzavřený investiční fond, a.s. by CZK 5,000 million. The decrease was made through a distribution of the company's premium fund. The Bank's ownership in the company decreased from 89.64% to 83.65%. The remaining participation in the company is held by Factoring KB, a.s., which is fully owned by the Bank.

3 Principal accounting policies

These Financial Statements are separate. The Consolidated Financial Statements are issued as of the same date.
As of 31 December 2015, the total consolidated equity is CZK 106,229 million (2014: CZK 109,494 million) and for the year ended 31 December 2015 total consolidated profit is CZK 13,132 million (2014: CZK 13,330 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 2015.

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 2015 are prepared on the basis of current best estimates. The management of the Bank believes that these 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 permitted or explicitly required 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 prior to reclassification into *'Assets held for sale'*.

3.3.3 Significant accounting judgements and estimates

In applying the accounting policies for the purpose of preparing the Separate Financial Statements in accordance with IFRS, it is necessary for the Bank's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, 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 and judgements are based on the information available as of the financial statements date and they relate especially 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); 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 judgements and 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 in 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'* and are reported as such.

Investments in subsidiaries and associates are measured at historical cost (i.e. foreign currency investments are translated using the foreign exchange rate at the transaction date) 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 Application of new and revised IFRS

3.4.1 Standards and interpretations newly applied by the Bank in the current period

The following standards, interpretations and amendments were newly applied by the Bank as from 1 January 2015. They have no impact in the current period (and/or prior period).

STANDARD	IMPACT/COMMENTS
IFRIC 21 Levies*	This interpretation provides guidance on the timing of accounting for a liability to pay a levy imposed by government. It is designated for both liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount is certain. A levy is an outflow of resources embodying economic benefits that is imposed by government on entities in accordance with law or regulation other than: (a) outflows of resources that are within the scope of other standards (such as IAS 12 Income Taxes); (b) fines or other penalties that are imposed for breaches of a law or regulation. IFRIC 21 identifies the obligating event giving rise to a liability to pay the levy as the activity that triggers the payment of the levy, as identified by the relevant legislation. The liability is recognised progressively if the obligating event occurs over a period of time. In accordance with new EU legislation, the CNB has decided to create the Resolution Fund via nine annual contributions starting in 2016. As this regulation has not been transposed into the Czech legislation for 2015, no obligating event exists as of the financial statements date, and therefore no liability in respect of the contribution to the Resolution Fund has been recognised for 2015.
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.

* The European Commission has approved IFRIC 21 Levies for reporting periods beginning on or after 17 June 2014. According to the IASB, the interpretation is effective already for reporting periods beginning on or after 1 January 2014. The European Commission has approved Annual Improvements to IFRS 2011-2013 Cycle for reporting periods beginning on or after 1 January 2015. According to the IASB, these are effective already for reporting periods beginning on or after 1 July 2014.

3.4.2 Issued standards and interpretations not applied for the current period

Although the following standards, interpretations and amendments had been issued, they are not yet effective for the reporting period beginning on 1 January 2015 and the Bank has decided not to adopt them early. The Bank has decided not to adopt early the standards and interpretations which were already approved by the European Commission.

Currently, 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 and rules 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 must 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 to collect and sell, other business models) and the financial asset's contractual cash flow characteristics. Financial assets will be 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 as 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 need to decide upon the initial application of the standard whether it will measure these through profit or loss or whether it will use the FVOCI option and thus 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 Bank uses the most advanced methodology as regards to data quality, existing parameters and experience in modelling (Advanced Internal Ratings-Based approach, the so-called A-IRB approach), no large changes in methodology and systems are expected. Different parameters will be used, however, and so the impact will be observable. Implementation of the new impairment methodology (credit risk provisioning) is the subject of a specific project centrally managed by Société Générale. Within the scope of the project the reference approach methodology for the Bank containing IFRS 9 rules and methods is being developed. Currently, the Bank is considering IT architecture with the aim to implement this methodology and new provisioning models into the rating/provisioning IT systems. The project's closing date is 1 January 2018, and a parallel run (IAS 39 and IFRS 9) is expected from the beginning of 2017.

STANDARD	SUMMARISED CONTENT	EFFECTIVE FOR REPORTING PERIOD BEGINNING ON OR AFTER
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 EU 1 February 2015
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 procedures for contributions the amounts of which are not dependent upon length of service and those the amounts of which are so dependent.	1 July 2014 EU 1 February 2015
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.	1 January 2016 EU will not endorse
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 acquirer is required to apply, to the extent of its share, the principles of business combination accounting and disclosures in IFRS 3 and other IFRS, if not conflicting with the guidance in IFRS 11.	1 January 2016 EU 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 EU 1 January 2016

STANDARD	SUMMARISED CONTENT	EFFECTIVE FOR REPORTING PERIOD BEGINNING ON OR AFTER
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 EU 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 IAS39/IFRS 9.	1 January 2016 EU 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. In such case, the gain or loss is recognised in full.	The effective date of 1 January 2016 was withdrawn and deferred indefinitely. EU postponed
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 EU 1 January 2016
Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	Given that the amendments clarify existing requirements in IAS 1 which 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 EU 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 further clarify application of the consolidation exception to entities in group structures involving investment entities.	1 January 2016 EU not yet endorsed
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 Income Taxes)	The amendments to IAS 12 clarify how to account for a deferred tax asset that is related to debt instruments measured at fair value for accounting purposes and at cost for tax purposes in circumstances in which changes in the market interest rate decrease the fair value below cost. This applies irrespective of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use. The amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits.	1 January 2017 EU not yet endorsed
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.	1 January 2018 EU not yet endorsed

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, new impairment methodology and new hedge accounting rules for micro hedges. Accounting and rules for macro hedging were separated from the IFRS 9 project and are part of a separate project (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 should reflect 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 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 a prospective effectiveness test remaining that is newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) replacing the range of 80-125%. As a consequence of the new general hedge accounting rules in IFRS 9, additional hedge accounting disclosure requirements were introduced into IFRS 7 Financial Instruments: Disclosures.	1 January 2018 EU not yet endorsed

STANDARD	SUMMARISED CONTENT	EFFECTIVE FOR REPORTING PERIOD BEGINNING ON OR AFTER
IFRS 16 Leases – new standard	The new standard, superseding IAS 17 Leases, establishes principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. From the lessee's point of view the standard newly provides newly a single on-balance sheet accounting model. Lessees are required to recognise assets and liabilities (so-called right-of-use assets and lease liabilities) for all leases unless the lease term is 12 months or less or the underlying asset is of a low value, in which case the lessees have an accounting policy choice to apply a method similar to operating leases under IAS 17. The right-of-use asset is treated similarly as are other non-financial assets; it is depreciated in accordance with the requirements in IAS 16 Property, Plant and Equipment and tested for impairment under IAS 36 Impairment of Assets. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate. Lessors continue to classify leases as operating or finance, with an accounting approach substantially unchanged from IAS 17. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease. For a finance lease, the lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. The net investment in the lease (lease receivable) is subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments. For operating leases, the lessor recognises lease income on either a straight-line basis or another systematic basis that is more representative of the pattern in which benefit from use of the underlying asset is diminished.	1 January 2019 EU not yet endorsed

3.4.3 Standards and interpretations not yet adopted by the European Union

The European Commission decides on the applicability of IFRS issued by the 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). Should the full version of IAS 39 requirements be applied, the impact would be insignificant, as the Bank does not use interest rate hedging on a portfolio basis for banking deposits.

Those effective or issued standards and interpretations and/or amendments thereto not approved by the European Commission are highlighted in the previous chapter.

3.4.4 Standards and interpretations voluntarily adopted early and applied to the reporting period beginning 1 January 2015

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 2015.

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; and
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. This item also includes obligatory minimum reserves. The Bank can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

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. 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

In 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 and which do not meet the definition of loans and receivables (i.e. are quoted on an active market).

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 an isolated event that is beyond the Bank's control, which is non-recurring and could not reasonably have been anticipated by the Bank – due to a significant decrease of a client's creditworthiness, changes in tax laws, major business combination or major disposition (including sale of a 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 for the type of debtor.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or 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 its 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 be 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 rare 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. 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 a 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, such as:

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.); or
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 market 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 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 an 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 Forborne loans

Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in payment schedule, interest rate reductions, penalty interest waivers) or refinancing. 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 significant 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 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 whether there was an impairment on all significant credit exposures on an individual basis (i.e. those classified as Watch, Substandard, Doubtful or Loss according to the CNB classification). For corporate clients in the category Watch, the estimated loss amount approach is used, but the Provisioning Committee has the right to approve an individual provisions rate, if it is adequately justified. Provisions assessed on an individual basis for credit exposures in the categories Substandard, Doubtful or Loss are calculated using discounted expected future cash flows. Assets classified as Standard are included in the collective assessment of impairment and impaired for incurred but not reported losses, due to the fact that impairment for the Standard classification is not identified on an individual basis. The remaining insignificant impaired exposures are assessed using statistical models based on a collective approach (refer to Note 41(A)).

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

The future cash flows of 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 a provisioning model. Historical loss experience is adjusted on the basis of currently 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 an 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 Statement of Income 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 an amount greater 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, and it 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.

Held for trading derivatives 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. Hedging 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. Hedging 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'*.

It is on this basis that the Bank hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rates and debt instruments classified as available-for-sale) and interest rate risk of issued mortgage bonds. The effectiveness of a 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 fair value hedges 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 hedging derivatives classified as cash flow hedges and that prove to be highly effective in relation to the hedged risks 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 items affect the Statement of Income.
The ineffective portion of a hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that 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 a 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 constituting 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 the 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, the estimates of which 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 valid as of 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 set off current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.5.7.2 Deferred income tax

Using the balance sheet liability method, deferred income tax is recorded 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 valid 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 (such 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 within the Statement of Financial Position according to the nature of those assets and uses for them accounting policies applied to the relevant asset class.

Leasing payments received from operating leases are recognised as the Bank's income on a straight-line basis over the term of the relevant lease and 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 within 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 (mainly software). Tangible assets include plant, property and equipment that are used by the Bank in supplying its 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 as established in the lease contract. The Bank assumes no residual value for other assets. Depreciation is reported in the Statement of Income on the line *'Depreciation, impairment and disposal of assets'*.

The Bank does not depreciate land and works of art. Tangible and intangible assets in the course of construction and technical improvements are depreciated only once they have been brought into a condition fit for use.

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

	2015	2014
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
– Facades	30	30
– Roofs	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, economic 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 in the 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'***; and
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 in accordance with the CRD III regulation, 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 the two 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 as 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 shares granted 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 20 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 12 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 40 free shares of Société Générale S.A. upon the achievement of two performance conditions and completing a specific period of employment.

The allotment of the shares proceeds in two tranches:

- The first tranche accounts for 40% of the planned allocation (i.e. 16 shares) and it is contingent on Société Générale 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 received 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 the Société Générale Group's three core businesses (French Networks, International Retail Banking, Corporate and Investment Banking). This condition having been met the Bank's employees will receive those shares on 31 March 2016.

To enhance loyalty and motivation to contribute to the long-term growth in the value of the Société Générale Group, the Bank can award some of its key employees further free shares (deferred share plan). These free shares are subject to a vesting condition (i.e. presence in the Group at the end of vesting period which is 4 years) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the Free share and Deferred share plans provided by the Société Générale to the Bank's employees is recognised in the Bank's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the grant date, is spread over the vesting period and recorded 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 adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under the *'Personnel expenses'* from the start of the plan are then adjusted accordingly.

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 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 through 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 also exists in the case of 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 include, for example, 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 such interest and foreign currency instruments as forwards, swaps, options and futures. More information regarding derivative operations is presented in note 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. The management of the Bank nevertheless 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.

3.6 Changes in accounting policies and reclassifications

From 1 January 2015, the Bank has introduced accounting for SG's deferred share plan (refer to Note 3.5.11.3). Comparative information has been restated to reflect the presentation of the current period.

The impact of accounting for the Deferred share plan in the Statement of Income was an increase in the line *'Personnel expenses'* of CZK 28 million for the year ended 31 December 2014. The impacts on the Statement of Changes in Equity for the year ended 31 December 2014 were mutually offset, meaning no impact on *'Total equity'*. An increase of CZK 28 million in capital funds (line *'Treasury shares, other'*) was matched by a decrease of CZK 28 million in the line *'Net profit for the period'*.

4 Segment reporting

	RETAIL BANKING		CORPORATE BANKING		INVESTMENT BANKING		OTHER		TOTAL	
(CZKm)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Net interest income and similar income	9,381	9,253	6,396	6,516	120	135	3,136	2,971	19,033	18,875
Net fee and commission income	3,987	4,070	2,049	2,150	(29)	(68)	268	218	6,275	6,370
Net profit/(loss) on financial operations	877	842	1,312	1,116	483	355	(7)	50	2,665	2,363
Other income	110	117	12	7	110	132	(72)	(102)	160	154
Net operating income	**14,355**	**14,282**	**9,769**	**9,789**	**684**	**554**	**3,325**	**3,137**	**28,133**	**27,762**

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% (2014: 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)	2015	2014
Interest income and similar income	24,703	25,979
Interest expense and similar expense	(7,368)	(8,706)
Dividend income	1,698	1,602
Net interest income and similar income	**19,033**	**18,875**
Of which net interest income and similar income from		
– Loans and advances	13,994	14,522
– Available-for-sale financial assets	756	1,186
– Held-to-maturity investments	1,764	1,612
– Financial liabilities at amortised cost	(3,104)	(3,810)

'Interest income and similar income' includes interest on Substandard, Doubtful and Loss loans due from customers of CZK 318 million (2014: CZK 319 million).

'Interest income and similar income' also includes accrued interest income from hedging financial derivatives of CZK 8,189 million (2014: CZK 8,659 million) and *'Interest expense and similar expense'* includes interest expense from hedging financial derivatives of CZK 4,264 million (2014: CZK 4,896 million). Net interest income from these derivatives amounts to CZK 3,925 million (2014: CZK 3,763 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 850 million (2014: CZK 805 million).

'Dividend income' includes dividends received from subsidiaries and associates of CZK 1,703 million (2014: CZK 1,602 million). Expenses from hedging financial derivatives used to hedge cash flows from a foreign exchange risk for dividends from subsidiaries and associates were CZK 5 million (2014: CZK 0 million).

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2015	2014
Transactions	3,938	4,073
Loans and deposits	1,819	1,908
Others	1,818	1,718
Total fee and commission income	**7,575**	**7,699**
Transactions	(942)	(1,016)
Loans and deposits	(234)	(214)
Others	(124)	(99)
Total fee and commission expenses	**(1,300)**	**(1,329)**
Total net fee and commission income	**6,275**	**6,370**

The line *'Others'* includes mainly fees and commissions from trade finance, investment banking, and distribution of the Group subsidiaries' products. The line comprises fee income arising from trust and other fiduciary activities and depository services in the amount of CZK 130 million (2014: CZK 102 million) and fee expense for these services in the amount of CZK 19 million (2014: CZK 12 million).

7 Net profit/(loss) on financial operations

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

(CZKm)	2015	2014
Net realised gains/(losses) on securities held for trading	335	434
Net unrealised gains/(losses) on securities held for trading	166	515
Net realised gains/(losses) on securities available-for-sale	0	0
Net realised and unrealised gains/(losses) on security derivatives*	(343)	(347)
Net realised and unrealised gains/(losses) on interest rate derivatives	210	(370)
Net realised and unrealised gains/(losses) on trading commodity derivatives	32	33
Net realised and unrealised gains/(losses) on foreign exchange operations	1,113	912
Net realised gains/(losses) on foreign exchange from payments	1,152	1,186
Total net profit/(loss) on financial operations	**2,665**	**2,363**

* This line also includes impacts of derivative trades in emission allowances.

A gain of CZK 385 million (2014: loss of CZK 1,847 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 160 million (2014: CZK 154 million). In both 2015 and 2014, *'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)	2015	2014
Wages, salaries and bonuses	4,336	4,353
Social costs	1,749	1,712
Total personnel expenses	**6,085**	**6,065**
Physical number of employees at the end of the period*	7,665	7,668
Average recalculated number of employees during the period*	7,538	7,624
Average cost per employee (CZK)	**807,243**	**795,514**

* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 78 million (2014: CZK 77 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 43 million (2014: CZK 44 million) incurred in contributing to the employees' capital life insurance scheme.

Indexed bonuses

In 2015, 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 32 million (2014: CZK 29 million) and the total amount of CZK 49 million (2014: CZK 48 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 11 million (2014: CZK 5 million). The total number of Société Générale shares according to which bonuses indexed on the Société Générale share price are calculated is 0 shares (2014: 6,232 shares). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 16,572 shares (2014: 17,310 shares).

The changes in the numbers of shares were as follows:

	2015		2014	
(in shares)	SG SHARES	KB SHARES	SG SHARES	KB SHARES
Balance as of 1 January	**6,232**	**17,310**	**12,461**	**15,137**
Paid out during the period	(6,232)	(5,840)	(6,229)	(3,242)
Presumed number of newly guaranteed shares	0	5,102	0	5,415
Balance as of 31 December	**0**	**16,572**	**6,232**	**17,310**

Free shares and Deferred share plans

For 2015, the total amount relating to the free shares program and deferred share plans recognised in *'Personnel expenses'* was CZK 59 million (2014: CZK 87 million).

The changes in the numbers of shares were as follows:

	2015		2014	
(in shares; EUR)	NUMBER OF SHARES	AVERAGE PRICE	NUMBER OF SHARES	AVERAGE PRICE
Balance as of 1 January	**433,209**	**35.18**	**416,038**	**34.64**
Granted during the year	36,090	33.01	49,793	39.84
Forfeited during the year	(10,537)	35.12	(12,129)	34.46
Exercised during the year	(140,089)	34.49	(20,493)	36.52
Balance as of 31 December	**318,673**	**35.12**	**433,209**	**35.18**

10 General administrative expenses

General administrative expenses comprise the following:

(CZKm)	2015	2014
Insurance	79	106
Marketing and representation	482	489
Sale and banking products expenses	289	287
Other employees expenses and travelling	119	122
Real estate expenses	1,239	1,267
IT support	955	874
Equipment and supplies	127	151
Telecommunications, postage and data transfer	226	246
External consultancy and other services	535	568
Other expenses	102	128
Total general administrative expenses	**4,153**	**4,238**

11 Depreciation, impairment and disposal of assets

Depreciation, impairment and disposal of assets comprise the following:

(CZKm)	2015	2014
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,573	1,567
Impairment and disposal of fixed assets	440	1
Total depreciation, impairment and disposal of assets	**2,013**	**1,568**

'Impairment and disposal of fixed assets' in the total amount of CZK 440 million (2014: CZK 1 million) include the aggregate impairment loss on assets held for sale (refer to Note 19).

12 Cost of risk

Allowance for loan losses and provisions for other credit commitments

'Allowances for loan losses' in the total amount of CZK 1,327 million (2014: CZK 1,027 million) include a net loss from allowances and provisions for loan losses in the amount of CZK 1,727 million (2014: CZK 1,591 million), a net gain from loans written off and transferred in the amount of CZK 412 million (2014: CZK 564 million), and a net loss from allowances for other receivables in the amount of CZK 12 million (2014: CZK 0 million).

The movements in allowances and provisions were as follows:

(CZKm)	2015	2014
Balance as of 1 January	**(15,353)**	**(14,795)**
Charge of portfolio allowances and provisions for loans to banks	(3)	0
Release of portfolio allowances and provisions for loans to banks	0	0
Charge of allowances and provisions for loans to banks	(18)	0
Release of allowances and provisions for loans to banks	1	0
Charge of portfolio allowances and provisions for loans and advances to customers		
– Individuals	(320)	0
– Corporates*	(272)	0
Release of portfolio allowances and provisions for loans and advances to customers		
– Individuals	0	0
– Corporates*	0	0
Charge of allowances and provisions for loans and advances to customers		
– Individuals	(2,873)	(2,027)
– Corporates*	(4,655)	(5,007)
Release of allowances and provisions for loans and advances to customers		
– Individuals	2,097	1,507
– Corporates*	4,316	3,936
Impact of loans written off and transferred (use)		
– Individuals	333	361
– Corporates*	4,175	986
Foreign exchange rate differences attributable to provisions	(118)	(314)
Balance as of 31 December	**(12,690)**	**(15,353)**

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

The balances of allowances and provisions as of 31 December 2015 and 2014 comprise the following:

(CZKm)	2015	2014
Portfolio allowances for loans to banks (refer to Note 20)	(3)	0
Allowances for loans to banks (refer to Note 20)	(15)	0
Portfolio allowances for loans to customers (refer to Note 21)	(592)	0
Allowances for loans to customers (refer to Note 21)	(11,296)	(14,650)
Allowances for other loans to customers (refer to Note 21)	(1)	(1)
Provisions for guarantees and other credit-related commitments (refer to Note 32)	(783)	(702)
Total	**(12,690)**	**(15,353)**

Provisions for other risk expenses

The net gain of *'Provisions for other risk expenses'* of CZK 230 million (2014: net loss of CZK 25 million) consists mainly of the charge for provisions of CZK 14 million (2014: CZK 23 million) and the release and use of provisions of CZK 286 million (2014: 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 42 million (2014: CZK 6 million).

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

13 Profit/(loss) on subsidiaries and associates

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

(CZKm)	2015	2014
Balance as of 1 January	**0**	**(355)**
Charge for allowances	0	0
Release and use of allowances	0	355
Balance as of 31 December	**0**	**0**

In the year ended 31 December 2014, the entire impairment on Komerční pojišťovna, a.s. (hereafter only the "KP") in the amount of CZK 355 million 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.

14 Income taxes

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

(CZKm)	2015	2014
Tax payable – current year, reported in profit or loss	(2,248)	(2,438)
Tax paid – prior year	22	23
Deferred tax (refer to Note 33)	(112)	35
Hedge of a deferred tax asset against foreign currency risk	(23)	(46)
Total income taxes	**(2,361)**	**(2,426)**
Tax payable – current year, reported in equity	0	8
Total tax expense	**(2,361)**	**(2,418)**

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

(CZKm)	2015	2014
Profit before tax	**14,785**	**15,222**
Theoretical tax calculated at a tax rate of 19% (2014: 19%)	2,809	2,892
Tax on pre-tax profit adjustments	(24)	(51)
Non-taxable income	(1,921)	(1,349)
Expenses not deductible for tax purposes	1,386	948
Tax allowance	(2)	(2)
Hedge of a deferred tax asset against foreign currency risk	23	46
Movement in deferred tax	112	(35)
Other	0	0
Income tax expense	**2,383**	**2,449**
Prior period tax expense	(22)	(23)
Total income taxes	**2,361**	**2,426**
Tax payable on available-for-sale financial assets reported in equity*	0	(8)
Total tax expense	**2,361**	**2,418**
Effective tax rate	15.97%	15.94%

* 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 Czech Accounting Standards (CAS).

The corporate tax rate for the year ended 31 December 2015 is 19% (2014: 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 2015, the Bank generated a net profit of CZK 12,424 million (2014: CZK 12,768 million). The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 310 per share (2014: CZK 310 per share), which represents a total amount of CZK 11,783 million (2014: CZK 11,783 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 23 April 2015, the aggregate balance of the net profit of CZK 12,768 million for the year ended 31 December 2014 was allocated as follows: CZK 11,783 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 2015	31 DEC 2014
Cash and cash values	11,357	7,160
Current balances with central banks	104,900	145,069
Total cash and current balances with central banks (refer to Note 35)	**116,257**	**152,229**

Obligatory minimum reserves in the amount of CZK 89,122 million (2014: CZK 126,081 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2015, the interest rate was 0.05% (2014: 0.05%) in the Czech Republic and 0.05% (2014: 0.05%) in the Slovak Republic.

17 Financial assets at fair value through profit or loss

As of 31 December 2015 and 2014, 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 2015	31 DEC 2014
Securities	10,672	20,208
Derivative financial instruments	19,217	23,659
Total financial assets at fair value through profit or loss	**29,889**	**43,867**

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 2015		31 DEC 2014	
(CZKm)	FAIR VALUE	COST*	FAIR VALUE	COST*
Emission allowances	**2,800**	**2,379**	**1,443**	**1,198**
Fixed income debt securities	4,509	4,390	10,403	10,042
Variable yield debt securities	1,026	1,022	2,520	2,512
Bills of exchange	186	185	1,873	1,872
Treasury bills	2,151	2,150	3,969	3,969
Total debt securities	**7,872**	**7,747**	**18,765**	**18,395**
Total trading securities	**10,672**	**10,126**	**20,208**	**19,593**

* 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 2,151 million (2014: CZK 3,969 million).

As of 31 December 2015, the portfolio of trading securities includes securities at fair value of CZK 8,213 million (2014: CZK 13,839 million) that are publicly traded on stock exchanges and securities at fair value of CZK 2,459 million (2014: CZK 6,369 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 2015	31 DEC 2014
Emission allowances		
– Other currencies	2,800	1,443
Total emission allowances	**2,800**	**1,443**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Emission allowances issued by:		
– Foreign financial institutions	2,800	1,443
Total emission allowances	**2,800**	**1,443**

Debt trading securities at fair value comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Fixed income debt securities (including bills of exchange and treasury bills)		
– Czech crowns	4,909	14,238
– Other currencies	1,937	2,007
Total fixed income debt securities	**6,846**	**16,245**
Variable yield debt securities		
– Czech crowns	640	2,307
– Other currencies	386	213
Total variable yield debt securities	**1,026**	**2,520**
Total trading debt securities	**7,872**	**18,765**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Debt trading securities issued by:		
– State institutions in the Czech Republic	5,628	15,657
– Foreign state institutions	2,044	2,550
– Financial institutions in the Czech Republic	146	546
– Foreign financial institutions	0	0
– Other entities in the Czech Republic	54	12
– Other foreign entities	0	0
Total trading debt securities	**7,872**	**18,765**

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

(CZKm)	31 DEC 2015	31 DEC 2014
COUNTRY OF ISSUER	FAIR VALUE	FAIR VALUE
European Investment Bank	52	85
Poland	1	63
Slovakia	1,991	2,402
Total	**2,044**	**2,550**

Of the debt securities issued by State institutions in the Czech Republic, CZK 3,106 million (2014: CZK 9,786 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 2015		31 DEC 2015	
(CZKm)	FAIR VALUE	COST*	FAIR VALUE	COST*
Shares and participation certificates	**675**	**1**	**2**	**2**
Fixed income debt securities	17,931	15,763	19,458	17,226
Variable yield debt securities	14,094	13,563	15,092	14,595
Total debt securities	**32,025**	**29,326**	**34,550**	**31,821**
Total available-for-sale financial assets	**32,700**	**29,327**	**34,552**	**31,823**

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

As of 31 December 2015, the *'Available-for-sale financial assets'* portfolio includes securities at fair value of CZK 32,025 million (2014: CZK 34,550 million) that are publicly traded on stock exchanges and securities at fair value of CZK 675 million (2014: CZK 2 million) that are not publicly traded.

Based on the binding agreement for Visa Inc. to acquire Visa Europe Limited the Bank revalued as of 31 December 2015 its one Visa share (nominal value of EUR 10) up to the amount of CZK 674 million (EUR 24.9 million). This acquisition is expected to take place in 2016 subject to its approval by the appropriate European authorities.

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

(CZKm)	31 DEC 2015	31 DEC 2014
Shares and participation certificates		
– Other currencies	675	2
Total shares and participation certificates available-for-sale	**675**	**2**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Shares and participation certificates available-for-sale issued by:		
– Other foreign entities	675	2
Total shares and participation certificates available-for-sale	**675**	**2**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Fixed income debt securities		
– Czech crowns	13,078	14,563
– Other currencies	4,853	4,895
Total fixed income debt securities	**17,931**	**19,458**
Variable yield debt securities		
– Czech crowns	11,375	11,464
– Other currencies	2,719	3,628
Total variable yield debt securities	**14,094**	**15,092**
Total debt securities available-for-sale	**32,025**	**34,550**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Debt securities available-for-sale issued by:		
– State institutions in the Czech Republic	14,278	12,393
– Foreign state institutions	4,853	4,895
– Financial institutions in the Czech Republic	12,062	16,424
– Foreign financial institutions	832	838
Total debt securities available-for-sale	**32,025**	**34,550**

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

(CZKm)	31 DEC 2015		31 DEC 2014	
COUNTRY OF ISSUER	FAIR VALUE	COST*	FAIR VALUE	COST*
Poland	786	676	817	694
Slovakia	4,067	3,338	4,078	3,435
Total	**4,853**	**4,014**	**4,895**	**4,129**

* 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 14,277 million (2014: CZK 11,551 million) consist of securities eligible for refinancing with the CNB.

During the year ended 31 December 2015, the Bank acquired bonds with a nominal value of CZK 2,200 million, of which CZK 2,200 million comprised bonds issued by State institutions in the Czech Republic. During 2015, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 3,832 million and EUR 30 million (a total CZK equivalent of CZK 4,645 million), of which CZK 813 million were issued by State institutions in the Czech Republic and CZK 3,832 million by Financial institutions in the Czech Republic.

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.

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 2015, the Bank reported assets held for sale at a carrying amount of CZK 360 million (2014: CZK 0 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. The depreciation of these assets has been discontinued since their classification as assets held for sale. The aggregate impairment loss on the assets held for sale for the year ended 31 December 2015 amounted to CZK 418 million (2014: CZK 0 million) and is reported in the Statement of Income within the line *'Depreciation, impairment and disposal of assets'* (refer to Note 11).

20 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Current accounts with other banks (refer to Note 35)	445	351
Debt securities	5,157	8,682
Loans and advances to banks	11,472	11,263
Advances due from central banks (reverse repo transactions)	9,900	20,000
Term placements with other banks	27,633	13,942
Total amounts due from banks, gross	**54,607**	**54,238**
Portfolio allowances for loans to banks (refer to Note 12)	(3)	0
Allowances for loans to banks (refer to Note 12)	(15)	0
Total amounts due from banks, net	**54,589**	**54,238**

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 2015	31 DEC 2014
Treasury bills	9,726	19,605
Debt securities issued by state institutions	426	2,368
Shares	607	573
Investment certificates	83	83
Total	**10,842**	**22,629**

Securities acquired as loans and receivables

As of 31 December 2015, the Bank maintains in its portfolio bonds at an amortised cost of CZK 5,157 million (2014: CZK 8,682 million) and a nominal value of CZK 4,939 million (2014: CZK 8,395 million), of which CZK 0 million (2014: 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. In this portfolio, the Bank holds a portfolio of securities with a nominal value of CZK 2,099 million (2014: CZK 2,910 million) and EUR 79 million (2014: EUR 79 million) issued by Financial institutions in the Czech Republic and CZK 705 million (2014: CZK 705 million) by Foreign financial institutions, i.e. a total CZK equivalent of CZK 4,939 million (2014: CZK 5,805 million).

During the year ended 31 December 2015, the Bank acquired bonds with a nominal value of CZK 500 million issued by Financial institutions in the Czech Republic. During the year ended 31 December 2015, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 4,000 million, of which CZK 1,410 million were issued by Financial institutions in the Czech Republic and CZK 2,590 million by the parent company, Société Générale S.A.

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.

21 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Loans to customers	492,132	460,755
Bills of exchange	302	318
Forfaits	271	674
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**492,705**	**461,747**
Debt securities	3,654	2,072
Other amounts due from customers	4	12
Total loans and advances to customers, gross	**496,363**	**463,831**
Portfolio allowances for loans to customers (refer to Note 12)		
– Individuals	(320)	0
– Corporates*	(272)	0
Allowances for loans to customers (refer to Note 12)		
– Individuals	(4,551)	(4,111)
– Corporates*	(6,745)	(10,539)
Total allowances for loans to customers	**(11,888)**	**(14,650)**
Allowances for other amounts due from customers (refer to Note 12)	(1)	(1)
Total allowances for loans and other amounts due from customers	**(11,889)**	**(14,651)**
Total loans and advances to customers, net	**484,474**	**449,180**

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2015, loans and advances to customers include interest due of CZK 895 million (2014: CZK 957 million), of which CZK 340 million (2014: CZK 379 million) relates to overdue interest.

As of 31 December 2015, loans provided to customers under reverse repurchase transactions in the amount of CZK 819 million (2014: CZK 90 million) are collateralised by securities with a fair value of CZK 1,177 million (2014: CZK 45 million).

As of 31 December 2015, 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	467,837	217,774	250,063	(592)*	467,245	0%
Watch	7,258	3,067	4,191	(488)	6,770	12%
Substandard	5,853	3,075	2,778	(2,290)	3,563	82%
Doubtful	1,838	1,221	617	(533)	1,305	86%
Loss	9,919	672	9,247	(7,985)	1,934	86%
Total	**492,705**	**225,809**	**266,896**	**(11,888)**	**480,817**	

* This item includes portfolio allowances (due to losses incurred but not reported).

As of 31 December 2014, 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	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**	

* This item includes portfolio allowances (due to losses incurred but not reported).

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

(CZKm)	31 DEC 2015	31 DEC 2014
Food industry and agriculture	14,447	13,824
Mining and extraction	5,697	3,731
Chemical and pharmaceutical industry	5,199	5,514
Metallurgy	8,635	7,690
Automotive industry	9,681	9,493
Manufacturing of other machinery	7,958	9,339
Manufacturing of electrical and electronic equipment	3,131	2,975
Other processing industry	6,171	6,693
Power plants, gas plants and waterworks	16,815	20,986
Construction industry	8,972	8,420
Retail	13,504	11,134
Wholesale	25,102	28,932
Accommodation and catering	1,347	926
Transportation, telecommunication and warehouses	12,544	11,836
Banking and insurance industry	47,492	50,375
Real estate	42,940	35,801
Public administration	28,926	31,120
Other industries	27,538	21,160
Individuals	206,606	181,798
Total loans to customers	**492,705**	**461,747**

The majority of loans, more than 90% (2014: more than 89%), 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 2015			31 DEC 2014		
(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	2,613	2,262	2,254	4,284	2,171	2,153
Bank guarantee	14,367	13,712	13,340	17,974	15,225	15,104
Guaranteed deposits	3,383	3,275	2,172	2,181	2,128	1,721
Pledge of real estate	355,575	237,601	175,515	316,526	211,333	153,357
Pledge of movable assets	12,971	1,263	1,214	13,244	1,317	1,260
Guarantee by legal entity	32,665	20,907	14,256	22,904	13,155	11,798
Guarantee by individual (natural person)	1,200	138	122	1,099	170	151
Pledge of receivables	46,440	3,784	3,157	38,744	3,939	3,357
Insurance of credit risk	13,955	13,258	13,128	14,980	14,231	14,231
Other	1,589	892	651	884	504	333
Nominal value of collateral	**484,758**	**297,092**	**225,809**	**432,820**	**264,173**	**203,465**

* 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 11% of total pledges on real estate (2014: 12%).

Debt securities designated as loans and receivables

As of 31 December 2015, the Bank holds in its portfolio bonds at an amortised cost of CZK 2,749 million (2014: CZK 899 million) and a nominal value of CZK 2,687 million (2014: CZK 877 million), of which bonds with a nominal value of CZK 450 million (2014: CZK 450 million) are issued by State institutions in the Czech Republic, CZK 1,790 million (2014: CZK 99 million) by Other entities in the Czech Republic and EUR 17 million (2014: EUR 12 million) by Other foreign entities. Additionally, the Bank holds in this portfolio bills of exchange at an amortised cost of CZK 878 million (2014: CZK 1,132 million) and a nominal value of CZK 880 million (2014: CZK 1,133 million), of which bills of exchange in the nominal value of CZK 80 million (2014: CZK 183 million) are issued by State institutions in the Czech Republic and CZK 800 million (2014: CZK 950 million) by Other entities in the Czech Republic. The portfolio is hedged using fair value hedge derivatives with a fair value of CZK 27 million (2014: CZK 41 million).

During the year ended 31 December 2015, the Bank acquired bonds with a nominal value of CZK 1,790 million and EUR 5 million (a total CZK equivalent of CZK 1,931 million), of which CZK 1,790 million comprised bonds issued by Other entities in the Czech Republic and CZK 141 million by Other foreign entities. The Bank also acquired bills of exchange with a nominal value of CZK 2,786 million and EUR 67 million (a total CZK equivalent of CZK 4,603 million), of which CZK 1,186 million comprised bills of exchange issued by State institutions in the Czech Republic and CZK 3,417 million by Other entities in the Czech Republic. During 2015, the Bank had regular repayment of bills of exchange at maturity in the aggregate nominal value of CZK 3,040 million and EUR 67 million (a total CZK equivalent of CZK 4,841 million), of which CZK 1,289 million were issued by State institutions in the Czech Republic and CZK 3,552 million by Other entities in the Czech Republic.

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.

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2015:

(CZKm)	NEITHER PAST DUE NOR IMPAIRED	PAST DUE, NOT IMPAIRED	IMPAIRED	TOTAL FORBORNE	ALLOWANCES	COLLATERAL APPLIED
Individuals	373	21	1,302	1,696	438	1,149
Corporates*	127	0	2,185	2,312	1,345	666
Total	**500**	**21**	**3,487**	**4,008**	**1,783**	**1,815**

* This item also includes loans granted to individual entrepreneurs.

Forborne loans and advances to customers as of 31 December 2014:

(CZKm)	NEITHER PAST DUE NOR IMPAIRED	PAST DUE, NOT IMPAIRED	IMPAIRED	TOTAL FORBORNE	ALLOWANCES	COLLATERAL APPLIED
Individuals	315	23	939	1,277	148	895
Corporates*	176	0	3,489	3,665	2,120	1,214
Total	**491**	**23**	**4,428**	**4,942**	**2,268**	**2,109**

* This item also includes loans granted to individual entrepreneurs.

The carrying value of forborne assets in comparison with the Bank's loan portfolio (excluding Debt securities and Other amounts due from customers):

			31 DEC 2015			31 DEC 2014
(CZKm)	GROSS RECEIVABLE	FORBORNE ASSETS	SHARE IN GROSS RECEIVABLE	GROSS RECEIVABLE	FORBORNE ASSETS	SHARE IN GROSS RECEIVABLE
Individuals	206,606	1,696	0.82%	181,799	1,277	0.70%
Corporates*	286,099	2,312	0.81%	279,948	3,665	1.31%
Total	**492,705**	**4,008**	**0.81%**	**461,747**	**4,942**	**1.07%**

* This item also includes loans granted to individual entrepreneurs.

Portfolio and specific allowances for forborne assets:

			31 DEC 2015			31 DEC 2014
(CZKm)	PORTFOLIO ALLOWANCES	SPECIFIC ALLOWANCES	TOTAL	PORTFOLIO ALLOWANCES	SPECIFIC ALLOWANCES	TOTAL
Individuals	1	437	438	0	148	148
Corporates*	0	1,345	1,345	0	2,120	2,120
Total	**1**	**1,782**	**1,783**	**0**	**2,268**	**2,268**

* This item also includes loans granted to individual entrepreneurs.

Trade finance losses

During 1999, the Bank incurred losses relating to products provided to a foreign client of the Bank. As of 31 December 2015, the Statement of Financial Position included loans to this client in the amount of CZK 0 million (2014: CZK 1,593 million) which were fully provided for. During 2015, these loans were fully written off based on a final legal judgment.

22 Held-to-maturity investments

Held-to-maturity investments comprise the following:

	31 DEC 2015		31 DEC 2014	
(CZKm)	**CARRYING VALUE**	**COST***	**CARRYING VALUE**	**COST***
Fixed income debt securities	61,003	59,751	62,114	60,840
Total held-to-maturity investments	**61,003**	**59,751**	**62,114**	**60,840**

* Amortised acquisition cost excluding coupon.

As of 31 December 2015, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 60,789 million (2014: CZK 62,114 million) that are publicly traded on stock exchanges and bonds of CZK 214 million (2014: CZK 0 million) that are not publicly traded.

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

(CZKm)	31 DEC 2015	31 DEC 2014
Fixed income debt securities		
– Czech crowns	47,185	48,747
– Foreign currencies	13,818	13,367
Total fixed income debt securities	**61,003**	**62,114**

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

(CZKm)	31 DEC 2015	31 DEC 2014
Fixed income debt securities issued by:		
– State institutions in the Czech Republic	50,144	51,840
– Foreign state institutions	10,859	10,274
Total fixed income debt securities	**61,003**	**62,114**

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

(CZKm)	31 DEC 2015		31 DEC 2014	
COUNTRY OF ISSUER	**FAIR VALUE**	**COST***	**FAIR VALUE**	**COST***
Poland	6,023	5,778	5,109	5,001
Slovakia	5,146	4,812	5,225	5,039
Total	**11,169**	**10,590**	**10,334**	**10,040**

* Amortised acquisition cost excluding coupon.

During the year ended 31 December 2015, the Bank acquired bonds with a nominal value of CZK 1,600 million and EUR 47 million (a total CZK equivalent of CZK 2,877 million), of which CZK 1,600 million comprised bonds issued by State institutions in the Czech Republic and CZK 1,277 million by Foreign state institutions. During 2015, the Bank had regular repayment of debt securities at maturity in the aggregate nominal value of CZK 2,180 million and USD 25 million (a total CZK equivalent of CZK 2,780 million), of which CZK 2,180 million were issued by State institutions in the Czech Republic and CZK 600 million by Foreign state institutions.

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.

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 2015	31 DEC 2014
Prepayments and accrued income	464	385
Settlement balances	342	335
Receivables from securities trading	337	18
Other assets	1,661	2,003
Total prepayments, accrued income and other assets	**2,804**	**2,741**

'Other assets' include provisions for operating receivables for other debtors in the amount of CZK 236 million (2014: CZK 227 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 2015	31 DEC 2014
Investments in subsidiary undertakings	21,340	25,880
Investments in associated undertakings	837	837
Total investments in subsidiaries and associates	**22,177**	**26,717**

Subsidiary undertakings

The following companies are subsidiary undertakings of the Bank as of 31 December 2015:

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	3,223	0	3,223
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.	83.65	100	Financial services	Prague	6,705	0	6,705
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague	1,850	0	1,850
VN 42, s.r.o.	100	100	Support services	Prague	864	0	864
Total					**21,340**	**0**	**21,340**

Associated undertakings

The following companies are associated undertakings of the Bank as of 31 December 2015:

COMPANY NAME	DIRECT HOLDING %	GROUP HOLDING %	PRINCIPAL ACTIVITY	REGISTERED OFFICE	COST OF INVESTMENT (CZKm)	ALLOWANCES (CZKm)	CARRYING VALUE (CZKm)
CBCB – Czech Banking Credit Bureau, a.s.	20	20	Collection of data for the evaluation of credit risk	Prague	0*	0	0
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	0	837
Total					**837**	**0**	**837**

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

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

(CZKm)	INVESTMENT AT COST AS OF 1 JAN 2015	ADDITIONS	DECREASES	INVESTMENT AT COST AS OF 31 DEC 2015
Bastion European Investments S.A.[1)]	3,314	0	(91)	3,223
Cataps, s.r.o.	4	0	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.	550	0	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.[2)]	11,705	0	(5,000)	6,705
SG Equipment Finance Czech Republic s.r.o.[3)]	1,299	551	0	1,850
VN 42, s.r.o.	864	0	0	864
Total subsidiaries	**25,880**	**551**	**(5,091)**	**21,340**
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 2015

1) In May 2015, the equity in Bastion European Investments S.A. was decreased by EUR 3.2 million (equivalent to CZK 91 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A.
2) In December 2015, the Bank decreased the capital of its subsidiary Protos, uzavřený investiční fond, a.s. by CZK 5,000 million. The decrease was made through a distribution of the company's premium fund. The Bank's ownership in the company decreased from 89.64% to 83.65%. The remaining participation in the company is held by Factoring KB, a.s., which is fully owned by the Bank.
3) In June 2015, the Bank and SG Equipment Finance International GmbH increased shareholders' equity of SG Equipment Finance Czech Republic s.r.o. by CZK 1,100 million in the form of increasing other capital funds. The Bank's contribution was CZK 551.1 million.

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 2014	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
Additions	673	200	0	1,164	2,037
Disposals/transfers	(20)	(105)	(25)	(872)	(1,022)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2015	**10,812**	**1,761**	**17**	**982**	**13,572**
Accumulated amortisation and allowances					
As of 1 January 2014	(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)
Additions	(947)	(108)	0	0	(1,055)
Disposals	19	87	24	0	130
Impairment charge	0	0	0	0	0
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2015	**(8,673)**	**(1,455)**	**(17)**	**0**	**(10,145)**
Net book value					
As of 31 December 2014	2,414	232	1	690	3,337
As of 31 December 2015	**2,139**	**306**	**0**	**982**	**3,427**

* Internally generated assets comprise mainly software.

During the year ended 31 December 2015, the Bank invested CZK 144 million (2014: CZK 204 million) into research and development (when conditions for capitalisation were not met) 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 2014	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
Reallocation from/to assets held for sale	(30)	(1,587)	0	0	(1,617)
Additions	0	211	258	631	1,100
Disposals/transfers	0	(108)	(565)	(469)	(1,142)
Foreign exchange rate difference	0	0	1	0	1
As of 31 December 2015	**111**	**6,981**	**4,335**	**428**	**11,855**
Accumulated depreciation and allowances					
As of 1 January 2014	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)
Reallocation of accumulated depreciation of assets held for sale	0	839	0	0	839
Additions	0	(257)	(261)	0	(518)
Disposals	0	88	550	0	638
Impairment charge	0	0	(5)	0	(5)
Foreign exchange rate difference	0	0	1	0	1
As of 31 December 2015	**0**	**(3,884)**	**(3,527)**	**0**	**(7,411)**
Net book value					
As of 31 December 2014	141	3,911	829	266	5,147
As of 31 December 2015	**111**	**3,097**	**808**	**428**	**4,444**

As of 31 December 2015, the Bank recognised allowances against tangible assets of CZK 7 million (2014: CZK 2 million). These allowances primarily included allowances charged in respect of computer equipment.

27 Financial liabilities at fair value through profit or loss

As of 31 December 2015 and 2014, 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 2015	31 DEC 2014
Sold securities	305	1,992
Derivative financial instruments	19,880	23,425
Total financial liabilities at fair value through profit or loss	**20,185**	**25,417**

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 2015	31 DEC 2014
Current accounts (refer to Note 35)	2,741	15,042
Amounts due to banks	43,338	39,737
Total amounts due to banks	**46,079**	**54,779**

The fair value of securities and treasury bills used as collateral for repurchase loans received from banks was CZK 117 million (2014: CZK 1,378 million). The carrying amount of liabilities associated with securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'* in the amount of CZK 0 million (2014: CZK 1,378 million) was CZK 117 million (2014: CZK 1,361 million).

29 Amounts due to customers

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

(CZKm)	31 DEC 2015	31 DEC 2014
Current accounts	450,664	416,831
Savings accounts	95,989	100,615
Term deposits	31,040	39,126
Depository bills of exchange	10,581	12,965
Amounts received from customers	9,699	25,745
Other payables to customers	5,667	6,130
Total amounts due to customers	**603,640**	**601,412**

The fair value of securities and treasury bills used as collateral for repurchase loans received from customers was CZK 9,709 million (2014: CZK 25,673 million). The carrying amount of liabilities associated with securities and treasury bills from the portfolio of *'Financial assets at fair value through profit or loss'* in the amount of CZK 0 million (2014: CZK 7,630 million) was CZK 9,699 million (2014: CZK 7,697 million).

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

(CZKm)	31 DEC 2015	31 DEC 2014
Private companies	233,716	226,228
Other financial institutions, non-banking entities	34,199	43,533
Insurance companies	3,210	3,492
Public administration	2,141	1,948
Individuals	191,960	173,194
Individuals – entrepreneurs	29,433	26,932
Government agencies	70,581	84,621
Other	14,743	13,538
Non-residents	23,657	27,926
Total amounts due to customers	**603,640**	**601,412**

30 Securities issued

Securities issued comprise mortgage bonds of CZK 43,717 million (2014: CZK 55,321 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 2015	31 DEC 2014
In less than one year	0	11,944
In one to five years	5,121	5,238
In five to ten years	6,095	4,841
In ten to twenty years	4,176	5,335
More than twenty years	28,325	27,963
Total debt securities	**43,717**	**55,321**

During the year ended 31 December 2015, the Bank had regular repayment of mortgage bonds at maturity in the aggregate nominal volume of CZK 11,749 million and increased the nominal volume in issue by CZK 663 million.

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.

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 2015 CZKm	31 DEC 2014 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	0	610
HZL Komerční banky, a.s., CZ0002000664	4.4%	CZK	21 Oct 2005	21 Oct 2015	0	11,334
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	3,101	3,117
HZL Komerční banky, a.s., CZ0002001324, CZ0002001332	5.06% for the first twelve annual interest periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	2,447	2,454
HZL Komerční banky, a.s., CZ0002001340, CZ0002001357	5.02% for the first eleven annual interest periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,778	1,801
HZL Komerční banky, a.s., CZ0002001365, CZ0002001373	4.23% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,862	1,843
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,347	3,314
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	5,001	4,983
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	5,053	5,080
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	8,837	8,488
HZL Komerční banky, a.s., CZ0002001761	4.09%	CZK	19 Dec 2007	19 Dec 2017	259	389
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,023	3,026
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	1,761	1,732
HZL Komerční banky, a.s., CZ0002003346	3.50%	CZK	31 Jan 2014	31 Jan 2026	877	881
HZL Komerční banky, a.s., CZ0002003353	3.50%	CZK	31 Jan 2014	31 Jan 2025	1,266	1,108
HZL Komerční banky, a.s., CZ0002003361	3.00%	CZK	30 Jan 2014	30 Jan 2024	954	958
HZL Komerční banky, a.s., CZ0002003379	3.00%	CZK	30 Jan 2014	30 Apr 2022	852	857
HZL Komerční banky, a.s., CZ0002003742	2.00%	CZK	18 Nov 2014	18 Nov 2026	817	827
HZL Komerční banky, a.s., CZ0002003759	2.10%	CZK	24 Nov 2014	24 Nov 2027	822	833
HZL Komerční banky, a.s., CZ0002003767	2.20%	CZK	20 Nov 2014	20 Nov 2028	829	842
HZL Komerční banky, a.s., CZ0002003775	2.30%	CZK	27 Nov 2014	27 Nov 2029	831	844
Total debt securities					**43,717**	**55,321**

* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for 2 to 30 years.
Six-month PRIBOR was 37 bps as of 31 December 2015 (2014: 41 bps).
The value of the interest rate swap CZK sale average for five years as of 31 December 2015 was 67 bps (2014: 54 bps).
The value of the interest rate swap CZK sale average for ten years as of 31 December 2015 was 103 bps (2014: 87 bps).

31 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Accruals and deferred income	133	138
Settlement balances and outstanding items	0	7
Payables from securities trading and issues of securities	2,790	1,930
Payables from payment transactions	6,863	5,256
Other liabilities	3,778	3,326
Total accruals and other liabilities	**13,564**	**10,657**

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 19 million (2014: CZK 19 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 2015	31 DEC 2014
Provisions for contracted commitments (refer to Notes 12 and 36)	366	633
Provisions for other credit commitments (refer to Note 12)	783	702
Total provisions	**1,149**	**1,335**

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, self-insurance and the retirement benefits plan.

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

(CZKm)	31 DEC 2015	31 DEC 2014
Provision for off-balance sheet commitments	728	625
Provision for undrawn loan facilities	55	77
Total (refer to Note 12)	**783**	**702**

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

(CZKm)	RETIREMENT BENEFITS PLAN	OTHER PROVISIONS FOR CONTRACTED COMMITMENTS	TOTAL
Balance as of 1 January 2014	158	401	559
Charge	9	103	112
Release	0	(52)	(52)
Use	(11)	0	(11)
Accrual	4	0	4
Remeasurement	16	0	16
Foreign exchange difference	0	5	5
Balance as of 31 December 2014	**176**	**457**	**633**
Charge	12	89	101
Release	0	(334)	(334)
Use	(11)	(48)	(59)
Accrual	3	0	3
Remeasurement	20	0	20
Foreign exchange difference	0	2	2
Balance as of 31 December 2015	**200**	**166**	**366**

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 follows:

(CZKm)	31 DEC 2015	31 DEC 2014
Banking provisions and allowances	0	0
Allowances for assets	0	0
Non-banking provisions and allowances	31	58
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)	1	2
Revaluation of available-for-sale financial assets – equity impact (refer to Note 40)	0	0
Other temporary differences	0	0
Net deferred tax assets	**33**	**61**

Net deferred tax liabilities are as follows:

(CZKm)	31 DEC 2015	31 DEC 2014
Banking provisions and allowances	184	308
Allowances for assets	81	0
Non-banking provisions and allowances	18	30
Difference between accounting and tax net book value of assets	(332)	(322)
Remeasurement of retirement benefits plan – equity impact (refer to Note 38)	9	5
Revaluation of hedging derivatives – equity impact (refer to Note 39)	(2,972)	(3,735)
Revaluation of available-for-sale financial assets – equity impact (refer to Note 40)	(956)	(940)
Other temporary differences	82	102
Net deferred tax liabilities	**(3,886)**	**(4,552)**

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 follows:

(CZKm)	2015	2014
Balance as of the beginning of the period	**(4,491)**	**(2,697)**
Movement in the net deferred tax – profit and loss impact (refer to Note 14)	(112)	35
Movement in the net deferred tax – equity impact (refer to Notes 38, 39 and 40)	750	(1,829)
Balance as of the end of the period	**(3,853)**	**(4,491)**

34 Share capital

The Bank's share capital, legally registered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926,000 and consists of 38,009,852 ordinary shares issued as dematerialised securities 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 Corporations 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 programme 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 in issue as of 31 December 2015 was 119,475 shares (2014: 167,442 shares).

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 2015:

NAME OF THE ENTITY	REGISTERED OFFICE	OWNERSHIP PERCENTAGE
SOCIETE GENERALE S.A.	29 Bld Haussmann, Paris	60.35
NORTRUST NOMINEES LIMITED	155 Bishopsgate, London	4.93
CHASE NOMINEES LIMITED	25 Bank Street, Canary Wharf, London	4.07

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 et seq. of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2015, the Bank held 238,672 treasury shares at a cost of CZK 726 million (2014: 238,672 treasury shares at a cost of CZK 726 million).

Capital management

The Basel III rules, known in EU regulation as CRR/CRD IV, effective from 2014, 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 as concerns in particular an 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 2015, the countercyclical buffer was not effectively applied. The total required capital ratio under Pillar 1 is thus set at 13.0%, i.e. on the same level as in 2014. The systemic risk buffer of 2.5% and the specific Pillar 2 buffer of 3.9% (increased by 0.5%) were applied to the Bank under Pillar 2, meaning that the total required capital ratio under Pillar 2 is set at 14.4%. 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 1.4% over Pillar 1. The Bank meets the required levels of the capital ratio with adequate reserve under both Pillars 1 and Pillar 2 because its capital ratio level stands well above the minimum level.

The Bank manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements 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 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 2015, and as of 31 December 2015 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 2014: 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, typically the countercyclical buffer) can vary over time and a part of the implementation 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 on both separate and consolidated bases. During the past year, the Bank complied with all regulatory requirements. Moreover, the Bank regularly prepares the regulatory report on Pillar 2 (i.e. internal capital adequacy assessment process) and submits it to the CNB.

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

(CZKm)	31 DEC 2015	31 DEC 2014	CHANGE IN THE YEAR
Cash and current balances with central banks (refer to Note 16)	116,257	152,229	(35,972)
Amounts due from banks – current accounts with other banks (refer to Note 20)	445	351	94
Amounts due to central banks	(1)	(2)	1
Amounts due to banks – current accounts (refer to Note 28)	(2,741)	(15,042)	12,301
Cash and cash equivalents at the end of the year	**113,960**	**137,536**	**(23,576)**

36 Commitments and contingent liabilities

Legal disputes

The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2015. 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 40 million (2014: CZK 297 million) for these legal disputes (refer to Note 32). The Bank has also recorded a provision of CZK 46 million (2014: CZK 58 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2015, 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 2015, the Bank had capital commitments of CZK 458 million (2014: CZK 279 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 limits 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 creditworthiness) in accordance with the same algorithm as for loans.

Financial commitments and contingencies comprise the following:

(CZKm)	31 DEC 2015	31 DEC 2014
Non-payment guarantees, including commitments to issued non-payment guarantees	35,358	36,302
Payment guarantees, including commitments to issued payment guarantees	13,036	12,191
Committed facilities and unutilised overdrafts	10,967	7,832
Undrawn credit commitments	45,878	39,324
Unutilised overdrafts and approved overdraft loans	13,309	12,613
Unutilised limits under framework agreements to provide financial services	10,820	11,992
Open customer/import letters of credit uncovered	566	618
Standby letters of credit uncovered	1,336	2,524
Confirmed supplier/export letters of credit	52	134
Total commitments and contingencies	**131,322**	**123,530**

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 the collateral obtained. As of 31 December 2015, the Bank recorded provisions for these risks in the amount of CZK 783 million (2014: CZK 702 million). Refer to Note 32.

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

(CZKm)	31 DEC 2015	31 DEC 2014
Food industry and agriculture	8,207	8,336
Mining and extraction	387	779
Chemical and pharmaceutical industry	3,406	2,707
Metallurgy	5,130	4,201
Automotive industry	1,318	1,429
Manufacturing of other machinery	7,253	6,839
Manufacturing of electrical and electronic equipment	1,894	2,522
Other processing industry	1,540	1,847
Power plants, gas plants and waterworks	7,225	8,335
Construction industry	32,839	30,922
Retail	2,880	2,457
Wholesale	7,821	8,021
Accommodation and catering	417	364
Transportation, telecommunication and warehouses	9,359	4,962
Banking and insurance industry	4,443	3,739
Real estate	2,876	1,137
Public administration	3,143	4,149
Other industries	12,459	16,284
Individuals	18,725	14,500
Total commitments and contingencies	**131,322**	**123,530**

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

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

(CZKm)	31. 12. 2015 Total commitments and contingencies collateral*	31. 12. 2015 Discounted commitments and contingencies collateral value**	31. 12. 2015 Applied commitments and contingencies collateral value***	31. 12. 2014 Total commitments and contingencies collateral*	31. 12. 2014 Discounted commitments and contingencies collateral value**	31. 12. 2014 Applied commitments and contingencies collateral value***
Guarantees of state and governmental institutions	0	0	0	673	12	12
Bank guarantee	975	918	873	947	897	853
Guaranteed deposits	2,133	2,103	1,975	2,123	2,104	1,899
Pledge of real estate	9,981	6,105	4,995	8,223	4,878	3,951
Pledge of movable assets	226	22	22	586	60	57
Guarantee by legal entity	7,452	5,247	5,034	8,171	4,498	4,145
Guarantee by individual (natural person)	65	6	6	40	4	4
Pledge of receivables	3,317	0	0	2,196	0	0
Insurance of credit risk	2,085	1,925	1,925	1,969	1,810	1,810
Other	22	0	0	88	60	60
Total nominal value of collateral	**26,256**	**16,326**	**14,830**	**25,016**	**14,323**	**12,791**

* 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, on Supplementary pension saving, 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 2015, 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 are carried out on an arm's length basis.

Amounts due to and from the Group subsidiaries

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

(CZKm)	31 DEC 2015	31 DEC 2014
Bastion European Investments S.A.	3,157	3,331
ESSOX s.r.o.	5,379	5,750
Factoring KB, a.s.	5,109	5,404
KB Real Estate, s.r.o.	513	543
Modrá pyramida stavební spořitelna, a.s.	11,500	0
SG Equipment Finance Czech Republic s.r.o.	13,916	15,616
Total loans	**39,574**	**30,644**
Bastion European Investments S.A.	91	87
Cataps, s.r.o.	4	4
ESSOX s.r.o.	807	944
Factoring KB, a.s.	1	0
KB Penzijní společnost, a.s.	624	609
KB Real Estate, s.r.o.	54	49
Modrá pyramida stavební spořitelna, a.s.	0	2,165
NP 33, s.r.o.	132	76
Protos, uzavřený investiční fond, a.s.	475	6,588
SG Equipment Finance Czech Republic s.r.o.	3,795	4,029
VN 42, s.r.o.	299	177
Total deposits	**6,282**	**14,728**

The following table summarises the fair value of financial derivatives to which the Bank is a party and in relation to the Group subsidiaries:

(CZKm)	31 DEC 2015	31 DEC 2014
Modrá pyramida stavební spořitelna, a.s.	38	57
Protos, uzavřený investiční fond, a.s.	18	0
SG Equipment Finance Czech Republic s.r.o.	1	3
Transformovaný fond KB Penzijní společnosti, a.s.	0	1,127
Total positive fair value of financial derivatives	**57**	**1,187**
Modrá pyramida stavební spořitelna, a.s.	635	757
Transformovaný fond KB Penzijní společnosti, a.s.	0	6
Total negative fair value of financial derivatives	**635**	**763**

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 30,600 million (2014: CZK 30,850 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 757 million (2014: CZK 886 million). KB Penzijní společnost, a.s. owns mortgage bonds issued by the Bank in the nominal value of CZK 417 million (2014: CZK 287 million).

As of 31 December 2015 and 2014, other amounts due to and from the Group subsidiaries were not significant.

Interest income from loans granted to the Group subsidiaries:

(CZKm)	2015	2014
Bastion European Investments S.A.	125	129
ESSOX s.r.o.	69	99
Factoring KB, a.s.	18	31
KB Real Estate, s.r.o.	17	18
SG Equipment Finance Czech Republic s.r.o.	197	250
Total interest from loans granted by the Bank	**426**	**526**

In addition to interest on loans to the Bank's Group subsidiaries, other income in the year ended 31 December 2015 amounted to CZK 187 million (2014: CZK 616 million) and total expenses amounted to CZK 1,467 million (2014: CZK 2,507 million).

As of 31 December 2015, the Bank reported guarantees granted and undrawn credit commitments to the Group subsidiaries totalling CZK 335 million (2014: CZK 260 million).

Amounts due to and from the Société Générale Group entities

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

	31 DEC 2015		31 DEC 2014	
(CZKm)	TOTAL	OF WHICH DERIVATIVES	TOTAL	OF WHICH DERIVATIVES
ALD Automotive s.r.o. (Czech Republic)	3,820	0	3,773	0
ALD Automotive s.r.o. (Slovak Republic)	648	0	0	0
BRD Romania	0	0	10	0
Komerční pojišťovna, a.s.	1,986	1,911	2,222	2,217
Rosbank	67	0	66	0
SG Expressbank	10	0	2	0
SGBT Luxembourg	0	0	1	0
Société Générale Algérie	2	0	0	0
Société Générale China	19	0	45	0
Société Générale Newedge UK	3	0	9	0
Société Générale Paris	7,997	4,230	11,094	4,166
Société Générale Warsaw	1	0	257	7
Splitska Banka	5	0	3	0
Total	**14,558**	**6,141**	**17,482**	**6,390**

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

	31 DEC 2015		31 DEC 2014	
(CZKm)	TOTAL	OF WHICH DERIVATIVES	TOTAL	OF WHICH DERIVATIVES
ALD Automotive s.r.o. (Czech Republic)	186	0	0	0
BRD Romania	3	1	1	0
Crédit du Nord	0	0	18	0
Inter Europe Conseil	2	0	4	0
Investiční kapitálová společnost KB, a.s.	0	0	63	0
Komerční pojišťovna, a.s.	2,106	47	1,857	1
PEMA Praha, spol. s r.o.	13	0	2	0
Rosbank	0	0	1	0
SG Amsterdam	46	0	15	0
SG Banques au Liban	14	0	0	0
SG Cyprus	0	0	15	0
SG Expressbank	0	0	1	0
SG Frankfurt	1	0	2,560	0
SG London	11	0	12	0
SG New York	2	0	4	0
SG Private Banking (Suisse)	280	0	334	0
SG Zurich	1	0	0	0
SGBT Luxembourg	19	0	46	0
Société Générale Paris	25,586	6,925	28,806	8,520
Société Générale Warsaw	3	0	334	21
SOGEPROM Česká republika, s.r.o.	6	0	7	0
Splitska Banka	1	0	45	0
Total	**28,280**	**6,973**	**34,125**	**8,542**

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 2015, 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 280,152 million (2014: CZK 288,773 million) and CZK 268,917 million (2014: CZK 275,638 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 2015 and 2014, 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 2015, the Bank had total income of CZK 21,935 million (2014: CZK 27,366 million) and total expenses of CZK 19,940 million (2014: CZK 30,391 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 members of the Board of Directors and Supervisory Board

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

(CZKm)	2015	2014
Remuneration to the Board of Directors members*	61	62
Remuneration to the Supervisory Board members**	5	6
Total	**66**	**68**

* Remuneration to the Board of Directors members includes wages paid during the year ended 31 December 2015 to the current and former directors under mandate and management contracts and other compensation and benefits granted in 2015. It also includes a part of bonuses awarded in 2015. The remuneration includes as well benefits arising to the Bank's employees under a collective bargaining agreement.

** Remuneration to the Supervisory Board members includes amounts paid during the year ended 31 December 2015 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.

	31 DEC 2015	31 DEC 2014
Number of the Board of Directors members	6	6
Number of the Supervisory Board members	9	9

In respect of loans and guarantees as of 31 December 2015, the Bank recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 21 million (2014: CZK 13 million). During 2015, draw-downs of CZK 10 million (2014: CZK 9 million) were made under the loans granted. Loan repayments during 2015 amounted to CZK 11 million (2014: CZK 0 million). The increase of loans in 2015 is affected by new members already having loans in the amount of CZK 9 million.

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

(CZKm)	2015	2014
Remeasurement of retirement benefits plan as of 1 January	(27)	(11)
Deferred tax asset/(liability) as of 1 January	5	2
Balance as of 1 January	**(22)**	**(9)**
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	(20)	(16)
Deferred tax	4	3
	(16)	**(13)**
Remeasurement of retirement benefits plan as of 31 December	(47)	(27)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	9	5
Balance as of 31 December	**(38)**	**(22)**

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)	2015	2014
Cash flow hedge fair value as of 1 January	19,742	10,209
Deferred tax asset/(liability) as of 1 January	(3,733)	(1,914)
Balance as of 1 January	**16,009**	**8,295**
Movements during the year		
Gains/(losses) from changes in fair value	191	13,716
Deferred tax	(36)	(2,606)
	155	**11,110**
Transferred to interest income/expense	(4,195)	(4,141)
Deferred tax	797	786
	(3,398)	**(3,355)**
Transferred to personnel expenses	(8)	(4)
Deferred tax	1	1
	(7)	**(3)**
Change in the hedge of foreign currency risk of foreign net investment	77	(38)
	77	**(38)**
Cash flow hedge fair value as of 31 December	15,807	19,742
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(2,971)	(3,733)
Balance as of 31 December	**12,836**	**16,009**

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

(CZKm)	2015	2014
Reserve from fair value revaluation as of 1 January	4,948	4,914
Deferred tax/income tax asset/(liability) as of 1 January	(940)	(934)
Balance as of 1 January	**4,008**	**3,980**
Movements during the year		
Gains/(losses) from changes in fair value	896	828
Deferred tax/income tax	(170)	(157)
	726	**671**
(Gains)/losses from reclassified financial assets (refer to Notes 18 and 22)	(812)	(794)
Deferred tax	154	151
	(658)	**(643)**
Reserve from fair value revaluation as of 31 December	5,032	4,948
Deferred tax/income tax asset/(liability) as of 31 December (refer to Note 33)	(956)	(940)
Balance as of 31 December	**4,076**	**4,008**

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 2015, 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) optimising the setting of approval authority with the objective of empowering business departments with responsibility 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, data on client behaviour within the Bank and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on client behaviour within 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 on 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 within the Bank, and data available from external credit bureaus; and (2) a behavioural rating which is based on the evaluation of the information on the clients' behaviour within 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 (individuals and small businesses). 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 upgrade of processes and controls preventing credit fraud is in its implementation process. Extension of these activities at the Group level will be discussed in 2016.

Credit concentration risk

The Bank's credit concentration risk is actively managed as a part of overall credit risk management using standard tools: credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses and stress testing. 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 2015:

	TOTAL EXPOSURE			COLLATERAL APPLIED		
(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	**104,900**	**x**	**104,900**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**29,889**	**x**	**29,889**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**23,066**	**x**	**23,066**	**0**	**x**	**0**
Available-for-sale financial assets	**32,700**	**x**	**32,700**	**0**	**x**	**0**
Amounts due from banks	**54,607**	**1,575**	**56,182**	**14,573**	**269**	**14,842**
Loans and advances to customers	**496,363**	**129,747**	**626,110**	**225,809**	**14,561**	**240,370**
– Individuals	206,606	18,725	225,331	157,078	3,150	160,228
of which: mortgage loans	185,151	11,673	196,824	153,097	3,094	156,191
consumer loans	17,842	145	17,987	3,900	17	3,917
– Corporates**	286,099	111,022	397,121	68,731	11,411	80,142
of which: top corporate clients	148,318	71,278	219,596	34,682	7,385	42,067
– Debt securities	3,654	x	3,654	0	x	0
– Other amounts due from customers	4	x	4	0	x	0
Held-to-maturity investments	**61,003**	**x**	**61,003**	**0**	**x**	**0**
Total	**802,528**	**131,322**	**933,850**	**240,382**	**14,830**	**255,212**

* 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 2014:

	TOTAL EXPOSURE			COLLATERAL APPLIED		
(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.

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.

When forbearance measures are granted, the forborne exposures receive non-performing default status (i.e. are classified as Substandard, Doubtful or Loss according to the CNB classification). The forbearance classification discontinues after fulfilment of the pre-defined conditions:

I. In the first place, after 12 months reclassification to the performing forborne exposures (i.e. those classified as Standard or Watch) category based on an analysis of the debtor's financial condition;
II. Followed by a minimum 2-year probation period.

In addition, proper payments must be made throughout the probation period, i.e. the material days past due must not exceed 30 days. Otherwise, the exposure is downgraded to the non-performing default status.

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; or (iii) taking into account the estimated loss amount.

In 2015, 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 2015		31 DEC 2014	
(CZKm)	**INDIVIDUALLY**	**STATISTICAL MODEL**	**INDIVIDUALLY**	**STATISTICAL MODEL**
Individuals	2	8,578	2	9,238
Corporates*	12,873	3,415	12,527	7,311
Total	**12,875**	**11,993**	**12,529**	**16,549**

* This item also includes loans granted to individual entrepreneurs.

As of 31 December 2015, the Bank reported the following loans not past due and past due loans not impaired:

	LOANS NOT	PAST DUE LOANS, NOT IMPAIRED						
(CZKm)	**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	52,319	0	0	0	0	0	0	52,319
– Watch	0	0	0	0	0	0	0	0
Total	**52,319**	**0**	**0**	**0**	**0**	**0**	**0**	**52,319**
Customers								
– Standard	464,984	2,472	379	2	0	0	2,853	467,837
– Watch	7	0	0	0	0	0	0	7
Total	**464,991**	**2,472**	**379**	**2**	**0**	**0**	**2,853**	**467,844**

As of 31 December 2014, the Bank reported the following loans not past due and past due loans not impaired:

	LOANS NOT	PAST DUE LOANS, NOT IMPAIRED						
(CZKm)	**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**

The amount of the collateral applied in respect of past due loans not impaired was CZK 1,355 million (2014: CZK 2,658 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 (A-IRB) 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 2015, 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, adjustment 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. During 2015, the Bank continued in regular sales of uncollateralised retail receivables to selected investors so that the maximum achievable recovery rate is obtained. The Bank implemented a new collection system in 2015. The main emphasis is put on further automation and digitisation 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 2015, the Bank was exposed to a credit exposure of CZK 30,945 million (2014: CZK 23,437 million) on financial derivative instruments (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2015 for all outstanding agreements. The netting agreement and parameters of collateral agreement are taken into account where applicable.

The Bank puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures for individual clients which could arise due to movements in market prices. On a daily basis, the Bank monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that the limit breach is triggered by the deliberate action of a dealer (“active limit breach”), such behaviour is penalised. The Board of Directors is informed about 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 trading on the Bank’s own account, market making 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, cross currency swaps, forward rate agreements, interest rate futures and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash and carry exposure in emission allowances.

Derivatives traded on the Market Book are used either for trading on the Bank’s own account, for clients’ service or to hedge derivatives done with 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 in the interbank market, mostly with Société Générale. This ensures that the Bank is not exposed to market risks associated with these derivatives (e.g. volatility risk, correlation risk, etc.).

Market risk in the Market Book

The Bank has developed a complex system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure. 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 1-day historical 99% Value-at-Risk (hereafter only "VaR”) concept. VaR is calculated using full revaluation of the position using historical market price 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 past 260 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 260 considered scenarios.

The Bank successfully implemented at the end of April 2015 new Société Générale Group software for market risk management named KARE. This replaced the obsolete application TRAAB. The aim of the KARE implementation was to enable improvement of the methodology and accuracy of the Group’s VaR and stress tests.

The VaR for a one-day horizon with a confidence level of 99% was CZK -16 million as of 31 December 2015 (2014: CZK -17 million). The average VaR was CZK -17 million in 2015 (2014: CZK -23 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 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 the risk exposure 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 performance of the Market Book.

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 2015, the CZK interest rate risk sensitivity was CZK -507 million (2014: CZK -315 million), the EUR sensitivity was CZK -20 million (2014: CZK -56 million), the USD sensitivity was CZK 15 million (2014: CZK 30 million), and for other currencies it was CZK -70 million (2014: CZK -62 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 2015 NOMINAL VALUE		31 DEC 2014 NOMINAL VALUE		31 DEC 2015 FAIR VALUE		31 DEC 2014 FAIR VALUE	
(CZKm)	ASSETS	LIABILITIES	ASSETS	LIABILITIES	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Interest rate instruments								
Interest rate swaps	618,325	618,325	675,398	675,398	9,357	10,108	12,863	13,640
Interest rate forwards and futures*	23,107	23,107	61,639	61,639	2	2	7	2
Interest rate options	7,532	7,532	6,905	6,905	33	33	24	24
Total interest rate instruments	**648,964**	**648,964**	**743,942**	**743,942**	**9,392**	**10,143**	**12,894**	**13,666**
Foreign currency instruments								
Currency swaps	166,808	166,682	198,939	198,709	1,058	966	1,387	1,165
Cross currency swaps	128,763	128,847	121,335	120,840	5,715	5,402	6,569	5,940
Currency forwards	29,918	29,792	20,373	19,979	295	229	473	113
Purchased options	58,646	59,099	42,697	43,391	984	0	844	0
Sold options	59,098	58,646	43,391	42,697	0	983	0	844
Total currency instruments	**443,233**	**443,066**	**426,735**	**425,616**	**8,052**	**7,580**	**9,273**	**8,062**
Other instruments								
Futures on debt securities	0	0	83	83	0	0	0	0
Forwards on emission allowances	4,570	4,978	1,375	1,597	68	472	15	238
Commodity forwards	2,590	2,590	1,461	1,461	68	66	38	37
Commodity swaps	13,912	13,912	19,080	19,080	1,588	1,570	1,268	1,251
Commodity cross currency swaps	0	0	738	738	0	0	46	46
Purchased commodity options	356	356	924	924	49	0	125	0
Sold commodity options	356	356	924	924	0	49	0	125
Total other instruments	**21,784**	**22,192**	**24,585**	**24,807**	**1,773**	**2,157**	**1,492**	**1,697**
Total	**1,113,981**	**1,114,222**	**1,195,262**	**1,194,365**	**19,217**	**19,880**	**23,659**	**23,425**

* 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 2015:

(CZKm)	UP TO 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Interest rate instruments				
Interest rate swaps	118,130	318,340	181,855	618,325
Interest rate forwards and futures*	23,107	0	0	23,107
Interest rate options	88	6,436	1,008	7,532
Total interest rate instruments	**141,325**	**324,776**	**182,863**	**648,964**
Foreign currency instruments				
Currency swaps	165,242	1,566	0	166,808
Cross currency swaps	17,825	51,888	59,050	128,763
Currency forwards	26,143	3,775	0	29,918
Purchased options	31,865	26,781	0	58,646
Sold options	32,366	26,732	0	59,098
Total currency instruments	**273,441**	**110,742**	**59,050**	**443,233**
Other instruments				
Futures on debt securities	0	0	0	0
Forwards on emission allowances	1,610	2,960	0	4,570
Commodity forwards	2,590	0	0	2,590
Commodity swaps	12,090	1,822	0	13,912
Commodity cross currency swaps	0	0	0	0
Purchased commodity options	145	211	0	356
Sold commodity options	145	211	0	356
Total other instruments	**16,580**	**5,204**	**0**	**21,784**
Total	**431,346**	**440,722**	**241,913**	**1,113,981**

* 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 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 hedging are as follows:

	31 DEC 2015 NOMINAL VALUE		31 DEC 2014 NOMINAL VALUE		31 DEC 2015 FAIR VALUE		31 DEC 2014 FAIR VALUE	
(CZKm)	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**	**POSITIVE**	**NEGATIVE**	**POSITIVE**	**NEGATIVE**
Interest rate swaps for cash flow hedging	582,625	582,625	535,197	535,197	22,671	5,957	28,366	8,232
Interest rate swaps for fair value hedging	17,685	17,685	15,656	15,656	106	2,094	74	2,444
Cross currency swaps for cash flows hedging	37,826	39,864	41,598	44,641	280	1,951	2	2,916
Forwards on stocks for cash flow hedging	49	49	46	46	9	0	11	0
Total	**638,185**	**640,223**	**592,497**	**595,540**	**23,066**	**10,002**	**28,453**	**13,592**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2015:

(CZKm)	**UP TO 1 YEAR**	**1 TO 5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Interest rate swaps for cash flow hedging	103,896	271,687	207,042	582,625
Interest rate swaps for fair value hedging	0	300	17,385	17,685
Cross currency swaps for cash flow hedging	13,276	23,317	1,233	37,826
Forwards on stocks for cash flow hedging	21	28	0	49
Total	**117,193**	**295,332**	**225,660**	**638,185**

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**

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 2015			31 DEC 2014		
(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	(210)	(1,225)	(1,227)	(387)	(1,681)	(1,566)

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 2015, 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, short-term loans on the interbank market) or foreign currency liabilities (short-term client liabilities), respectively;
   b. The Bank hedged the fair value of a deferred tax asset, the amount of which was derived from a foreign currency asset and was therefore dependent on the foreign exchange rate developments, by selected foreign currency liabilities (e.g. short-term client liabilities). The hedge relationship ended correctly in 2015.

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 that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

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. The table includes an analysis of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(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	116,257	0	0	0	0	**116,257**
Financial assets at fair value through profit or loss	7,186	3,487	0	0	19,216	**29,889**
Positive fair values of hedging financial derivatives	0	0	0	0	23,066	**23,066**
Available-for-sale financial assets	3,378	8,234	9,026	12,062	0	**32,700**
Assets held for sale	0	0	0	0	360	**360**
Amounts due from banks	46,015	2,025	4,217	2,332	0	**54,589**
Loans and advances to customers	209,678	69,282	182,999	22,515	0	**484,474**
Held-to-maturity investments	2,961	0	19,566	38,476	0	**61,003**
Current tax assets	0	0	0	0	303	**303**
Deferred tax assets	0	0	0	0	33	**33**
Prepayments, accrued income and other assets	0	0	0	0	2,804	**2,804**
Investments in subsidiaries and associates	0	0	0	0	22,177	**22,177**
Intangible assets	0	0	0	0	3,427	**3,427**
Tangible assets	0	0	0	0	4,444	**4,444**
Total assets	**385,475**	**83,028**	**215,808**	**75,385**	**75,830**	**835,526**
Liabilities						
Amounts due to central banks	1	0	0	0	0	**1**
Financial liabilities through profit or loss	305	0	0	0	19,880	**20,185**
Negative fair values of hedging financial derivatives	0	0	0	0	10,002	**10,002**
Amounts due to banks	40,019	6,060	0	0	0	**46,079**
Amounts due to customers	36,595	13,550	1,106	0	552,389*	**603,640**
Securities issued	129	0	23,243	20,345	0	**43,717**
Current tax liabilities	0	0	0	0	0	**0**
Deferred tax liabilities	0	0	0	0	3,886	**3,886**
Accruals and other liabilities	0	0	0	0	13,564	**13,564**
Provisions	0	0	0	0	1,149	**1,149**
Total liabilities	**77,049**	**19,610**	**24,349**	**20,345**	**600,870**	**742,223**
Statement of Financial Position interest rate gap as of 31 December 2015	**308,426**	**63,418**	**191,459**	**55,040**	**(525,040)**	**93,303**
Nominal value of derivatives**	512,361	291,707	304,795	307,000	0	**1,415,863**
Total off-balance sheet assets	**512,361**	**291,707**	**304,795**	**307,000**	**0**	**1,415,863**
Nominal value of derivatives**	611,989	268,676	345,984	191,336	0	**1,417,985**
Undrawn portion of loans***	(5,622)	(5,281)	7,774	3,129	0	**0**
Undrawn portion of revolving loans***	0	0	0	0	0	**0**
Total off-balance sheet liabilities	**606,367**	**263,395**	**353,758**	**194,465**	**0**	**1,417,985**
Net off-balance sheet interest rate gap as of 31 December 2015	**(94,006)**	**28,312**	**(48,963)**	**112,535**	**0**	**(2,122)**
Cumulative interest rate gap as of 31 December 2015	**214,420**	**306,150**	**448,646**	**616,221**	**91,181**	**x**

* 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.

** 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	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 gap as of 31 December 2014	**271,963**	**58,558**	**176,533**	**49,471**	**(460,891)**	**95,634**
Nominal value of 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**
Nominal value of 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 gap as of 31 December 2014	**(328,021)**	**25,665**	**31,898**	**267,910**	**0**	**(2,548)**
Cumulative interest rate gap as of 31 December 2014	**(56,058)**	**28,165**	**236,596**	**553,977**	**93,086**	**x**

* 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.
** 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 2015 and 2014 were as follows:

	31 DEC 2015			31 DEC 2014		
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and current balances with central banks	0.04%	x	x	0.05%	x	x
Treasury bills	0.01%	x	x	0.08%	x	x
Amounts due from banks	0.06%	0.02%	0.39%	0.23%	0.28%	0.51%
Loans and advances to customers	2.53%	2.39%	1.87%	2.89%	1.96%	1.90%
Interest earning securities	1.39%	0.00%	1.48%	1.55%	0.62%	1.53%
Total assets	**1.55%**	**1.06%**	**1.37%**	**1.62%**	**1.27%**	**1.39%**
Total interest earning assets	**1.80%**	**1.29%**	**1.40%**	**1.90%**	**1.27%**	**1.42%**
Liabilities						
Amounts due to central banks and banks	0.04%	0.86%	0.43%	0.01%	0.27%	0.52%
Amounts due to customers	0.05%	0.06%	0.06%	0.10%	0.06%	0.11%
Debt securities	2.93%	x	0.00%	2.25%	x	0.00%
Total liabilities	**0.25%**	**0.15%**	**0.17%**	**0.28%**	**0.08%**	**0.23%**
Total interest bearing liabilities	**0.26%**	**0.16%**	**0.19%**	**0.29%**	**0.09%**	**0.25%**
Off-balance sheet assets						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.09%	2.62%	1.03%	1.28%	2.42%	1.01%
Undrawn portion of loans	1.90%	2.25%	1.48%	2.27%	2.97%	1.99%
Undrawn portion of revolving loans	5.62%	x	0.29%	5.72%	x	0.89%
Total off-balance sheet assets	**1.32%**	**2.60%**	**1.02%**	**1.50%**	**2.42%**	**1.02%**
Off-balance sheet liabilities						
Nominal value of derivatives (interest rate swaps, options, etc.)	0.79%	2.23%	1.04%	0.95%	2.15%	1.02%
Undrawn portion of loans	1.90%	2.25%	1.48%	2.27%	2.97%	1.99%
Undrawn portion of revolving loans	5.62%	x	0.29%	5.72%	x	0.89%
Total off-balance sheet liabilities	**1.04%**	**2.21%**	**1.03%**	**1.18%**	**2.15%**	**1.02%**

Note: The above table sets out the average interest rates for December 2015 and 2014 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 2015. Czech crown money market rates (PRIBOR) decreased by as much as 0.05% (1-12M). Interest rates in the derivatives market increased by 0.02-0.15% (2-10Y).

Euro money market rates decreased during 2015 from 0.21% (3-6M) to 0.27% (1Y). Derivative market rates changed from -0.21% (2Y) to 0.19% (10Y).

Dollar money market rates increased during 2015 by as much as 0.55% (12M), and derivative market rates changed from -0.06% (10Y) to 0.29% (2Y).

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

(CZKm)	31 DEC 2015 FIXED INTEREST RATE	FLOATING INTEREST RATE	NO INTEREST	TOTAL	31 DEC 2014 FIXED INTEREST RATE	FLOATING INTEREST RATE	NO INTEREST	TOTAL
Assets								
Cash and current balances with central banks	13,800	89,122	13,335	**116,257**	0	126,081	26,148	152,229
Financial assets at fair value through profit or loss	6,846	1,026	22,017	**29,889**	16,245	2,520	25,102	43,867
Positive fair values of hedging financial derivatives	0	0	23,066	**23,066**	0	0	28,453	28,453
Available-for-sale financial assets	17,931	14,094	675	**32,700**	19,458	15,092	2	34,552
Amounts due from banks	6,644	47,904	41	**54,589**	6,328	47,900	10	54,238
Loans and advances to customers	294,570	185,472	4,432	**484,474**	265,422	179,597	4,161	449,180
Held-to-maturity investments	61,003	0	0	**61,003**	62,114	0	0	62,114
Liabilities								
Amounts due to central banks	1	0	0	**1**	2	0	0	2
Financial liabilities at fair value through profit or loss	0	0	20,185	**20,185**	0	0	25,417	25,417
Negative fair values of hedging financial derivatives	0	0	10,002	**10,002**	0	0	13,592	13,592
Amounts due to banks	7,522	38,371	186	**46,079**	8,399	46,196	184	54,779
Amounts due to customers	202	596,227*	7,211	**603,640**	488	593,537*	7,387	601,412
Securities issued	13,631	30,086	0	**43,717**	25,016	30,305	0	55,321

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. Also included in the table an analysis of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(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	26,189	0	0	0	0	90,068	**116,257**
Financial assets at fair value through profit or loss	0	1,570	2,377	2,730	1,195	22,017	**29,889**
Positive fair values of hedging financial derivatives	0	0	0	0	0	23,066	**23,066**
Available-for-sale financial assets	0	1,516	326	7,503	20,208	3,147	**32,700**
Assets held for sale	0	0	360	0	0	0	**360**
Amounts due from banks	14,143	23,689	2,077	7,404	832	6,444	**54,589**
Loans and advances to customers	4,367	51,461	56,993	143,082	213,189	15,382	**484,474**
Held-to-maturity investments	0	3,078	1,040	19,083	37,802	0	**61,003**
Current tax assets	0	28	275	0	0	0	**303**
Deferred tax assets	0	0	0	0	0	33	**33**
Prepayments, accrued income and other assets	389	1	0	0	0	2,414	**2,804**
Investments in subsidiaries and associates	0	0	0	0	0	22,177	**22,177**
Intangible assets	0	0	0	0	0	3,427	**3,427**
Tangible assets	0	0	0	0	0	4,444	**4,444**
Total assets	**45,088**	**81,343**	**63,448**	**179,802**	**273,226**	**192,619**	**835,526**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	**1**
Financial liabilities at fair value through profit or loss	305	0	0	0	0	19,880	**20,185**
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,002	**10,002**
Amounts due to banks	23,127	4,086	5,189	6,630	7,047	0	**46,079**
Amounts due to customers	568,855	19,039	13,985	1,761	0	0	**603,640**
Securities issued	0	205	210	5,060	38,200	42	**43,717**
Current tax liabilities	0	0	0	0	0	0	**0**
Deferred tax liabilities	0	0	0	0	0	3,886	**3,886**
Accruals and other liabilities	12,942	229	0	0	0	393	**13,564**
Provisions	8	110	269	355	1	406	**1,149**
Equity	0	0	0	0	0	93,303	**93,303**
Total liabilities	**605,238**	**23,669**	**19,653**	**13,806**	**45,248**	**127,912**	**835,526**
Statement of Financial Position liquidity gap as of 31 Dec 2015	**(560,150)**	**57,674**	**43,795**	**165,996**	**227,978**	**64,707**	**0**
Off-balance sheet assets*	49,522	151,449	88,241	134,060	60,284	0	**483,556**
Off-balance sheet liabilities*	53,529	174,050	139,279	172,258	64,505	13,132	**616,753**
Net off-balance sheet liquidity gap as of 31 Dec 2015	**(4,007)**	**(22,601)**	**(51,038)**	**(38,198)**	**(4,221)**	**(13,132)**	**(133,197)**

* 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	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.

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 2015.

(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)	305	0	0	0	0	0	**305**
Amounts due to banks	23,175	4,088	5,201	6,692	7,057	0	**46,213**
Amounts due to customers	568,935	19,205	14,058	2,110	0	0	**604,308**
Securities issued	342	376	974	8,978	39,786	42	**50,498**
Current tax liabilities	0	0	0	0	0	0	**0**
Deferred tax liabilities	0	0	0	0	0	3,886	**3,886**
Accruals and other liabilities	12,942	229	0	0	0	393	**13,564**
Provisions	8	110	269	355	1	406	**1,149**
Total non-derivative financial liabilities	**605,708**	**24,008**	**20,502**	**18,135**	**46,844**	**4,727**	**719,924**
Other loans commitment granted	2,486	14,817	32,125	18,729	1,649	13,071	**82,877**
Guarantee commitments granted	1,556	7,866	17,753	18,573	2,636	61	**48,445**
Total contingent liabilities	**4,042**	**22,683**	**49,878**	**37,302**	**4,285**	**13,132**	**131,322**

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**

(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	114,002	1,764	237	254	**116,257**
Financial assets at fair value through profit or loss	21,169	8,237	482	1	**29,889**
Positive fair values of hedging financial derivatives	20,614	2,081	371	0	**23,066**
Available-for-sale financial assets	24,452	8,246	2	0	**32,700**
Assets held for sale	360	0	0	0	**360**
Amounts due from banks	28,183	21,369	4,885	152	**54,589**
Loans and advances to customers	392,888	84,054	6,774	758	**484,474**
Held-to-maturity investments	47,185	13,818	0	0	**61,003**
Current tax assets	275	28	0	0	**303**
Deferred tax assets	0	33	0	0	**33**
Prepayments, accrued income and other assets	2,237	224	328	15	**2,804**
Investments in subsidiaries and associates	18,954	3,223	0	0	**22,177**
Intangible assets	3,427	0	0	0	**3,427**
Tangible assets	4,440	4	0	0	**4,444**
Total assets	**678,186**	**143,081**	**13,079**	**1,180**	**835,526**
Liabilities					
Amounts due to central banks	1	0	0	0	**1**
Financial liabilities at fair value through profit or loss	16,343	3,399	443	0	**20,185**
Negative fair values of hedging financial derivatives	7,947	2,044	11	0	**10,002**
Amounts due to banks	14,708	29,634	1,704	33	**46,079**
Amounts due to customers	520,575	68,813	11,727	2,525	**603,640**
Securities issued	43,717	0	0	0	**43,717**
Current tax liabilities	0	0	0	0	**0**
Deferred tax liabilities	3,886	0	0	0	**3,886**
Accruals and other liabilities	11,212	1,937	308	107	**13,564**
Provisions	713	391	33	12	**1,149**
Equity	92,841	462	0	0	**93,303**
Total liabilities	**711,943**	**106,680**	**14,226**	**2,677**	**835,526**
Net FX position as of 31 December 2015	**(33,757)**	**36,401**	**(1,147)**	**(1,497)**	**0**
Off-balance sheet assets*	1,240,816	376,874	120,140	17,797	**1,755,627**
Off-balance sheet liabilities*	1,213,012	410,133	118,403	16,353	**1,757,901**
Net off-balance sheet FX position as of 31 December 2015	**27,804**	**(33,259)**	**1,737**	**1,444**	**(2,274)**
Total net FX position as of 31 December 2015	**(5,953)**	**3,142**	**590**	**(53)**	**(2,274)**

* 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	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.

(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 2015		31 DEC 2014	
(CZKm)	**CARRYING VALUE**	**FAIR VALUE**	**CARRYING VALUE**	**FAIR VALUE**
Financial assets				
Cash and current balances with central banks	116,257	116,257	152,229	152,229
Amounts due from banks	54,589	54,927	54,238	54,698
Loans and advances to customers	484,474	500,479	449,180	463,771
Held-to-maturity investments	61,003	65,839	62,114	65,541
Financial liabilities				
Amounts due to central banks	1	1	2	2
Amounts due to banks	46,079	46,071	54,779	54,798
Amounts due to customers	603,640	602,292	601,412	599,373
Securities issued	43,717	44,295	55,321	55,990

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

	31 DEC 2015				31 DEC 2014			
(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	116,257	11,357	0	104,900	152,229	7,160	0	145,069
Amounts due from banks	54,927	0	0	54,927	54,698	0	0	54,698
Loans and advances to customers	500,479	0	0	500,479	463,771	0	0	463,771
Held-to-maturity investments	65,839	65,839	0	0	65,541	65,541	0	0
Financial liabilities								
Amounts due to central banks	1	0	0	1	2	0	0	2
Amounts due to banks	46,071	0	0	46,071	54,798	0	0	54,798
Amounts due to customers	602,292	0	0	602,292	599,373	0	0	599,373
Securities issued	44,295	0	0	44,295	55,990	0	0	55,990

(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 2015	LEVEL 1	LEVEL 2	LEVEL 3	31 DEC 2014	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets								
Financial assets at fair value through profit or loss								
– Emission allowances	2,800	2,800	0	0	1,443	1,443	0	0
– Debt securities	7,872	5,184	2,688	0	18,765	11,558	7,207	0
– Derivatives	19,217	68	19,149	0	23,659	15	23,644	0
Financial assets at fair value through profit or loss	**29,889**	**8,052**	**21,837**	**0**	**43,867**	**13,016**	**30,851**	**0**
Positive fair value of hedging financial derivatives	**23,066**	**0**	**23,066**	**0**	**28,453**	**0**	**28,453**	**0**
Available-for-sale financial assets								
– Shares and participation certificates	675	0	0	675	2	0	0	2
– Debt securities	32,025	19,130	12,895	0	34,550	17,288	17,262	0
Available-for-sale financial assets	**32,700**	**19,130**	**12,895**	**675**	**34,552**	**17,288**	**17,262**	**2**
Financial assets at fair value	**85,655**	**27,182**	**57,798**	**675**	**106,872**	**30,304**	**76,566**	**2**
Financial liabilities								
Financial liabilities at fair value through profit or loss								
– Sold securities	305	305	0	0	1,992	1,992	0	0
– Derivatives	19,880	472	19,408	0	23,425	238	23,187	0
Financial liabilities at fair value through profit or loss	**20,185**	**777**	**19,408**	**0**	**25,417**	**2,230**	**23,187**	**0**
Negative fair value of hedging financial derivatives	**10,002**	**0**	**10,002**	**0**	**13,592**	**0**	**13,592**	**0**
Financial liabilities at fair value	**30,187**	**777**	**29,410**	**0**	**39,009**	**2,230**	**36,779**	**0**

Financial assets at fair value – Level 3:

		2015		2014
(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	674	674	0	0
Purchases	0	0	0	0
Sales	(1)	(1)	0	0
Settlement	0	0	0	0
Transfer from Level 1	0	0	0	0
Balance as of 31 December	**675**	**675**	**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 2015:

(CZKm)	Assets/liabilities set off according to IAS 32: Gross amount of financial assets/ liabilities*	Gross amount of financial assets/ liabilities set off by financial liabilities/ assets	Net amount of financial assets/ liabilities	Amounts which have not been set off: Financial instruments recognised in statement of financial position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	42,283	0	42,283	25,584	10,667	6,032
Negative fair value of derivatives	29,882	0	29,882	25,584	4,179	119

* 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 2014:

(CZKm)	Assets/liabilities set off according to IAS 32: Gross amount of financial assets/ liabilities*	Gross amount of financial assets/ liabilities set off by financial liabilities/ assets	Net amount of financial assets/ liabilities	Amounts which have not been set off: 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.

43 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

(CZKm)	31 Dec 2015 Cash	31 Dec 2015 Securities	31 Dec 2014 Cash	31 Dec 2014 Securities
Assets in custody	2,789	528,359	1,930	398,588
Assets under management	0	1,760	0	473

Assets in custody include securities in the amount of CZK 48,926 million (2014: CZK 48,832 million) of Group subsidiaries.

44 Post balance sheet events

Headquarters building

In line with its long-term strategy of optimising the headquarters buildings, the Bank launched activities targeting the sale of its subsidiary NP 33, s.r.o.

Transaction and payment services

In February 2016, the Bank signed a Letter of Intent with a strategic partner targeting the sale of its activities in credit and debit card payment processing services (merchant acquiring). This transaction is expected to take place in 2016 subject to its approval by the appropriate regulatory authorities.

Report on Relations among Related Entities for the year ended 31 December 2015

(hereinafter the **"Report on Relations"**)

Komerční banka, a.s., with its registered office in Prague 1, Na Příkopě 33/969, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies maintained by the Municipal Court in Prague, Section B, File 1360, (hereinafter **"KB"** or **"Komerční banka"**), is part of a business group (holding company) in which there exist the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entities (hereinafter the **"related entities"**).

This Report on Relations was compiled in accordance with Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Business Corporations Act) for the year ended 31 December 2015, that is, from 1 January 2015 to 31 December 2015 (hereinafter the **"reporting period"**).

I. Introduction

Structure of relations among entities within the business group:

In the period from 1 January 2015 to 31 December 2015, 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 **"SG"** or **"SG Paris"**). The structure of relations among 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			
▶ Société Générale* ▶ Compagnie Générale d'Affacturage 100% ▶ Généfim 100% ▶ Généfimmo Holding 100% ▶ Group Boursorama 100% ▶ Groupe Crédit du Nord 100% ▶ Group Franfinance 99.99% ▶ La Banque Postale Financement 35% ▶ Sogébail 100% ▶ Sogéfimur 100% ▶ Sogéfinancement 100% ▶ Sogelease France 100% ▶ Sogéprom 100% ▶ SG Capital Développement 100% ▶ SG Capital Partenaries 100% ▶ SG Services 100% ▶ SGPI Société Générale de Participations Industrielles 100%	▶ Banque Française Commerciale Océan Indien 50% ▶ Banque de Polynésie 72.1% ▶ Société Générale Calédonienne de Banque 90.1% ▶ Group CGL 100% ▶ Sogécap Group 100% ▶ SG de Banque aux Antilles 100% ▶ Temsys 100%	▶ Société Générale* ▶ Amundi Group 20% ▶ CALIF 100% ▶ Inter Europe Conseil (IEC) 100% ▶ Lyxor Asset Management 100% ▶ Lyxor International Asset Management 100% ▶ Newedge Group 50% ▶ Parel 100% ▶ Sogefinerg 100% ▶ Société Générale Securities Services France 100% ▶ SG Option Europe 100% ▶ SG Securities (Paris) SAS 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 93.64% ▶ Banka Société Générale Albania 88.64% ▶ BRD – Groupe SG Romania 60.17% ▶ Eurobank Pologne 99.5% ▶ Groupe ALD International 100% ▶ Groupe Fiditalia Spa Italy 100% ▶ Groupe GEFA Bank Germany 100% ▶ Groupe Rosbank Russia 99.49% ▶ SG Equipment Finance Group 99.99% ▶ Hanseatic Bank Germany 75% ▶ ALD Lease Finanz 100% ▶ Mobiasbanca Moldavia 87.9% ▶ Ohridska Banka AD Skopje Macedonia 71.85% ▶ SKB Banka Slovenia 99.73% ▶ SG Banka SRBIJA Serbie 100% ▶ SG Express Bank Bulgarie 99.74% ▶ SG-Splitska Banka Croatie 100% ▶ Société Générale Banka Monténégro 90.56% ▶ Komerční banka, a.s., Czech Republic 60.35%	▶ Société Générale Newedge UK Ltd United Kingdom 100% ▶ Lyxor Asset Management UK LLP 100% ▶ SG Hambros Limited United Kingdom 100% ▶ SG Immobel Belgium 100% ▶ SG Investments (U.K.) Ltd United Kingdom 100% ▶ SG Issuer Luxemburg 100% ▶ SG Private Banking Belgium 100% ▶ SG Private Banking (Monaco) 100% ▶ SG Private Banking (Suisse SA) 100% ▶ SGCMF 100% ▶ SGSS Deutschland Kapitalanlagegesellschaft Germany 100% ▶ SGSS Spa Italy 100% ▶ Société Générale Bank & Trust Luxembourg 100% ▶ Société Générale branches in: Frankfurt, Germany; Dublin, Ireland; London, United Kingdom; Madrid, Spain; Milan, Italy Zurich, Switzerland	▶ Komerční pojišťovna, a.s., 48.96% ▶ 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., 100% ▶ 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% ▶ Eqdom Morocco 53.72% ▶ SG Algérie 100% ▶ SG de Banques au Bénin 83.85% ▶ SG de Banques au Cameroun 58.1% ▶ SG de Banques en Côte d'Ivoire 73.25% ▶ SG de Banque en Guinée 57.94% ▶ SG de Banque en Guinée Equatoriale 57.23% ▶ SG de Banque au Liban 16.8% ▶ SG de Banques au Sénégal 64.87% ▶ SG Congo 87% ▶ SG Marocaine de Banques 57.01% ▶ SG Tchad 66.16% ▶ Société Générale Burkina Faso 52.61% ▶ Société Générale Ghana Limited 52.24% ▶ Société Générale Mauritanie 91.0% ▶ Union Internationale de Banques Tunisia 52.34%		
	AMERICAS		
	▶ Banco Cacique S.A. Brazil 100% ▶ Banco Pecunia Brazil 100%	▶ Banco SG Brazil SA 100% ▶ Lyxor Asset Management Inc USA 100% ▶ Société Générale Capital Canada Inc 100% ▶ SG Americas, Inc. USA 100% ▶ SG Americas Securities, LLC USA 100% ▶ Société Générale* branches in: New York, United States; Montréal, Canada	

SOCIÉTÉ GÉNÉRALE GROUP*			
RETAIL BANKING FRANCE	INTERNATIONAL RETAIL BANKING AND FINANCIAL SERVICES	GLOBAL BANKING AND INVESTMENT SERVICES	KOMERČNÍ BANKA GROUP
	ASIA + AUSTRALIA		
	▶ SG Leasing and Renting Co Ltd China 100%	▶ Fortune SG Fund Management China 49% ▶ Lyxor Asset Management Japan Co Ltd 100% ▶ Newedge Japan Inc 100% ▶ Newedge Group branch Hong Kong 100% ▶ SG Asia Ltd (Hong-Kong) 100% ▶ SG Securities Asia International Holdings Ltd (Hong Kong) 100% ▶ SG Securities Korea Co. 100% ▶ SG Securities North Pacific, Tokyo Branch Japan 100% ▶ Société Générale (China) Ltd 100% ▶ Société Générale branches in: Singapore; Tokyo Japan; Seoul South Korea; Hong Kong; Taipei Taiwan; Mumbai India;	

* Source: 2015 REGISTRATION DOCUMENT SG, Simplified organisational chart as of 30 June 2015 and CONSOLIDATED FINANCIAL STATEMENTS as of 31 December 2015

During the 2015 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
SG EN Espana	Grand Via 30, Madrid, Spain
SG Seoul	81 Saemunan-ro, Jongno-gu, Seoul, South Korea
SG Singapore	8 Marina Boulevard, Singapore
SG Mumbai	Ganpatrao Kadam Marg, Mumbai, India

* 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	100.00
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., organizačná zložka	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	100.00
Crédit du Nord	28 Place Rihour 59800 Lille, France	100.00
European Fund Services, SA	17 Rue Antoine Jans L-1820 Luxembourg, Luxembourg	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
Société Générale Newedge UK Limited	10 Bishops Square, London, E1 6EG, Great Britain	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	100.00
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 De Bank Au Liban	Masraf Street, Beirut, Lebanon	16.79
SG Equipment Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	100.00
SG Equipment Leasing Hungary Ltd	1062 Budapest, Vaci út 1-3, Hungary	100.00
SG Equipment Leasing Polska	Marszalkowska 111 St., 00-102 Warsaw, Poland	100.00
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	100.00
SG China Ltd.	Taikang International Tower, Wudinghou Street, Xicheng District, 100140 Beijing, China	100.00
SG Hambros	8 St James's Square, London, Great Britain	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	100.00
SG Private Banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneve 11, Switzerland	100.00
SG Private Banking Belgique	Rue des Colonies, 11, 1000 Brussels, Belgium	100.00
SG Securities (London) Ltd.	Exchange House – 12 Primrose Street, London EC2A 2EG, Great Britain	100.00
SG Securities Services	Via Benigno Crespi 19A, Milan, 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
SG Montenegro	Bulevar Revolucije br. 17, Podgorica 81000, Montenegro	100.00
SG Srbija	50 Bulevar Zorana Dindica, Serbia	100.00
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	100.00
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 128/222, 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 34/713, Prague 1, 110 15, Czech Republic	100.00
Bastion European Investments S.A.	Rue de la Science 14b, 1040 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 796/42, 110 00, Prague 1, Nové Město, Czech Republic	100.00
VN 42, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1, Nové Město, Czech Republic	100.00
NP 33, s.r.o.	Václavské náměstí 796/42, 110 00, Prague 1, Nové Město, Czech Republic	100.00
Cataps, s.r.o.	Václavské náměstí 796/42, 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 "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, services and advisory in the area of human resources, and advisory in the area of compliance, operational risks and insurance 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, inter alia, 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, business continuity and crisis management plans, and anti-money laundering measures).

KB participates in the creation of group policies on the territory of the Czech Republic.

Manner 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 Business 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, and informal control takes the form of consultancy on individual activity areas.

II. Relations within the Group

A. Important actions adopted in the reporting period at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity in respect of assets exceeding 10% of the controlled entity's equity

No such actions were adopted.

B. Overview of mutual contracts between the controlled entity and the controlling entity or among 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 31 branches and subsidiaries of SG Group as of the end of the reporting period. As of 31 December 2015, KB maintained a total of 64 accounts, of which 31 were loro accounts for branches and subsidiaries of SG Group, 30 were current accounts and 34 were overdraft accounts opened for non-banking entities of SG Group. The average monthly overdraft balance (borrowing) on loro accounts was CZK 13.92 million; the average monthly credit balance (deposit) was CZK 7,870.38 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 209.545 million; the average monthly overdraft balance on these accounts was CZK 125.05 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 0.95 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 4.48 million.

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 monthly deposit on nostro accounts with SG was CZK 569.15 million; the average monthly overdraft balance on nostro accounts was CZK 47.98 million. Interest income on nostro accounts for the reporting period was CZK 0.281 million; interest expenses amounted to CZK 0.186 million. KB's expenses arising from the fees for the maintenance of, and transactions on, nostro accounts for the reporting period were CZK 16.55 million; income fees (i.e. provided discounts from credit operations on nostro accounts) amounted to CZK 4.11 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 2.315 million. Interest expenses paid by KB on loro accounts amounted to CZK 322.4 thousand and interest income totalled CZK 0.18 million in the reporting period.

Three subsidiaries held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 2,021 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 1.414 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 2015 to two SG Group subsidiaries. These totalled 175 loans in the aggregate amount of CZK 4,397 million. The average monthly balance of the loans during the reporting period was CZK 3,581.3 million. The aggregate amount of interest income was CZK 31.66 million.

As of the end of the reporting period, KB had provided five entities with bank guarantees (payment, non-payment) in the amount of CZK 423.8 million.

As of the end of the reporting period, KB had received guarantees from four SG Group entities as collateral for loans provided to clients in the aggregate amount of CZK 4,646.4 million. The aggregate amount of fees for guarantees received in the reporting period amounted to CZK 13.8 million.

Investment banking arrangements
In the investment banking segment, KB carried out transactions with 14 branches and subsidiaries from within SG Group. The total number of transactions was 36,246 (2,076 on-balance sheet transactions and 34,170 off-balance sheet transactions) in the aggregate nominal amount of CZK 1,667,781 million. The income from the investment banking transactions amounted to CZK 21,290.5 million and the costs totalled CZK 19,442.2 million.

The aggregate nominal amount of on-balance sheet transactions was CZK 587,053.9 million and consisted of the following:

- Depository transactions – a total of 1,555 transactions in the aggregate amount of CZK 517,521.2 million; and
- Securities held for trading – a total of 521 transactions in the aggregate amount of CZK 69,532.7 million.

The aggregate nominal amount of off-balance sheet transactions was CZK 1,080,727.1 million and consisted of the following:

- Foreign currency transactions (spots, forwards, swaps) totalling 18,727 transactions in the aggregate nominal amount of CZK 598,933 million;
- Interest rate derivative transactions (interest rate swaps and futures) totalling 681 transactions in the aggregate nominal amount of CZK 295,232 million;
- Option transactions with currency instruments totalling 10,811 transactions in the aggregate nominal amount of CZK 149,405.6 million;
- Commodity transactions were carried out only with SG Paris; KB executed 3,783 transactions in the aggregate amount of CZK 33,708.1 million; and
- Emission allowance transactions – KB executed a total of 168 transactions in the aggregate amount of CZK 3,448 million with SG Paris during the reporting period.

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
Lease of non-residential premises – Ostrava	ALD Automotive s.r.o.	31 October 2003
Lease of non-residential premises – České Budějovice	ALD Automotive s.r.o.	1 December 2003
Lease of non-residential premises - Plzeň	ALD Automotive s.r.o.	17 February 2004
Framework ALD service agreement	ALD Automotive s.r.o.	1 October 2006
Mutual co-operation agreement + 1 amendment dated 1 July 2010 (banking services)	ALD Automotive s.r.o.	1 August 2007
Lease of non-residential premises – Brno	ALD Automotive s.r.o.	31 December 2009
Co-operation agreement – jobs	ALD Automotive s.r.o.	9 June 2010
Framework service agreement (IT area)	ALD Automotive s.r.o.	31 August 2010
Agreement on the organisation of periodic control + 1 amendment dated 17 December 2012	ALD Automotive s.r.o., SG	19 April 2011
Accession to the rules of co-operation between KB and group members in the area of sourcing and procurement	ALD Automotive s.r.o.	16 August 2011
Separate Agreement No. 1 – VoIP	ALD Automotive s.r.o.	6 October 2011
Separate agreement No. 2 – Provision of technical infrastructure services, Connectivity Services	ALD Automotive s.r.o.	1 November 2012
Network package	ALD Automotive s.r.o.	1 November 2012
Co-operation agreement + amendment dated 7 December 2015	ALD Automotive s.r.o.	29 March 2013
Lease of non-residential premises – Hradec Králové + amendment dated 13 February 2015	ALD Automotive s.r.o	31 March 2013
Agreement – outsourcing of HR services	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
Agreement for co-operation in the performance of the contract for employee group risk insurance	ALD Automotive s.r.o.	29 October 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
Agreement for co-operation in the performance of the Group Insurance Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka/Société Générale	ALD Automotive s.r.o.	29 December 2014
Framework agreement to lease means of transport	ALD Automotive s.r.o.	7 January 2015
Lease of non-residential premises – Pilsen	ALD Automotive s.r.o.	30 September 2015
Non-disclosure agreement	ALD Automotive s.r.o.	19 October 2015

TITLE OF CONTRACT (OR SUBJECT MATTER OF CONTRACT – IF NOT CLEAR FROM THE TITLE)	CONTRACTING PARTY	DATE OF CONTRACT
Operative leasing framework agreement	ALD Automotive s.r.o., organizačná zložka	18 June 2013
Non-disclosure agreement	ALD Automotive s.r.o., organizačná zložka	18 October 2015
Custodian services agreement	B.R.D.	20 October 2011
Service level agreement	B.R.D.	20 October 2011
Service contract	ESSOX s.r.o.	21 September 2005
Lease of non-residential premises and payment of relating services + 1 amendment (lessor)	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
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 – provision of services for access to an external entity	ESSOX s.r.o.	30 June 2011
Service contract – C4M access – 1 amendment	ESSOX s.r.o.	29 July 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 the contract for employee group risk insurance No. 3280000000	ESSOX s.r.o.	22 August 2012
Individual pricing agreement (client)	ESSOX s.r.o.	27 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
Agreement for the provision of a smart card reader	ESSOX s.r.o.	12 May 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
Group Insurance Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka/Société Générale	ESSOX s.r.o.	25 March 2015
Agreement to enter into a lease of non-residential premises and to pay for the services relating to their use	ESSOX s.r.o.	27 March 2015
Contract – soft collection service	ESSOX s.r.o.	29 April 2015
Service level agreement	European Fund Services, SA	12 November 2008
License agreement + amendment	Factoring KB, a.s.	20 December 2004 29 January 2015
Lease of non-residential premises, movable assets and payment of relating services (3) + amendment (1), terminated (1), new (1)	Factoring KB, a.s.	8 June 2006 18 June 2008 5 January 2009 19 December 2011 30 September 2015
Mutual co-operation agreement + amendment (1)	Factoring KB, a.s.	1 August 2007 1 July 2010
Distribution agreement + amendment (1)	Factoring KB, a.s.	1 December 2008 10 January 2013
Framework agreement for personal data processing	Factoring KB, a.s.	1 December 2008
Service contract – outsourcing (HR services)	Factoring KB, a.s.	4 January 2010
Co-operation agreement – jobs	Factoring KB, a.s.	28 April 2010

TITLE OF CONTRACT (OR SUBJECT MATTER OF CONTRACT – IF NOT CLEAR FROM THE TITLE)	CONTRACTING PARTY	DATE OF CONTRACT
Ancillary service contract – Profi Merlin	Factoring KB, a.s.	16 July 2010
Confidentiality agreement	Factoring KB, a.s.	9 August 2010
Framework IT 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
Service contract – C4M access –amendment (1)	Factoring KB, a.s.	24 May 2011 29 May 2012
Agreement for co-operation in the performance of the Contract for employee group risk insurance, in the wording of Amendment No. 1	Factoring KB, a.s.	24 August 2012
Parking place sublease agreement (3) + amendments (2), terminated (1), new (1)	Factoring KB, a.s.	28 August 2012 1 September 2012 1 January 2013 31 December 2013 31 December 2014 23 March 2015
Lease of non-residential premises, movable assets and payment of relating services + amendment (1)	Factoring KB, a.s.	30 August 2012 30 December 2014
Separate agreement nos. 1–3 (IT, Connectivity services, Physical hosting, Infrastructure hosting)	Factoring KB, a.s.	1 December 2012
Co-operation Agreement No. 0000020447/0000 + amendment (1)	Factoring KB, a.s.	31 December 2012
Separate agreement No. 4 (IT Process Procedure VoIP)	Factoring KB, a.s.	31 December 2012
Agreement – services: data transfer – current accounts	Factoring KB, a.s.	1 August 2013
Agreement – outsourcing of HR services (excluding payroll) KB Agr. No. 20596/0000 + amendment (1)	Factoring KB, a.s.	1 January 2013 1 October 2013
Postal service contract	Factoring KB, a.s.	31 October 2013
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
Separate agreements nos. 6–10 (IT, Fileshare, EUV, Service desk, Identity and Access, Platform hosting)	Factoring KB, a.s.	1 January 2015
Service agreement – OHS, environmental protection and fire protection	Factoring KB, a.s	30 January 2015
Agreement relating to framework insurance contract No. 7720802024, Annex No. 4	Factoring KB, a.s.	6 March 2015
Agreement for the performance of Group Insurance Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board.	Factoring KB, a.s	23 March 2015
Separate agreement No. 5 (IT, e-mail)	Factoring KB, a.s.	25 May 2015
Separate agreement No. 11 (IT Disaster recovery)	Factoring KB, a.s.	1 September 2015
Service contract – Information security services	Factoring KB, a.s	27 October 2015
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 Section 5a of Act No. 235/2004 Coll., the VAT Act + Amendments Nos. 1 and 2	KB Penzijní společnost, a.s.	19 November 2008 22 October 2009 6 August 2014
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

TITLE OF CONTRACT (OR SUBJECT MATTER OF CONTRACT – IF NOT CLEAR FROM THE TITLE)	CONTRACTING PARTY	DATE OF CONTRACT
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 + Amendment No. 1	KB Penzijní společnost, a.s.	2 November 2010 31 December 2014
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 + Amendment No. 1	KB Penzijní společnost, a.s.	10 August 2012 30 March 2015
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
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 + Amendment No. 1	KB Penzijní společnost, a.s.	25 March 2013 27 March 2015
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 – 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 Level Agreement	KB Penzijní společnost, a.s.	24 November 2014

TITLE OF CONTRACT (OR SUBJECT MATTER OF CONTRACT – IF NOT CLEAR FROM THE TITLE)	CONTRACTING PARTY	DATE OF CONTRACT
Contract of mandate – supplier contract administration	KB Penzijní společnost, a.s.	31 December 2014
Contract for the provision of technical infrastructure services – lease of HW (Contract No. 15 relating to Framework agreement)	KB Penzijní společnost, a.s.	1 January 2015
Contract for the provision of technical infrastructure services – Development of KBPS applications (Contract No. 16 relating to Framework agreement)	KB Penzijní společnost, a.s.	4 March 2015
Contract for the provision of technical infrastructure services – Application Support (Contract No. 17 relating to Framework agreement)	KB Penzijní společnost, a.s.	4 March 2015
Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka/Société Générale	KB Penzijní společnost, a.s.	23 March 2015
Parking place sublease agreement	KB Penzijní společnost, a.s.	31 March 2015
Service agreement – OHS, environmental protection and fire protection	KB Penzijní společnost, a.s.	28 May 2015
Purchase agreement	KB Penzijní společnost, a.s.	6 October 2015
Purchase agreement	KB Penzijní společnost, a.s.	21 December 2015
Real estate lease agreement + 4 amendments	KB Real Estate, s.r.o.	4 June 2012 26 September 2012 4 September 2013 14 December 2013 31 December 2014
Co-operation agreement in connection with use of real estate + Amendment No. 1	KB Real Estate, s.r.o.	1 September 2012 17 March 2015
2x Service contract – outsourcing (support services, accounting services)	KB Real Estate, s.r.o.	1 April 2015 2 November 2015
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 assets and payment of relating services – Jihlava, including 8 amendments	Komerční pojišťovna, a.s.	31 January 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.	31 May 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
Contract for the mediation of “VITAL” including 5 amendments	Komerční pojišťovna, a.s.	25 April 2006
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
Payment co-operation agreement	Komerční pojišťovna, a.s.	29 May 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 24 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 8 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 assets and payment of relating services – Ostrava	Komerční pojišťovna, a.s.	29 June 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

TITLE OF CONTRACT (OR SUBJECT MATTER OF CONTRACT – IF NOT CLEAR FROM THE TITLE)	CONTRACTING PARTY	DATE OF CONTRACT
Contract for collective insurance of credit cards of Komerční banka, a.s., including 2 amendments	Komerční pojišťovna, a.s.	1 November 2007
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 9 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 7 amendments	Komerční pojišťovna, a.s.	5 October 2009
VITAL INVEST FORTE custody agreement	Komerční pojišťovna, a.s.	6 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 (HR services)	Komerční pojišťovna, a.s.	21 April 2010
Confidentiality agreement	Komerční pojišťovna, a.s.	9 July 2010
IT service framework agreement including separate agreements 1–6 and including 1 amendment No. 3 to separate agreement No. 6	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 assets and payment of relating services – Hradec Králové	Komerční pojišťovna, a.s.	29 August 2011
Commitment Letter – Optimo 6Y EMTN in CZK	Komerční pojišťovna, a.s., SG	20 September 2011
Contract for collective insurance of “Moje pojištění plateb” including 1 amendment	Komerční pojišťovna, a.s.	7 December 2011
Contract for collective insurance of “Profi 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
Commitment letter (Optimo Komodity II) dated 24 April 2012	Komerční pojišťovna, a.s., SG	24 April 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 2 amendments	Komerční pojišťovna, a.s.	23 November 2012
Product development co-operation agreement	Komerční pojišťovna, a.s.	21 December 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 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 commission (Brouček, Vital Invest, Vital Premium and Vital)	Komerční pojišťovna, a.s.	1 January 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.	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
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
Service level agreement – co-operation in the area of accounting and reporting	Komerční pojišťovna, a.s.	1 January 2015

TITLE OF CONTRACT (OR SUBJECT MATTER OF CONTRACT – IF NOT CLEAR FROM THE TITLE)	CONTRACTING PARTY	DATE OF CONTRACT
Minutes of the agreement to cut the administrative cost of the Vital Invest lump sum premium for new contracts meeting tax credit requirements entered into before 31 March 2015	Komerční pojišťovna, a.s.	1 January 2015
Minutes of the agreement to cut the basis for the calculation of the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	6 February 2015
Agreement for co-operation in the performance of the Group Insurance Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board of Directors and Administrators of the Financial Group of KB/SG no. 333000000	Komerční pojišťovna, a s.	25 March 2015
Distribution Agreement for product VITAL PREMIUM IN USD	Komerční pojišťovna, a s.	31 March 2015
Commitment Letter – Accumulator Note in CZK	Komerční pojišťovna, a.s., SG	25 April 2015
Minutes of the agreement to cut the basis for the calculation of the commission for the sale of travel insurance	Komerční pojišťovna, a.s.	30 June 2015
Agreement to provide a 20% discount on travel insurance for selected clients of Komerční banka	Komerční pojišťovna, a.s.	1 October 2015
Agreement for the provision of a smart card reader	Komerční pojišťovna, a.s.	1 October 2015
Service contract – outsourcing – BI services	Komerční pojišťovna, a.s.	10 December 2015
Service contract – outsourcing – BI services (SOL2)	Komerční pojišťovna, a.s.	10 December 2015
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 use KB's sales network (including Amendments Nos. 1, 2, 3, 4 and 5) brokerage of deals – saving plans for housing loans	Modrá pyramida stavební spořitelna, a.s.	1 March 2005 12 June 2009 30 September 2010 1 October 2011 30 April 2014 30 January 2015
Confidentiality Agreement	Modrá pyramida stavební spořitelna, a.s.; BHW Holding AG; Česká pojišťovna a.s.	11 August 2006
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 31 July 2007
Lease agreement – parking places in a garage, including Amendment No. 1	Modrá pyramida stavební spořitelna, a.s.	31 January 2007 30 April 2013
Co-operation agreement – Client scoring	Modrá pyramida stavební spořitelna, a.s.	31 August 2007
Mutual co-operation agreement including Amendment No. 1; benefits for MPSS employees within KB	Modrá pyramida stavební spořitelna, a.s.	31 August 2007 1 July 2010
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
Agreement for Co-operation within the Group under S. 5a of Act No. 235/2004 Coll., the VAT Act, as amended, including Amendment No. 1 and Amendment No. 2	Modrá pyramida stavební spořitelna, a.s.	27 November 2008 22 October 2009 22 August 2014
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
Agreement to reimburse costs of licence use 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 11 February 2010
Framework agreement for personal data processing (KB as administrator, MPSS as processor)	Modrá pyramida stavební spořitelna, a.s.	30 May 2009
Framework agreement for personal data processing (MPSS as administrator, KB as processor) including Amendment No. 1 dated 12 September 2011; personal data processing	Modrá pyramida stavební spořitelna, a.s.	30 May 2009 12 September 2011
Agreement on KB's call centre services, including the reinvoicing of KB's costs to MPSS in 2015; provision of KB's call centre services to MPSS, including the reinvoicing of KB's marketing costs to MPSS in 2015	Modrá pyramida stavební spořitelna, a.s.	1 January 2010
Confidentiality agreement relating to "Outsourcing services agreement (HR services)"; preserving confidential character of information	Modrá pyramida stavební spořitelna, a.s.	27 April 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; provision of services under the contract	Modrá pyramida stavební spořitelna, a.s.	16 September 2010
Service contract – outsourcing (HR services), including Amendment No. 1	Modrá pyramida stavební spořitelna, a.s.	30 November 2010 20 December 2013

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Agreement on the Organisation of Periodic Control dated 17 December 2010, including Amendment No. 1	Modrá pyramida stavební spořitelna, a.s., SG	17 December 2010 17 October 2012
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 11 October 2011
Separate distribution agreement (Perfektní půjčka), 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 31 January 2013 21 January 2014 29 May 2014
Separate distribution agreement (MůjÚčet, G2.2) including Amendments nos. 1–7 – mediation of service under the contract	Modrá pyramida stavební spořitelna, a.s.	1 April 2011 27 April 2012 31 January 2013 29 May 2014 29 May 2014 21 October 2014 10 November 2015 30 November 2015
Separate distribution agreement (A card, Lady card, VISA Elektron credit card) including Amendments nos. 1–4 – mediation of service under the contract	Modrá pyramida stavební spořitelna, a.s.	1 April 2011 31 January 2013 21 January 2014 29 May 2014 10 November 2015
Service contract – outsourcing – data warehouse, including Amendments nos. 1–4	Modrá pyramida stavební spořitelna, a.s.	30 June 2011 15 October 2011 13 May 2013 31 December 2013 3 November 2014
Separate distribution agreement (mortgage loan; pre-mortgage loan) including Amendments nos. 1, 2 and 3; arrangement of loans under the contract	Modrá pyramida stavební spořitelna, a.s.	9 September 2011 19 December 2011 31 January 2013 10 November 2015
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.	3 October 2011
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
Separate agreement No. 4 dated 31 October 2011 according to Framework contract for IT delivery dated 24 January 2011, including Amendment No. 1	Modrá pyramida stavební spořitelna, a.s.	31 October 2011 5 October 2012
Separate agreement No. 1 according to Framework contract for IT delivery dated 24 January 2011, including Amendments nos. 1 and 2	Modrá pyramida stavební spořitelna, a.s.	31 November 2011 5 October 2012 1 January 2014
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 – services of a cash dispenser at the address Jindřišská ul. 17/889, 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 128/222, Prague 2	Modrá pyramida stavební spořitelna, a.s.	2 April 2012
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
Agreement for co-operation in the performance of the contract for employee group risk insurance No. 3280000000	Modrá pyramida stavební spořitelna, a.s.; Komerční pojišťovna, a.s.	10 September 2012
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 2015 and individual SLAs (8 pieces)	Modrá pyramida stavební spořitelna, a.s.	11 October 2012 19 April 2013
Co-operation agreement, including the reinvoicing of marketing costs	Modrá pyramida stavební spořitelna, a.s.	31 January 2013 16 May 2015
Framework agreement to provide preferential conditions to the employees of KB and of the companies of Société Générale Group	Modrá pyramida stavební spořitelna, a.s.	1 November 2013
Distribution agreement for "Loans for housing co-operatives and associations of apartment owners" – mediation of service under the contract, including Amendment No. 1	Modrá pyramida stavební spořitelna, a.s.	1 November 2013 10 November 2015

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Agreement on framework insurance contract No. 7720802024; an insurance contract concluded by KB (policy holder) for the benefit of MPSS – deals with property risks	Modrá pyramida stavební spořitelna, a.s.	10 February 2014
Agreement on KBxMPSS Risk Management Co-operation and the relating SLA (8 pieces)	Modrá pyramida stavební spořitelna, a.s.	31 March 2014
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; cooperation in reporting receivables	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 Pre-Scoring of Clients and Negative Information Delivery pre-Scoring	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 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
Lease of non-residential premises and payment of relating services – Vimperk, terminated 30.9.2015	Modrá pyramida stavební spořitelna, a.s.	4 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)	Modrá pyramida stavební spořitelna, a.s.	1 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
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
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	Modrá pyramida stavební spořitelna, a.s.	29 December 2014
Lease of non-residential premises and payment of relating services (Kyjov)	Modrá pyramida stavební spořitelna, a.s.	27 July 2015
Agreement on borrowing	Modrá pyramida stavební spořitelna, a.s.	21 August 2015
Agreement on exchange of negative information within KB/SG FG in the Czech Republic	Modrá pyramida stavební spořitelna, a.s.	19 November 2015
Agreement to re-invoice KB's costs to MPSS including contingent items due in 2016	Modrá pyramida stavební spořitelna, a.s.	2015
Global Terms of Business	Newedge Group (Frankfurt branch) (now Société Générale)	31 December 2010
Transfer of Futures Accounts	Newedge Group (UK branch) (now Société Générale)	26 June 2009
Novation agreement	Newedge UK Financial Limited (now Société Générale Newedge UK Limited)	7 October 2011
Newedge EMIR Reporting Services Agreement	Newedge UK Financial Limited (now Société Générale Newedge UK Limited)	3 February 2014
Agreement + Application for Client + Representation Letter	NewEdge; Eurex Clearing AG (Frankfurt)	26 June 2014
Clearing Agreement (Appendix 4 - FOA Clearing Module)	Newedge UK Financial Limited (now Société Générale Newedge UK Limited)	23 April 2015
EORS Acceptance Letter	Newedge, SG	2 April 2015
2x Service contract – outsourcing (support services, accounting services)	NP 33, s.r.o.	18 November 2013 3 November 2014
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
Lease of non-residential premises and payment of relating services + Amendments nos. 1 and 2	NP 33, s.r.o.	18 November 2013 30 December 2014 19 February 2015
Service level agreement	Protos, uzavřený investiční fond, a.s.	8 December 2014

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Agreement for co-operation in the performance of the Group Insurance Agreement of Work-related Accident and Occupational Disease Insurance for Members of Board of Directors and Administrators of the Financial Group	PEMA Praha, spol. s r. o.	25 March 2015
Notification of termination of agreement on the organisation of periodic control	SG, ALD (UAB)	9 September 2013
Commercial Framework Agreement	SG Equipment Finance Czech Republic s.r.o., ECS	21 December 2005
2x Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	15 December 2006 27 June 2014
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
Agreement on KB Call Centre Services	SG Equipment Finance Czech Republic s.r.o.	31 December 2009
Data processing and service agreement	SG Equipment Finance Czech Republic s.r.o.	18 February 2010
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
Framework agreement for personal data processing concluded between KB and SGEF	SG Equipment Finance Czech Republic s.r.o.	1 December 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 + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	3 August 2011
Service contract – C4M access	SG Equipment Finance Czech Republic s.r.o.	12 October 2011
Separate agreement No. 1 – Provision of technical infrastructure services, Connectivity services	SG Equipment Finance Czech Republic s.r.o.	1 June 2012
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
Lease of non-residential premises and payment of relating services – Prague	SG Equipment Finance Czech Republic s.r.o.	21 October 2013
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 reimbursement of cost	SG Equipment Finance Czech Republic s.r.o.	13 December 2013
Agreement on Framework insurance contract No. 7720802024 + 1 amendment	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
Parking place sublease agreement + 1 amendment – Prague	SG Equipment Finance Czech Republic s.r.o.	30 December 2014
Land lease	SG Equipment Finance Czech Republic s.r.o.	19 March 2015
Lease of non-residential premises and payment of relating services – Pilsen	SG Equipment Finance Czech Republic s.r.o.	30 September 2015
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
Appointment of process agent for Komerční banka, a.s. including an Amendment	SG New York	12 January 2004
USD Clearing Services Agreement for KOMERCNI BANKA	SG New York	7 August 2015
6x Sending reports to SG Economic, Equity and Strategy Research	SG Paris	2002
Analytical coverage of the Czech Republic for the needs of SG Research	SG Paris	2002

TITLE OF CONTRACT (OR SUBJECT MATTER OF CONTRACT – IF NOT CLEAR FROM THE TITLE)	CONTRACTING PARTY	DATE OF CONTRACT
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
Revisions of written texts	SG Paris	2012
Inserting KB's analytical reports, economic and strategic analyses in SG's database of analyses	SG Paris	2002
ISDA Master Agreement (mediation of transactions with all types of derivatives on the interbank market), including an amendment dated 8 May 2015	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
General terms and conditions for use of e-confirmation	SG Paris	10 February 2005
Sub-Custodian Service Agreement	SG Paris	16 September 2005
Sub-Custodian Service Agreement	SG Paris	12 December 2005
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
ISDA Master Agreement (emission allowances)	SG Paris	23 November 2007
Co-operation agreement (framework conditions of co-operation in the area of internal audit)	SG Paris	31 March 2008
Credit Support Annex (financial collateral transactions)	SG Paris	27 October 2009
Custody contract	SG Paris	19 February 2010
Hosting contract (data processing)	SG Paris	3 March 2010
Intra-group corporate services fees agreement	SG Paris	11 June 2010
Intra-group IT services fees agreement	SG Paris	11 June 2010
Bi-Lateral Agreement on Rate Reset and Payment Notices Produced by the ISDA Operations Committee	SG Paris	6 October 2010
Agreement on the organisation of periodic control including 1 amendment	SG Paris, PEMA Polska	15 February 2011
Contract concerning T3C competence centres	SG Paris	22 February 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, ALD Automotive Hungary	28 February 2011
Custody contract	SG Securities Services	8 March 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, PEMA Praha	11 March 2011
Agreement on the organisation of periodic control including 1 amendment	SG Paris, PEMA SLOVAKIA	11 March 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, SG Equipment Leasing Hungary	29 March 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 including 1 amendment	SG Paris, SGEF Hungary Plc.	29 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 Automotive UAB	17 May 2011
Agreement on the organisation of periodic control including 1 amendment.	SG Paris, ALD Automotive SIA	23 May 2011
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, SG Equipment Leasing Polska	13 September 2011
Agreement on the organisation of periodic control	SG Paris, SG Warsawa	30 December 2011
Amendment to Service Level Agreement (backup procedure conditions)	SG Paris	13 March 2013
Agreement on the organisation of periodic control	SG Paris, Komerční pojišťovna, a.s.	24 June 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
IT Services Agreement	SG Paris	1 January 2014
Amendment for incoming or outgoing XML SCT (SEPA Credit Transfer) and SDD (SEPA Direct Debit) messages	SG Paris	13 January 2014
Service Level Agreement (SGCIB Global Applications)	SG Paris	7 August 2014
Client Service Agreement – Regulatory Capital Calculation and allocation of operational risk	SG Paris	26 September 2014
Consent Form (Derivatives Trade Reporting)	SG Paris	30 September 2015

TITLE OF CONTRACT (OR SUBJECT MATTER OF CONTRACT – IF NOT CLEAR FROM THE TITLE)	CONTRACTING PARTY	DATE OF CONTRACT
Agreement relating to the use of SGSS Gallery for custody reports	SG Paris	21 October 2015
Custody Account Agreement and Amendment dated 15 June 2015	SG Warszawa	13 November 2009
Service Level Agreement (custody services)	SG Warszawa	13 November 2009
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
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
Custody contract	SKB Banka	28 May 2015
2x Service contract – outsourcing (support services, accounting services)	VN 42, s.r.o.	18 November 2013 3 November 2014
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 + 3 amendments	VN 42, s.r.o.	18 November 2013 14 December 2013 18 December 2014 19 February 2015

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 from 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 2015 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 by SG in the reporting period.

In Prague on 3 March 2016

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

Proposed stock split

In order to increase the liquidity of Komerční banka shares on the stock-exchange markets, the Board of Directors will propose to the General Meeting to be held on 22 April 2016 splitting the issued shares having value CZK 500 each at a rate of 5:1 by providing each shareholder with five new shares, each with a nominal value of CZK 100, in exchange for each of the original shares.

Public tradability

Komerční banka shares are publicly traded on exchange markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů, a.s. (the Czech Stock Exchange).

Rights vested in the shares

Rights are attached to the ordinary shares in accordance with Act No. 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 as of 31 December 2015. 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 were traded on the London Stock Exchange. The number of GDRs issued as of 31 December 2015 was 119,475.

Termination of the GDR programme

In January 2016, the Bank's Board of Directors approved termination of the listing of Komerční banka's Global Depositary Receipts registered under ISIN US5004594090 and US 5004591021 at the London Stock Exchange. The reason for the delisting was to increase operational efficiency.

Through issue of the Global Depository Receipts in 1995 and 1996, Komerční banka entered the international capital markets. Improvements of the institutional framework in the Czech Republic and integration into the regulatory environment of the European Union have diminished the need to provide an additional layer of assurance to investors through listing on a developed stock market. This trend has been clearly reflected in decreasing volume of KB shares held in the form of GDRs. As at the end of the year 2015, the amount of outstanding GDRs represented 0.1% of share capital of KB. The Bank also decided to terminate the agreement with the depositary of the Global Depository Receipts, The Bank of New York Mellon. As per the termination clause of the agreement, the owners of the receipts will see their receipts exchanged for regular shares of KB, traded on the Prague Stock Exchange.

Bonds

List of bonds issued by Komerční banka (as of 31 December 2015)

NO.	BOND	ISIN	ISSUE DATE	MATURITY DATE	VOLUME IN CZK	NUMBER OF PIECES	INTEREST RATE	PAYOUT OF INTEREST
1.	HZL 2006/2016	CZ0002000854 [1]	1 September 2006	1 September 2016	EUR ths. 4,267	42,670	3.74% p.a.	yearly
2.	HZL 2007/2019	CZ0002001142 [2]	16 August 2007	16 August 2019	3,000,000,000	30	5.00% p.a.	yearly
3.	HZL 2007/2037	CZ0002001324 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note A	stated
4.	HZL 2007/2037	CZ0002001332 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note A	stated
5.	HZL 2007/2037	CZ0002001340 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note B	stated
6.	HZL 2007/2037	CZ0002001357 [2]	16 November 2007	16 November 2037	500,000,000	5	Note B	stated
7.	HZL 2007/2037	CZ0002001365 [2]	16 November 2007	16 November 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
8.	HZL 2007/2037	CZ0002001373 [2]	16 November 2007	16 November 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
9.	HZL 2007/2037	CZ0002001381 [2]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
10.	HZL 2007/2037	CZ0002001399 [2]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
11.	HZL 2007/2037	CZ0002001431 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
12.	HZL 2007/2037	CZ0002001449 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
13.	HZL 2007/2037	CZ0002001456 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
14.	HZL 2007/2037	CZ0002001464 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
15.	HZL 2007/2037	CZ0002001472 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
16.	HZL 2007/2037	CZ0002001480 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
17.	HZL 2007/2037	CZ0002001498 [2]	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
18.	HZL 2007/2037	CZ0002001506 [2]	7 December 2007	7 December 2037	700,000,000	7	RS minus 0.20% p.a.	stated

NO.	BOND	ISIN	ISSUE DATE	MATURITY DATE	VOLUME IN CZK	NUMBER OF PIECES	INTEREST RATE	PAYOUT OF INTEREST
19.	HZL 2007/2037	CZ0002001514 [2]	7 December 2007	7 December 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
20.	HZL 2007/2037	CZ0002001522 [2]	7 December 2007	7 December 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
21.	HZL 2007/2037	CZ0002001530 [2]	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
22.	HZL 2007/2037	CZ0002001548 [2]	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
23.	HZL 2007/2037	CZ0002001555 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
24.	HZL 2007/2037	CZ0002001563 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
25.	HZL 2007/2037	CZ0002001571 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
26.	HZL 2007/2037	CZ0002001589 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
27.	2007/2017	CZ0003701427 [1]	18 December 2007	1 December 2017	153,400,000	767	4.216% p.a.	yearly
28.	HZL 2007/2017	CZ0002001761 [1]	19 December 2007	19 December 2017	257,240,000	12,862	4.09% p.a.	yearly
29.	HZL 2007/2037	CZ0002001753 [1]	21 December 2007	21 December 2037	8,330,000,000	833	RS plus 1.5% p.a.	yearly
30.	HZL 2007/2037	CZ0002001746 [1]	28 December 2007	28 December 2037	1,240,000,000	124	RS plus 1.5% p.a.	yearly
31.	HZL 2012/2022	CZ0002002801 [1]	21 December 2012	21 December 2022	3,000,000,000	300,000	2.55% p.a.	yearly
32.	2012/2016	CZ0003703589 [1]	21 December 2012	21 December 2016	3,000,000,000	3,000,000,000	3.25% p.a.	yearly
33.	2012/2017	CZ0003703597 [1]	21 December 2012	21 December 2017	3,000,000,000	3,000,000,000	3.50% p.a.	yearly
34.	2012/2018	CZ0003703605 [1]	21 December 2012	21 December 2018	5,000,000,000	5,000,000,000	Note C	yearly
35.	2012/2019	CZ0003703613 [1]	21 December 2012	21 December 2019	5,000,000,000	5,000,000,000	Note D	yearly
36.	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
37.	HZL 2014/2022	CZ0002003379 [1]	30 January 2014	30 April 2022	800,000,000	80,000	3.00% p.a.	yearly
38.	HZL 2014/2024	CZ0002003361 [1]	30 January 2014	30 January 2024	900,000,000	90,000	3.00% p.a.	yearly
39.	HZL 2014/2025	CZ0002003353 [1]	31 January 2014	31 January 2025	1,117,000,000	111,700	3.50% p.a.	yearly
40.	HZL 2014/2026	CZ0002003346 [1]	31 January 2014	31 January 2026	800,000,000	80,000	3.50% p.a.	yearly
41.	HZL 2014/2026	CZ0002003742 [2]	18 November 2014	18 November 2026	750,000,000	75,000	2.00% p.a.	yearly
42.	HZL 2014/2028	CZ0002003767 [2]	20 November 2014	20 November 2028	750,000,000	75,000	2.20% p.a.	yearly
43.	HZL 2014/2027	CZ0002003759 [2]	24 November 2014	24 November 2027	750,000,000	75,000	2.10% p.a.	yearly
44.	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.

The bonds listed in the table under numbers 2–44 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.

Public tradability and transferability

HZL ISIN 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

Trademarks, licences and sublicenses

In 2015, Komerční banka 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 a further 3 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.

Expenses on research and development

In 2015, Komerční banka had outlays through operating expenses of CZK 144 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 2015	31 DECEMBER 2014
Bonds and treasury bills*	100,900	115,430
Shares	675	2
Emissions allowances	2,800	1,443
Equity investments in subsidiary and associated undertakings	22,177	26,717
Total	**126,552**	**143,591**

Note: *Book value

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

CZK million, IFRS	31 DECEMBER 2015	31 DECEMBER 2014
Tangible fixed assets	4,444	5,147
Intangible fixed assets	3,427	3,337
Total tangible and intangible fixed assets	**7,871**	**8,484**
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 2015, the Bank made non-financial investments in a total almost CZK 1.8 billion. Most of this amount was invested in the area of information technologies (almost CZK 1.1 billion) for acquisition and development of software and hardware. A significant part of the total amount was invested into development and reconstruction of branch network and 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 2016 should not exceed CZK 2.2 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.

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 2015	NUMBER	OF WHICH OWNED BY KB
Buildings in the Czech Republic	416	111
Buildings in the Slovak Republic	2	0
Total	**418**	**111**

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.

Governing law

As an issuer of publicly traded securities, during 2015 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. 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.

Information on remuneration to auditors for services provided in 2015

Remuneration to the auditors of KB and KB Group for services performed during 2015:

TYPE OF SERVICE – CZK thousand, excl. VAT	KB	KB GROUP
Statutory audit	16,112	23,678
Audit related services	0	6
Legal and tax related services	0	0
Other	1,906	1,906
Total	**18,018**	**25,590**

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 January 2016 Board of Directors approved termination of the GDR programme. 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, SG 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, SG Group serves 30 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: DJSI (World and Europe), FTSE4Good (Global and Europe), Euronext Vigeo (Europe, Eurozone and France), ESI Excellence (Europe) from Ethibel and 4 of the STOXX ESG Leaders indices.

The Bank's identification details as of 31 December 2015

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) advisory and consulting activities, preparation of expert studies and reports,
d) administration and maintenance of real property,
e) organisation of specialised courses, training, and other educational programmes including teaching,
f) provision of software, advisory in information technologies, data processing, hosting and relating activities and web portals,
g) administration and organisational services.

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 Etienne Viry, born on 2 November 1966, member since 2 January 2015*
- Member of the Board of Directors: Karel Vašák, born on 9 August 1960, member since 1 August 2012*
- Member of the Board of Directors: Libor Löfler, born on 29 May 1966, member since 1 April 2015*
- Member of the Board of Directors: Peter Palečka, born on 3 November 1959, member since 8 October 2013*

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. The Board instructed the chairman legal behaviour towards employees.

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: Sylvie Remond, born on 20 July 1963, member since 23 April 2015
- 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: 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

* with reference to the current term

Shares:
38,009,852 dematerialised, listed, ordinary bearer shares, each of nominal value 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