

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

NA PARTNERSTVÍ ZÁLEŽÍ



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Vision and Mission

Long-term Mutually Beneficial Relationships with Clients and Other Stakeholders

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

To Create Value for Clients, Shareholders and Employees

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

Declaration on Principles of Corporate Social Responsibility Code of Conduct

Komerční banka recognises that only by taking an ethical approach to doing business and providing financial services can it hope to maintain and even strengthen its position in the banking sector. The Bank also acknowledges that a fundamental prerequisite to successfully developing the company consists in the professional conduct and behaviour on the part of its employees, as exemplified in particular by fostering and

preserving direct and open relationships with clients as well as by fortifying the mutual trust between KB and its clients. Komerční banka expects its employees to be fully aware of and committed to their obligation to act in accordance with the ethical standards set forth in its Code of Ethics, which applies to all KB employees without exception, and to endeavour always to adhere to those standards.

Corporate Governance

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

Sustainable Development

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

Strategic Assumptions

During 2013, the Czech economy exited recession which began already in 2011. KB expects that the economic performance of the

country will be gradually improving in 2014 and 2015. A cornerstone of Komerční banka's strategy continues to be the assumption that the main trends in the Czech Republic's society, economy and banking system will continue over the long term to converge towards those levels seen in Western European countries, and that over time, this convergence will manifest itself in gradual change and advancement in business and consumer attitudes and demands. The Bank expects financial intermediation to grow in importance, driven by increasing consumer wealth and sophistication with respect to requirements for financial services. Banking clientele from both corporate and retail segments will become more demanding, and thus it will be necessary to offer the various client segments more differentiated services corresponding to their distinct needs.

The Czech economy is not suffering from any significant external imbalances and its public finance situation is favourable in international comparison. The banking sector is characterised by high aggregate level of capital adequacy and ratio of client loans-to-deposits remains below 80%. At the same time, healthy, if not low, level of leverage among consumers and businesses provides room for continued growth in lending and financial services over the medium term. The solid state of the banking sector, its profitability and potential for growth leads most important players to classify the Czech market as one of core markets within their international franchises and it also attracts new competitors. The competition is thus intense in all segments and product types.

Demand for financing and banking services was restrained during the recession of 2011–2013,

with a notable exception of mortgages, which continued in solid growth, driven by decreased property prices, low interest rates and favourable demographic factors. Also financing of exports was observing dynamic growth, influenced by the reinforcing presence of Czech exporters primarily on the markets of eastern Europe and Asia, requiring more structured financing solutions. Several cases of repatriation of stakes in the important Czech companies, financed often with the participation of Czech banks, contributed to the growth of business lending

as well. The upcoming recovery of the economy should support a gradual improvement in the remaining segments of the lending market, which have been hindered by weak confidence: such as unsecured consumer lending or investments of businesses into new capacities and fixed assets, and generally lending to small and medium-sized enterprises. KB should be able to grow its lending activities successfully in comparison with the market by building upon its solid client franchise as well as the strength of its capital and liquidity.

The relatively conservative savings structure among Czech households and the limited yields available from deposits in the environment of low market interest rates mean that the volume of non-banking financial assets of retail clients can be expected to grow faster than deposits. The fast growth in the volume of deposits from business clients, influenced by accumulation of cash in uncertain environment, will probably slow down.



Ambition 2015

KB's long-term excellent performance is attributable to its enviable customer base of corporations, municipalities, small businesses and discerning individual clients. The quality of the services and products delivered to the customers must correspond to their high expectations, and KB must be able to offer a proper advisory with regard to clients financial needs, both short- and long-term. Since 2010, Komerční banka has undertaken several initiatives beneath the umbrella of the Ambition 2015 programme, that aim to differentiate the Bank in terms of client and employee satisfaction, efficiency of processes and extraction of synergies.

Among other successes of the Ambition 2015 programme, KB introduced best-in-class quality of multichannel access to Group services, with its MojeBanka and Mobilni banka platforms. Wide range of product innovations was introduced, along with simplification of the range of current account bundles for individual and small business clients. The Group repositioned Modrá pyramida as a provider of comprehensive financial advisory for households and substantially extended the portfolio of products offered by Modrá pyramida sales representatives.

Management of KB retail and corporate distribution networks was simplified, the Bank established knowledge centres for selected industries. A number of processes in distribution, back-office and risk were optimised or equipped with improved tools. An example of improvement with marked impact on efficiency was centralisation of cash handling in the new cash centres. Sourcing policies were refined leading to its improved effectiveness. KB increased number of hours of training particularly for relationship managers in retail and corporate segments and developed targeted programmes such as Talent management for selected employees and M'Academy for managers.



Given the fact, that almost all planned changes and innovations have been implemented and the rare exceptions are not relevant anymore, the Bank's management decided to close the Ambition 2015 programme.

Strategy and Priorities for 2014

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

Business Development

As its main base for building mutual relationships, KB is constructing a branch network wherein a dedicated relationship manager is appointed to assist each client. The service model assigned to each client is tailored according to proper client segmentation. In addition to the modern and client-oriented branch network, clients are given access to a full range of distribution channels to accommodate their needs for efficiency, security and comfort. The Bank aims to invest more in this area to become integrated multichannel bank and thus to leverage synergies among all available channels. Modrá pyramida's platform has increasingly been used for selling a wider range of KB Group products, and it complements other KB distribution networks.

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

In parallel, clients' loyalty and activity in retail segments will be further underpinned by extending client reward schemes and targeting cross-selling initiatives. The Group's ambition in retail is to outperform market

growth in the areas of consumer loans, mortgages, and lending to small business clients. KB aims to protect its deposit base and achieve profitable growth in the volume of clients' assets under management, especially by providing value-adding advisory to clients and developing a comprehensive solution for long-term savings and investments.

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

expert advisory capabilities developed within knowledge centres for selected areas and sectors.

KB will continue to invest into its the most valuable asset – employees, because it can achieve its objectives and have satisfied clients only with the skilled, loyal and credible people.

Operational and Financial Performance

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



The new face of KB branches

On 21 October 2013, Komerční banka opened its first branch the face of which reflects a new design. Clients encountered this new style for the first time when visiting the Prague – Anděl branch. On the basis of experience acquired in this setting, the new concept will be rolled out to additional branches.

The pilot project involved not only the interior design, but also the approach taken by the branch's employees. Clients should be able to recognise these changes at first glance. "The new concept pioneers new work roles, inaugurates new client zones in the bank lobbies, and adjusts the existing operational branch model. We focused on boosting client satisfaction and providing greater discretion, especially for the top segments but also for the other segments," relates Martin Paruch, Deputy Senior Executive Officer for Distribution. "We would like to improve the efficiency of our existing operational model by devoting our relationship managers less to routine services and allowing them more time for selling activities."



technological advances. It is one of key priorities to continue in internal simplification and to become agile in order to be able more flexibly respond to rapidly changing market conditions or customer demands.

In managing its risks, the Group takes a prudent and balanced approach to all types of risks assumed. It aims at the same time to support the development of its business activities, including sustainably to grow its lending activities while bolstering the Group's market positions. The objective is to ensure profitable credit and market activities across the business cycle while preserving a sound balance sheet with strong capital and liquidity ratios. The interest rate and liquidity risks in its Structural Book are therefore conservatively managed with the aim to

minimize the exposure to financial risks and to deliver sustainable and steady profile of interest income. Credit risk procedures and limits are prudently determined. Risks accepted into the Market Book are confined by strict trading limits that are regularly reviewed. All risk management processes, techniques and limits are continuously evaluated and improved.

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

possible changes in market conditions. The remuneration of credit risk must properly reflect the nature of the instrument and counterparty.

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



The main characteristics of the Bank's new branches were suggested by the clients themselves, who had responded to surveys as to what is most important to them in a branch and what they would expect from a new concept. One of their explicit priorities was greater discretion, and that is precisely why this aspect is one of the most important points in the project for creating the branches' new face.

Main Challenges and Risks for the Bank and Group in 2014 and Expected Developments in the Financial Situation

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

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

KB expects to operate in 2014 in the macroeconomic context of moderately increasing economic output of the Czech Republic and low inflation. The Czech National Bank will probably stick to its accommodative monetary policy with regulatory two-week repo rate at minimum levels, while the floor of 27 CZK per EUR set upon the launch of the central bank's intervention for depreciation of the Czech crown in November 2013 is expected to be maintained throughout the year. Approved changes in taxation in force from 2014 will not have notable impact on KB's financial results.

As of the beginning of the year, KB expects that the improving confidence of consumers will help to sustain in 2014 the solid pace of the growth of mortgage lending and it should also contribute to a moderate recovery in unsecured consumer lending. The pick-up in the investment activity of businesses (boosted by foreign demand due to better economic situation in the euro zone and weaker Czech currency), and thus in demand for investment loans may only be more visible from the second half of the year, and beyond.

Growth of deposits from corporations is expected to decelerate significantly compared to 2013, while individual clients will likely again redirect part of their savings to non-bank products, such as pension and mutual funds

and life insurance policies, which helps them to improve effectiveness of diversification of their savings.

The growing business volumes should help to return consolidated revenues of KB Group into positive growth territory. Certain hindering factors will probably persist even in 2014, though. The most important negative factor for KB's revenues will remain to be low level of market interest rates, which puts pressure on reinvestment yield from deposits, although some increase on the long-term part of the yield curve can potentially come to pass if the commencement of the expansionary phase of the business cycle is confirmed. Extension of the programme of client rewards for activity MojeOdměny will have short-term negative influence on revenues from fees and commissions, despite the programme's positive impact on numbers and activity of clients. The measures of the Czech National Bank have effectively limited volatility of the Czech koruna exchange and interest rates, reducing clients' demand for hedging of financial risk and the Bank's revenue potential from financial operations.

In the situation of only moderately growing revenues, KB will pursue its tight management of operating expenses in order to maintain the achieved level of efficiency (as reflected in the cost-to-income ratio) which gives KB a major advantage in the market competition.

The rather cautious attitude of business and individual clients during the recession as well as prudent risk policies of Komerční banka and some releases of provisions created in the previous periods contributed to a low level of risk costs reported in the recent periods. KB's risk management will remain to be strong, but the cost of risk may moderately increase to the level closer to its estimated across-the-cycle average.

KB has been regularly stress testing its banking book and market book exposures, and the results always have been well above internationally and locally required minimums.

A potential scenario of moderate economic recession in 2014 would mean slower growth or even moderate decline in business volumes and revenues along with increase in risk costs. Average risk weights of assets would increase leading to a slight decrease in capital adequacy ratios, albeit still safely above the regulatory requirements. KB Group's business model has proven its robustness, and the operations of the Group should remain profitable.

Komerční banka is subject to the approved EU regulations on capital adequacy and liquidity. KB's solid levels of capital, liquidity and leverage ratios provide adequate room for continuation in developing business activities and maintaining fair remuneration of shareholders.

The government coalition agreement among the Czech Social Democratic Party, ANO movement and Christian Democratic Union published on 13 January 2014 and the government programme published on 12 February 2014¹⁾ presume several changes to the legislative and economic framework in the Czech Republic. Among the most important from the perspective of Komerční banka are the intended merger of the in 2013 launched second pillar of the pension system with the established third pillar, and the declared possibility to consider introduction of a specific income tax rate for regulated sectors in order to finance potential decrease of value added tax on certain consumer products.

Given the lack of known details as of writing of this annual report about the respective measures to be taken, it is not possible to provide a numerical estimate of the possible impacts of the potential implementation of the above mentioned proposals. KB believes such impacts would be manageable.

The financial stability ratios confirm KB Group's strong position. In the conditions envisaged at the beginning of 2014, management expects the Bank's operations will generate sufficient profit in 2014 to cover the Group's capital needs ensuing from the growing volume of assets as well as to pay dividends.

¹⁾ published at www.vlada.cz/en

Report on Business Activities

Clients of KB Group and Their Service

As of the end of 2013, KB Group was serving 2.5 million clients on a consolidated basis. Standalone KB recorded 1,589,000 clients (-0.8% year on year), of which 1,337,000 were individuals. The remaining 252,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 574,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 564,000. ESSOX's services were being used by 284,000 active clients.

The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,165,000 by the end of 2013 and corresponds to 73.3% of all clients. Customers held 1,562,000 active payment cards, of which 219,000 were credit cards. The number of active credit cards issued by ESSOX came to 136,000. The year 2013 was marked by a growth in the usage of internet banking, when the number of users rose by 9% to 1,029,000 clients of MojeBanka platform, and even more of mobile banking, when number of users of Mobilní banka application more than doubled to 97,000 from 45,000. The internet was used more as a sales channel, too, KB sold 8% of all consumer loans without clients visiting a branch.

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

distribution networks, the Komerční banka branch network, and in some cases via the business partners.

Komerční banka's clients had at their disposal 399 banking branches (including one branch for corporate clients in Slovakia), 729 ATMs, plus full-featured direct banking channels supported by two call centres., and consumer financing from ESSOX was available through its network of 2,600 merchants. Modrá pyramida's customers had at their disposal 208 points of sale and 1,109 advisors. SG Equipment Finance (SGEF) was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network.

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

Surveys have shown greater client satisfaction than in previous years, mainly owing to an orientation towards providing banking services to match client needs. This means delivering simple services efficiently and quickly, comprehensive client development activities to determine an appropriate product structure (including products with high value added), and all while utilising synergies all across the KB and SG groups. An extensive branch network with experienced relationship managers constitutes a significant competitive advantage for KB in the Czech market.

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

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

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

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

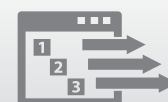
In 2013, KB
Group attended to

2.5
MILLION
CLIENTS



73%

The share
of clients using
at least one direct
banking channel





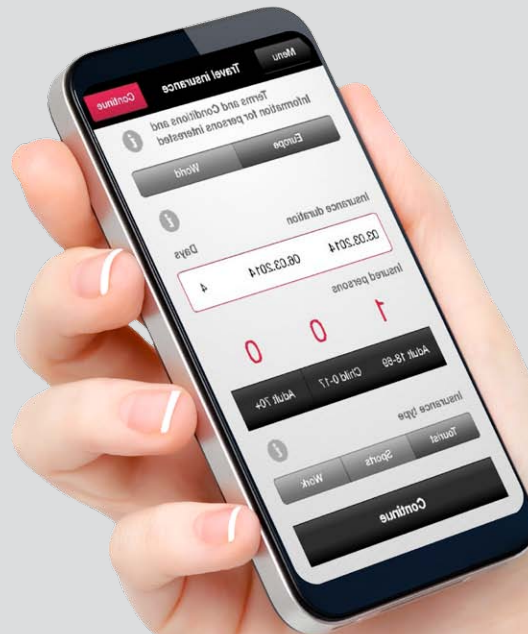
KB MojePlány (KB MyPlans) and KB Podnikatelské finance (KB Business Finance)

In April 2013, Komerční banka offered its clients two new applications for composing financial plans – KB MojePlány (MyPlans) and KB Podnikatelské finance (KB Business Finance). The former is focused on the Individuals client segment and the latter on Small Businesses. With their comprehensiveness and wide availability, they offer clients unique value-added services.

The development of the KB MojePlány application began three years ago, originally with the objective to offer a long-term savings product following the planned transformation of the pension system. Over the course of the development process, this idea was gradually expanded into a concept which also supports the clients in fulfilling their other dreams and plans. Within the KB MojePlány application, the client gradually inputs his or her specific objectives and their timing, information necessary for composing his or her investment profile, plus information on income, expenses and the products he or she already uses. On the basis of all this data, the application generates for the client his or her personal financial plan, which takes into account not only KB/SG Group products but also products the client is currently using from other financial institutions.

The KB Podnikatelské finance application offers services focused on advisory in financing the business needs of clients in the Small Business segment. Through several small steps, the application enables a comprehensive analysis of the client's specific objectives and preferences and then recommends an appropriate constellation of products that best suit the client's real needs. These can be KB products as well as products of companies from the KB/SG Group.

Both applications come in three versions: one is used by relationship managers while working with clients at the branch, the second is accessible to clients through their internet banking (MojeBanka and MojeBanka Business) and the third (designed for non-clients) is generally available at the KB website.



Individuals

In 2013, Komerční banka reconfirmed its position as the third largest bank on the Czech market in the Individuals segment. The Bank acquired nearly 115,000 new clients in this segment, bringing the total number of clients to 1,337,000. While that represents a year-on-year decline of 0.4% overall, the proportion of active clients intensively using KB services rose. The Bank also continues to maintain an important position in the children and youth segment, with more than 415,000 such accounts.

KB is strengthening the client approach in its activities. The services offer covers the full range of clients' financial needs while calling upon the expertise of the entire KB Group. The Bank sharpened its focus on active customers and on providing value-added advisory. Within its long-term strategy, KB optimised the financial services offer and presented a wide range of innovations.

In the Individuals segment (and also the Small Businesses segment), KB further expanded the MojeOdměny (MyRewards) client programme that rewards clients for their activities. Customers positively received improvements in that programme during 2013, and this brought an increase in the number of active clients and growth in financial product sales. KB also streamlined the procedures for consolidating consumer loans from other financial institutions and valuing pledges of real estate.

In the area of lending to individual clients, the mortgage portfolio grew its volume by 10.2% in 2013 to CZK 148.6 billion. This was driven by advantageous pricing and other parameters of KB mortgages. KB's Flexible Mortgage was declared the best mortgage loan for 2013 in the Zlatá koruna competition. Within the Group, this was partially offset by lower demand for building society loans.

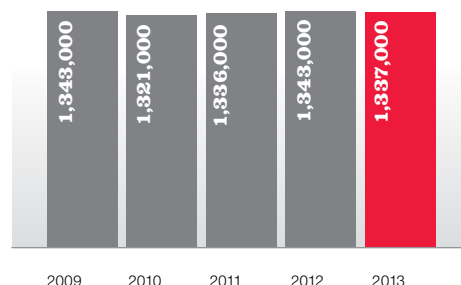
The volume of loans provided by Modrá pyramida decreased by 11.6% to CZK 43.6 billion. Demand for consumer loans began cautiously to grow from the middle of the year. In a year-on-year comparison, the volume of consumer loans (in total for KB and ESSOX) expanded by 3.8% to CZK 28.5 billion.

Private Banking

KB offers comprehensive Private Banking services to the clients with financial assets exceeding CZK 20 million at its branches in Prague, Brno and Ostrava, and from 2013 also in Pilsen and Hradec Králové. Private bankers also make themselves available outside the Bank's business premises and operate across the entire Czech Republic. Clients with assets in excess of CZK 10 million have access to selected Private Banking products at all the Bank's regional branches.

Number of clients in Individuals segment (Bank)

1,337,000



Individuals segment KB (Bank)*

	2013	2012	Change %
Number of mortgages	122,800	109,600	12.0
Volume of mortgages (CZK billion)	148.6	134.8	10.2
Number of consumer loans	178,200	194,200	(8.2)
Volume of consumer loans and overdraft loans (CZK billion)	13.8	13.8	0.0
Volume of credit card loans (CZK billion)	2.6	2.7	(3.7)
Volume of deposits (CZK billion)	157.4	152.6	3.2
Number of active credit cards	154,400	161,000	(4.1)
Number of service packages opened	1,046,200	1,049,600	(0.3)



Pension Reform

The pension reform launched in January 2013 presented a great challenge not only to KB Penzijní společnost but to the entire Komerční banka Group, and it significantly affected the retail section of the financial group, especially in the first half of the year.

The transformation of Penzijní fond Komerční banky to KB Penzijní společnost permitted the company with effect from 1 January 2013 to use the transformed fund to operate supplementary pension insurance and conduct the company's activities for the second and third pillars. In connection with that, the assets of the company were separated from the assets of the fund's participants with effect as from 1 January 2013.

Komerční banka Group is participating in the second and third pillars of the pension system in accordance with its intention to develop long-term relationships with its clients and to comprehensively meet their financial needs. KB Penzijní společnost manages a total of nine funds. In addition to the transformed fund, it offers four pension and four participation funds covering the needs of conservative as well as more aggressive investors. The offer is extended with the possibility to select various savings strategies depending on the client's profile and age. Sales of pension savings and supplementary pension savings are conducted primarily via Komerční banka branches and the distribution network of Modrá pyramida stavební spořitelna.

Before launch of the reform, it had been estimated that between 500,000 and 1 million clients would join the so-called second pillar. In the end, fewer than 84,000 people concluded contracts during 2013 (the first year from commencement of the reform). Expectations were not fulfilled, and especially owing to uncertainties concerning the future of the second pillar.

The year 2014 may bring other changes to the sector, as predicted by the proclaimed programme of the Government of the Czech Republic. In the years ahead, flexible responses to these changes will be crucial for KB Group to be able to offer its clients the best pension savings solutions.



In 2013, Private Banking again recorded double-digit growth in both the number of clients and the volume of assets under management. Further development will be founded upon reinforcing internal synergies within the Bank, maximising opportunities on the local market, and building long-term co-operation with Société Générale Private Banking Expert Centres in the area of open-architecture investment solutions.

During 2013, investors were most interested in conservative products, namely deposits and State Savings Bonds and also in diversification into bond instruments, investment and barrier certificates. Subscriptions for a guaranteed savings insurance policy offered in cooperation with Komerční pojišťovna and a Lombard loan for financing clients' private needs both recorded respectable results.

The offer of products and services for clients in 2014 will reflect both the anticipated modest recovery in the Czech economy and opportunities ensuing from regulatory changes. Within the gradually recovering market for mergers and acquisitions, KB Private Banking offers its services to owners selling their firms, namely assistance in the selling process, in cross-generational structuring of assets, and in building financial assets portfolios.

Small Businesses

At the end of 2013, Komerční banka was serving more than 240,000 clients in the small business market, confirming its position as market leader in this segment. Within the segment, the Bank aims to deliver an individual approach and expert advice to entrepreneurs regardless of their size or how long they have been in business. During the year, 18,000 new entrepreneur clients came to KB. They were drawn by the good reputation of KB's relationship managers and services, its innovated products, but also by the MojeOdměny programme which considerably reduces entrepreneurs' costs for day-to-day banking services.

The volume of loans to small businesses recorded a slight decrease for 2013 in comparison to the previous year. This corresponded with the trend and overall



New Civil Code in Komerční banka

A new Civil Code was approved during 2012 by the Parliament of the Czech Republic. This act constituted a major recodification of Czech private law after 50 years. The new Code entered into force from 1 January 2014.

Komerční banka commenced the process of implementing the vast statutory reform immediately upon its enactment in mid-2012. Several dozen KB employees – among them eight in-house lawyers – participated in the project for implementing the Code into the Bank's processes. It took several months for the work group to identify all the necessary changes in those processes and in the associated documents.

In a subsequent phase, a new database of all document templates was set up. This comprised some 4,000 items, and the Bank's in-house lawyers began thoroughly to review and process all these documents in co-operation with external legal counsel. A new "Civil Code dictionary" was created, so that each document utilises the same terminology and agreed provisions. The process was made even more challenging by the fact that some documents were changed five times before a final consensus among all those parties concerned was reached.

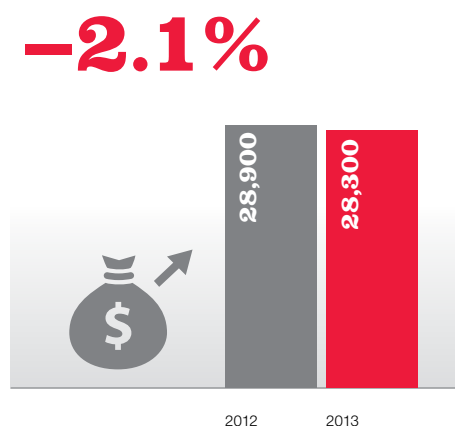
After six months of work, the Legal Department handed over to the IT Department in March 2013 almost 3,000 processed documents. The remaining part of the year was dedicated to implementing the new documentation into KB's IT systems. The Legal Department conducted several lectures and seminars regarding the new Civil Code for employees of Komerční banka, which totalled more than 180 hours.

Thanks to the timely measures taken, KB is among the first of all Czech banks to have completed implementation of the new Code into its activities and processes.

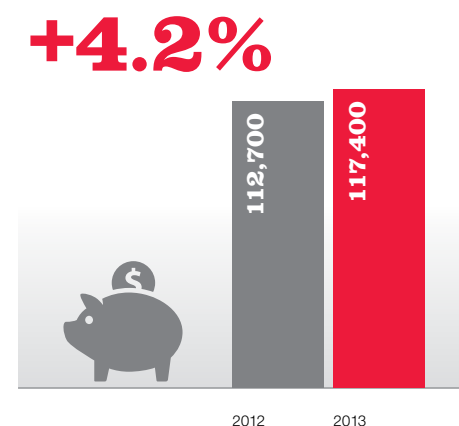
market sentiment, which during the year was by and large rather sceptical and cautious. It also reflected the fact, however, that smaller businesses were investing their own sources into development. The decline in the volume of loans drawn also relates to the expectations

for improvement in 2014, as companies want to invest when the economy is recovering. Client's deposits in the segment at KB grew year on year by 4.2% (from CZK 112.7 billion to CZK 117.4 billion)*, as volumes in current and savings accounts increased.

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



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



Small Businesses Segment KB (Bank)*

	2013	2012	Change %
Volume of drawn loans, credit card receivables, overdraft loans (CZK billion)	28.3	28.9	(2.1)
Volume of deposits (CZK billion)	117.4	112.7	4.2



Product and Service Innovations in Retail

KB continues to bring innovations and strives for rising client satisfaction. The Bank scored well in Société Générale Group's internal competition known as InnovTrophies. Videobanker, Risk Academy, and Mobile and QR Payments were recognised as being among the best innovations worldwide within the Group. The Mobile and QR Payments project was chosen by the expert panel as the second best innovation and by the voting of Société Générale clients as the very best innovation. KB presented a number of other significant innovations and improvements during 2013.

KB further developed its MojeOdměny rewards programme, which is a unique instrument for improving client satisfaction, loyalty and activity. This enables all KB clients to easily receive maintenance of the MůjÚčet package at no charge just by actively using KB Group services. MojeOdměny allows clients to optimise their costs for financial services and makes the KB offer fully price-competitive with all categories of banks on the market. That programme's expansion supported client loyalty and activity and positively affected the balance of new versus defecting clients, as well as cross-sales of the entire Group's products. Also within the MojeOdměny concept, the new Profi programme for entrepreneurs and small businesses was introduced. This provides solutions for advantageously managing business and personal finances simply and transparently at a single location.

KB launched new advisory applications for the Individuals and Small Businesses segments: KB MojePlány (KB MyPlans) and KB Podnikatelské finance (KB Business Finance). Not only do these assist relationship managers in their advisory, but KB also made the applications available to clients via MojeBanka internet banking and on its website www.kb.cz. Both tools suggest optimal combinations of financial products for achieving future financial objectives while taking into account the client's current and expected situations, savings and commitments.

Following through on its successful launch of contactless credit cards and mobile payments, KB now also offers contactless debit cards. Available now, too, is a Platinum debit card which brings unique advantages and a wide spectrum of additional services to its holders and their family members. The MasterCard Business Selection programme was also launched during the year. This programme will offer an attractive system of discounts from leading contracting partners to the holders of MasterCard company cards.

In the investment area, sales of the Amundi International SICAV fund were launched and KB launched sale of the new secured funds Certus and Certus 2 as part of Vital Invest insurance. Another innovation in the area of premium investments is a new variant of the product KB Private Asset Management "5D".

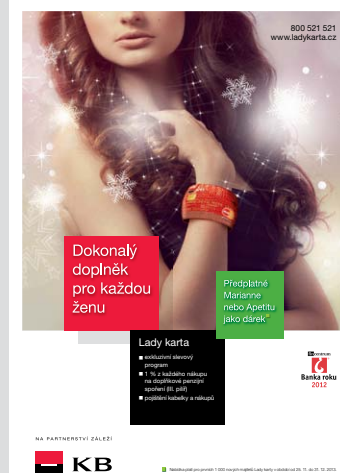
Komerční banka unveiled a new points of sale concept. The changes implemented bring clients substantial improvement in the system of service, in particular by increasing the speed and flexibility of meeting their needs. Fundamental changes in the interior layout of the business premises are among the concept's integral components. The objective of branch innovation is to reinforce Komerční banka's leading position in client service quality and to heighten clients' satisfaction with KB's services.

The Bank has long devoted great attention to the area of technologies and to developing its MojeBanka internet banking. It has newly simplified the procedure for logging in to internet banking by means of a certificate, eliminated the requirement for Java in order to boost system speed and stability, and made MojeBanka internet banking accessible to tablet users. KB innovated the services offer for the Mobilní banka 2 direct banking application. Clients can now display their investment portfolios kept at IKS KB and submit repeated payment orders based on account history. Komerční banka also prepared the popular Mobilní banka 2 in a version for telephones running the Windows Phone 8 operating system.

In 2014, Komerční banka will dedicate itself especially to strengthening its multi-channel client service. Following on to the Videobanker pilot projects, it will present to its clients a revolutionary new method of providing help in using internet banking based on sharing the web browser screen. KB is preparing to strengthen its capability to sell products and services on-line, and it will focus, too, on electronic exchange of documents between the Bank and its clients.



Sample
KB communication
posters





A motive from KB visual communication

Enterprises and Municipalities

Despite a certain degree of recovery in the second quarter, 2013 was nevertheless marked by economic recession which was reflected in the behaviour of small and medium-size enterprises. Given the uncertain outlook, they continued to be cautious about investing. Public sector clients also were sensitive to the influence of austerity measures on their budgets in connection with delays in payment of European grant funds. In order to have cash in reserve, businesses were building the volume of their deposits. Within the segment, there was an escalation of strong competitive activity to provide financing.

Nonetheless, the Bank succeeded in maintaining its growth trend. In 2013, the average volume of loans increased year on year by 0.5% to CZK 102.1 billion¹, when the growth rate was also affected by reclassification of several dozen clients into the top corporate segment. Deposits, meanwhile, expanded by an average 9.8% to CZK 143.8 billion¹ despite an extreme drop in interest yields. Taken together, these results confirm KB's stable position in a market where its market share is slightly growing even as it maintains an acceptable cost of risk. More than 10,600 clients were served in the segment and according to market surveys 51% of medium and large enterprises are KB clients¹.

The Bank succeeded in broadening the spectrum of programmes involving international financial institutions, and thereby significantly increasing the volume of funds available to clients through such programmes.

The most important of these are under contracts with the following:

- European Investment Bank (EIB) in a total amount of EUR 100 million. The funds are designated for financing small and medium-sized enterprises (EIB loan for SMEs).
- European Investment Fund (EIF) in a total amount of EUR 160 million, where EIF guarantees loans made to innovative

companies (EuroInovace). In response to the great interest in this product, the Bank negotiated a significant addition to the guarantee line, which is the largest among Czech banks.

- Council of Europe Development Bank (CEB) in an amount of EUR 100 million. The funds are designated for financing of municipal projects. KB is the only private bank offering such sources to Czech municipalities (EuroMuni).

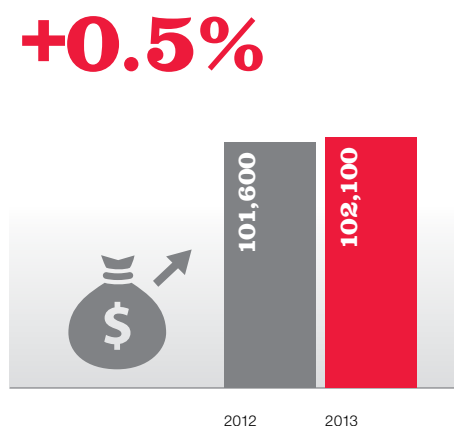
Fundamental changes were made in the organisation of the distribution network during 2013. The objectives were to optimise processes, and thereby to enhance service quality and accessibility. A team of specialists was created that is devoted to economically connected groups. Additional specialist teams which remain available to clients directly in the regions are focused on the areas of foreign trade, card acceptance, and pre financing and drawing of EU grants.

Owing to its targeted sector approach, KB responded flexibly to the changing needs of specific client groups in individual branches by deploying teams of experts in such areas as innovations, energy, real estate, the public sector, engineering and agriculture.

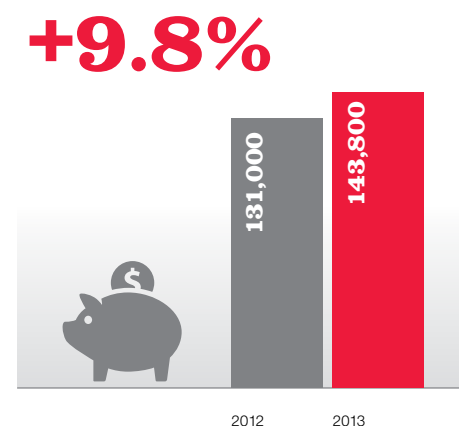
Co-operation with professional associations and unions, together with participation in events of the individual industries, plays an indispensable role in this process. The most important co-operating partners include:

- the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic,

Loans to Enterprises and Municipalities (CZK million)* KB (Bank)



Deposits of Enterprises and Municipalities (CZK million)* KB (Bank)



¹⁾ Source: Survey performed by Median agency, 2012

which brings together small and medium-sized enterprises and business people in an open, apolitical platform and represents more than 254,000 business entities;

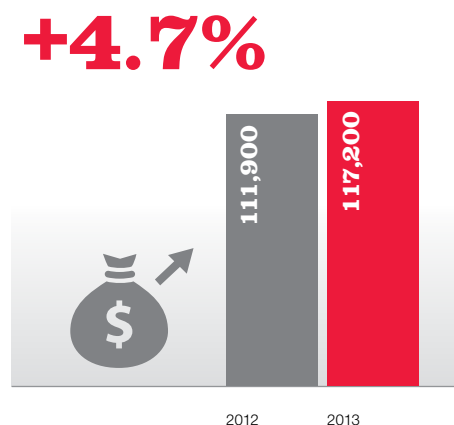
- the Chamber of Trade and Industry for the Commonwealth of Independent States, the objective of which is to support Czech business entities in their commercial activities on the markets of CIS countries; and
- the Federation of the Food and Drink Industries of the Czech Republic, representing the interests of the food industry and processors of agricultural commodities.

Among other events, the Bank actively participated in the International Engineering Fair in Brno, the Bread Basket International Agricultural Fair in České Budějovice, the Russian engineering fair Metalobrabotka, the Meeting on Budgets and Financial Vision of Cities and Municipalities, and several Žofín Forums. Traditionally, the Bank has co-organised a number of expert seminars, including export conferences with the government agency CzechTrade, seminars in co-operation with the Governance Institute (which is focused on Asian markets), and various events concerning energy and food industry topics. KB also contributed to projects recognising innovative ideas of Czech entrepreneurs and companies, such as the Visionaries project under the patronage of the Ministry of Industry and Trade and the AMSP Grant Programme under the auspices of the Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic.

A number of cultural and educational events were organised for KB clients, such as meetings with interesting personalities from the Czech business setting, such as with the artist and architect Bořek Šípek or with the architect Eva Jiřičná. A new project in 2013, was the KB Akademie educational programme comprising specialised expert trainings in the fields of financial services, taxes or law.

The Bank continued to prepare the client magazine Export Journal, and it was a partner for the magazine Trade News. In these periodicals, KB addresses topics important for the development of small and medium-sized enterprises and international trade. KB also participated in the unique Barometer of Czech

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



Medicine project, which is a comprehensive survey providing feedback from the directors of hospitals and health insurance companies.

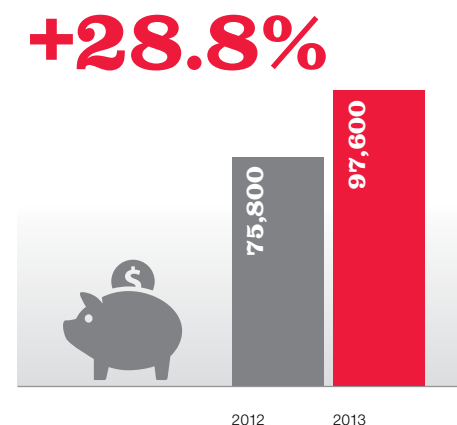
During 2013, the Bank implemented a number of innovative product and process projects with the objective of increasing client satisfaction and effectiveness. KB was the first on the market to offer on-line drawing of short-term and revolving loans (through application TF Online). The product JESSICA, offered in co-operation with the State Housing Development Fund, enables clients to draw low-interest loans for modernising apartment buildings and establishing subsidised apartments thanks to European funds. Forty-one Czech cities having integrated development plans are already in process to receive as much as CZK 600 million.

Top Corporations

Several distinguishing aspects characterised the top corporations market during 2013. Residuals of pessimism from previous years faded only slowly and there were minimal investments into new projects and company development, and demand for operating finance was stable at a subdued level.

In the second half of the year, KB noted a modest recovery in the economy and increasing optimism among the top corporations in relation to new investments and projects. In 2014, therefore, the Bank expects to see greater interest in financing new projects, in acquisitions, and in refinancing existing transactions. With its well-established business model, sophisticated products and services, and in combination with specialists in

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



various business areas, Komerční banka can offer top corporations the most advantageous solutions for their activities and developing their businesses.

The market was considerably influenced by the increased activity particularly of Czech investors acquiring stakes in leading Czech firms. This included in particular the largest transaction in Central and Eastern Europe, which was the sale of a stake in Telefónica Czech Republic to PPF Group. The sell mandate for advisory services and for acquisition financing of EUR 2.3 billion was awarded to Société Générale Group. Komerční banka contributed to the financing and likewise managed settlement of the entire transaction.

Investments in developer financing were also interesting. Owing to Komerční banka's good position on the market and high-quality developers and lessees, the Bank was able to participate in financing such projects as construction of the Florentinum office complex and the headquarters of ČEZ.

The year 2013 was especially interesting from the perspective of how deposits developed. These grew by almost one third in comparison to the previous year within the top corporations segment. The deposits gain related especially to developments in the economy and the minimal levels of investments into new projects. That meant companies were holding larger balances on their current accounts. Nevertheless, the segment did show a 4.7% increase in loans.*



Export Financing

The Bank actively supported its clients' export activities by providing export buyer's credits. Those were mostly insured by EGAP (Export Guarantee and Insurance Corporation). The export financing portfolio increased year on year by 39%, and income from export financing grew year on year by 19%.

KB further diversified its portfolio of buyer's credits by broadening those countries where the projects were financed. Among others, it expanded into Israel (modernisation of a power plant by Doosan Škoda Power), Belarus (supply of locomotives by CZ Loko and construction of logistics centres by Metrostav) and Kazakhstan (Škoda Auto). It also diversified in terms of its products. In 2013, KB successfully provided financing that was insured by a private insurance company.

While assuming Czech companies will continue their good export performance in future, the Bank intends to further develop its export financing activities all over the world. It will focus primarily on countries with historical export ties to the Czech Republic, such as Russia and the CIS countries, while utilising the extensive network of the Société Générale Group.



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 Czech National Bank. KB SK is cultivating its co-operation with top corporations within Slovakia, as well as with the clients of KB and the SG Group.

Growth in Slovakia has been dynamic. Total assets of KB SK increased year on year by 27%, and the year-on-year rise in total operating income under international financial reporting standards reached 43%. These results significantly surpassed the defined objectives and represent an especially noteworthy success in consideration of the cautious approach of KB clients towards new investments as a consequence of the economy's greater unpredictability. Despite the solid development described above, net profit was markedly diminished after accounting for provisions. The creation of provisions reflected the Bank's cautious view of certain industries in Slovakia and also provided KB SK with a good starting position for the years ahead, when consolidation of the affected industries is expected.

KB SK further modified its organisational structure in order better to respond to clients' needs, improve process efficiencies, and fully integrate changes required under legal regulations. The main project in Slovakia was to transform all banking systems in accordance with SEPA (Single Euro Payment Area), which under regulations valid for euro zone countries should be completed before 1 February 2014. The Slovak branch is working on a number of other projects which will ensure conformity with the stricter regulations for European banks.

The top corporations market in Slovakia went through extraordinary changes in 2013, and especially in the energy sector, where there were ownership changes among the market's strategic players. Some of these were Komerční banka's clients. Due to Komerční banka's strong position and rating, as well as the international know-how of Société Générale Group, KB SK participated in almost all these transactions. After these changes, the Slovak branch remained a banking partner of these corporations. These transactions only confirmed that Komerční banka's focus on clients' needs, its individual approach and its unceasing effort

to improve is the correct approach and ensures sustainable growth and a commensurate position for KB SK on the Slovak market. Fortifying synergies among Group companies in Slovakia will remain a main objective in the coming years.

Investment Banking

In 2013, the European economy finally exited the long recession that had been caused by the debt crisis within the European Monetary Union. Germany in particular recorded a successful year, benefiting as it did from strong exports. The peripheral countries, on the other hand, continued to struggle with the effects of consolidation measures. In any event, overall EMU economic performance came as a disappointment and Europe has seen only a slow and gradual recovery. The European Central Bank responded to the situation by delivering two interest rate cuts, bringing the key rate to its historic low of 0.25%. Meanwhile, European central bankers have been grappling with the issue of the euro's continuing strength against the dollar despite stronger growth in the US economy and the Federal Reserve's start in tapering its quantitative easing.

The Czech economy saw the end of a recession that had lasted for six quarters. An improvement in industrial production due to higher foreign demand and the gradual end of fiscal consolidation were the drivers behind the Czech economic recovery. Although the yield on the 10-year Czech government bond fell to its all-time low of 1.47% in May, it soon turned back northward and closed the year slightly above the 2.50% level. The CZK/EUR exchange rate traded in a narrow range of 25.50–26.00 for most of the year due to the Czech National Bank's verbal interventions. However, the CNB's Bank Board, fearing that the economy would fall into deflationary trap, decided early in November to launch outright FX intervention against the crown in order to weaken the currency to above 27.00 CZK/EUR. The crown continued to depreciate for the remainder of November with no further direct impetus from the CNB. In December, the currency stabilised at around the 27.50 level.

The year was not a successful one for the Prague Stock Exchange, as its PX index dropped by nearly 5%. The regional bourses generally did not fare well in comparison with

major markets. The Warsaw Stock Exchange's WIG20 index fell 7% during 2013, while the Budapest Stock Exchange gained by a mere 2%. In contrast with this performance, the European STOXX 600 increased by 17%, the S&P 500 in the US rose by almost 30%, and Japan's Nikkei 225 jumped up by 57%.

Despite the rather unfavourable market conditions, however, good results were achieved in transactions with corporate clients. The decline in revenues caused by lower volumes in interest rate derivatives and pressure to squeeze margins on FX products was compensated especially by a focus on sophisticated hedging instruments. These were in the areas of commodities, emission allowances and, in particular, FX options (revenues from which grew by 14%). Revenues from transactions in bonds and equities decreased slightly as a result of low interest rates and the overall subdued investment activity. A milestone was set as the Bank successfully executed its first-ever hedge co-ordination mandate.

Overall financial results were also affected by the successful implementation of several accounting standards, in particular by transition to market-based CVA (Credit Valuation Adjustment) and setting of derivatives revaluation with respect to FVA (Funding Valuation Adjustment).

The Global Finance Platform team is responsible for syndicated loans, structured financings and primary issues. In an active but highly competitive market, the team successfully executed a total of 30 loan financings during 2013. This included a number of client mandates in acquisition and real estate financings, often involving a syndication or a lead role in a club deal. In several cases, transactions were completed jointly with specialised teams of Société Générale, which provided their global expertise. One such example was 2013's landmark Czech telecommunications transaction. As a result, the Global Finance Platform cemented KB's leading role in the domestic market for providing clients with complex, innovative and professionally executed financing solutions.

Transaction and Payment Services

In mid-2013, the former Operations department was renamed Transaction and Payment Services (TPS). From 1 January 2013, TPS has been responsible for managing seven Cash Centres servicing corporate clients as well as the processing of cash in CZK and foreign currencies unloaded from branches. In August of 2013, TPS took over responsibility for processing claims and complaints from Marketing. With the objective of centralising services having the same focus, the Global Transaction Banking (GTB) unit was established as part of TPS on 1 July 2013. GTB provides KB clients documentary payments, bank guarantees and services for corporate cash management and correspondent banking. Following this step, the Export Financing unit was transferred to the Top Corporations Department.

In 2014, TPS will work on such important projects as Card Management System Replacement and GTB – Payments & Cash Management, as well as completion of the SEPA End Date project, and resolving activity optimisation at Passive Products Centres.

Payment Cards

As at the end of 2013, KB recorded 1.56 million active cards in its portfolio, most of which (1.34 million) were debit cards. In 2013, the proportion of embossed cards grew to more than 60% from less than 49% at the end of 2012. KB very dynamically expanded the points-of-sale network within which card payments can be made. As at the end of the

year, the Bank was accepting cards from more than 26,000 merchants, which represents growth by 23.1%.

The trend among payment card holders of shifting from ATM transactions to payments at retailers persisted in 2013. In connection with the expansion of the retail network and the development of contactless payments, in 2013 for the first time the average value of KB card payment transaction decreased to below CZK 1,000. The number of payments at merchants rose year on year by 13.7%, and the value of these payments increased by 7.2%. In contrast, the number and volume of ATM withdrawals diminished by 4.2% and 2.8%, respectively. Payments made by card over the internet remain the most dynamically growing area. In 2013, the number of payments made by KB cards at internet merchants climbed year on year by 31.8% and the volume of payments by 23.7%.

Non-cash Payment Operations

KB maintains a stable market share in the area of domestic non-cash payments, and with a slightly growing trend (average growth of 1% versus 2012). In foreign payments, the Bank recorded a year-on-year increase of 4.1% in the number of payments. During 2013, SEPA payments made up 70% of the total number of foreign payments.

In accordance with Regulation (EU) No. 260/2012 of the European Parliament and Council, and as a part of the SEPA END DATE project, Komerční banka successfully prepared

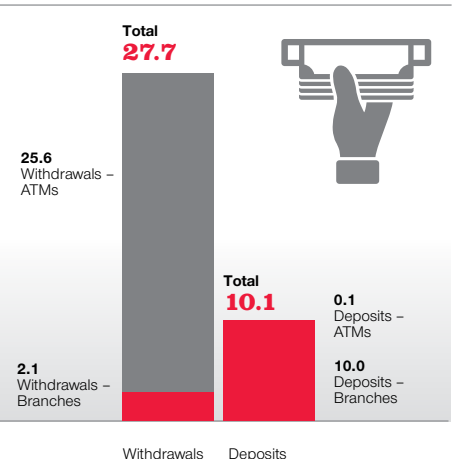
a transition of domestic payments in Slovakia to the SEPA environment and introduced the new SEPA Direct Debit product serving clients direct debit needs across the whole SEPA area.

Cash Transactions

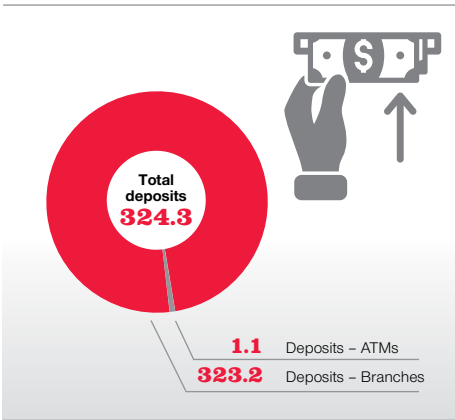
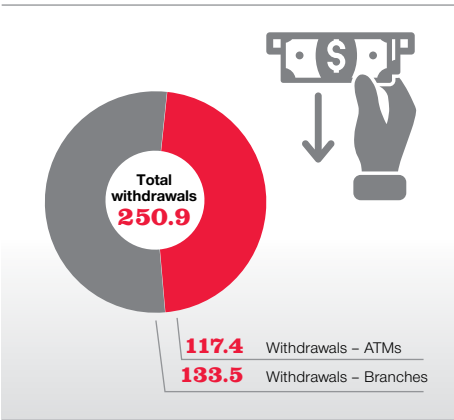
The numbers and volumes of cash transactions at Komerční banka declined year on year. This trend was caused by the economic situation existing in the Czech Republic during 2013 as well as clients' continuing preference for non-cash payment instruments. Concerning the successfully completed project to centralise cash processing in Komerční banka, the volume of client cash deposits packages processed in cash centres stabilised at an overall level of CZK 90 billion per year. In 2013, Komerční banka also continued in expanding its network of deposit ATMs through which clients can make on-line cash deposits. In addition to the 10 pilot devices installed in late 2012, a further 20 devices were installed during 2013. KB also launched the ATM DCC (Dynamic Currency Conversion) service at ATMs, which offers foreign clients the possibility to decide whether they want to exchange cash withdrawn in CZK to the currency of their account at a proposed rate.

The total volume of cash deposits carried out via ATMs in 2013 was CZK 1.1 billion. The total volume of cash deposits made by clients through ATMs and otherwise was CZK 324.3 billion (a 4.8% decrease versus 2012) while the total volume of withdrawals from ATMs and otherwise came to CZK 250.9 billion (a 5.9% decrease).

Number of cash transactions in 2013
(number in millions)



Volume of cash transactions in 2013 (CZK billion)



number of cash withdrawals in 2013 was 27.7 million, representing a 3.7% decline year on year. ATM withdrawals represent 92.4% of all cash withdrawals at KB.

Trade Finance

In Trade Finance, there was significant growth in number of issued bank guarantees of almost

25%. In view of the situation in the area of public procurement and statutory changes regarding distribution of fuel and alcohol, clients more frequently applied for guarantees with shorter tenors. In comparing income growth year to year, forfeiting of bank risk was the fastest growing. It gained by more than 40%.



Advances in Payment Operations and Trade Finance

Komerční banka brought its clients a good many useful advances in this area during 2013. Clients can newly submit standing orders with the option for their being postponed (e.g. during school holidays for lunch payments) and to submit them for transfers between accounts in foreign currencies. In direct banking, the Bank now conveniently allows clients to use an already performed payment to create a repeated payment order or a standing order. Owing to the expanded functionality of direct debit information, clients can also continuously monitor the state of their processing or identify the reason for any non-execution of a direct debit in the debit history.

For corporate segments, KB was one of the first banks in the Czech Republic to introduce the possibility of exporting account statements into their accounting systems in the new XML format complying with the Czech Banking Association Standard. Customers can now send payment orders abroad electronically in up to 110 currencies to more than 160 countries.

In the area of Cash

Management, new structures and products for international cash pooling while centralising funds at KB were successfully implemented. Demand for these services grew considerably. The main interest was from Czech companies with developed foreign trade, especially in Western European countries.



+23%
increase in number of clients
of TF Online application

New functions and an improved design of the popular and successful TF OnLine application (a tool for on-line processing of transactions in documentary payment operations and bank guarantees) brought an increase by 23% in the number of clients using this service. Implementation of loan module into this application made KB the first in the market to offer its clients such services as on-line drawing of short-term and revolving loans.



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 at 31 December 2013	Number	Of which owned by KB
Buildings in the Czech Republic	417	113
Buildings in the Slovak Republic	2	0
Total	419	113

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.

Comments on the IFRS Consolidated Financial Results

Komerční banka Group recorded a consolidated and audited attributable net profit of CZK 12,528 million for 2013 under International Financial Reporting Standards (IFRS). This represents 10.2% decrease in comparison with 2012.

As of the end of 2013, the Group's Core Tier 1 capital adequacy ratio stood at a strong 15.8% under Basel II standards, and the ratio of net loans to deposits (excluding client assets in pension funds) was 77.0%.

Profit and Loss statement

Net Banking Income

Net banking income decreased in 2013 by 5.4% year over year to CZK 30,894 million. The decline was partially caused by one-off items, such as income in 2012 from the sale of KB's stake in Bohemian–Moravian Guarantee and Development Bank (CMZRB). Revenues adjusted for this and other extraordinary items were down 3.2% from the year earlier. Net banking income was lower in spite of the growth in loan and deposit volumes. That was due to persisting very low market interest rates, which limit yields from reinvestment of liquidity, generally subdued economic activity in the Czech Republic and reduced prices for certain banking services.

Net Interest Income

Net interest income, which constitutes more than two-thirds of KB's revenues, was down by 3.5% to CZK 21,207 million despite the growing loan and deposit volumes. Deposit spreads were under pressure from diminished yields on reinvested deposits, resulting from the significant decline in market interest rates which appeared towards the end of 2012, and from intense competition. Reflecting the extremely competitive market and higher share of loans with relatively lower spread in the portfolio, total lending spread also narrowed slightly. In 2012 and 2013, KB sold its remaining

government bonds from southern Europe, and that, too, had a negative effect on the interest margin.

The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, was, in addition to the aforementioned factors, also affected by placements of short-term deposits by clients from the public and financial sectors. Those deposits inflated the formula's denominator. The margin thus declined to 2.8% in 2013 from 3.1% a year earlier.

Net Fees and Commissions

Net income from fees and commissions rose by 1.5% to CZK 7,077 million. KB expanded its MojeOdměny client rewards programme, which effectively drove down fee income from deposit products and transactions. On the other hand, the Group reported lower commission expense for acquisition of pension fund clients in comparison with the previous year. Income from life insurance and mutual funds increased, driven by growth in the volume of client savings in these products. Despite a rise in the number of transactions executed by clients, the income from transactions decreased due to diminishing average prices and clients' continuing switch to lower-cost means of making payments. Fees from loan syndications recorded a significant rise year over year, confirming KB's success on this vibrant but very competitive segment of the market.

Net Profit from Financial Operations

Net gains from financial operations were affected by several one-off items in both comparable periods. These included in 2012 income from the sale of KB's stake in CMZRB, gains from adjustments in the portfolio of Penzijní fond KB, and sale of the remaining Greek and Portuguese government bonds. In 2013, these were mainly negative valuation adjustments of certain derivatives reflecting implementation of the IFRS 13 accounting standard and refinements of valuation methods for

derivatives according to their cost of funding. The reported result declined by 30.8% to CZK 2,489 million. Influenced by CNB measures, low volatility of exchange rates and interest rates is limiting clients' demand for financial hedging. Net gains from FX payments reflected lower average spreads.

Other Income

Other income declined by 4.0% to CZK 121 million. In 2013, other income primarily comprised revenues from intermediation and property rental.

Operating Costs

Total operating expenditures were pared back by 2.5% to CZK 13,148 million. Within this category, personnel costs came down by 0.8% to CZK 6,728 million as the average number of employees was lower by 1.8%, at 8,604. General administrative expenses decreased by 6.6% to CZK 4,666 million. The main savings were achieved in real estate expenses (following the move of certain operating functions into the new building at Prague – Stodůlky), telecommunications and marketing costs. On the other hand, rolling out of contactless payment cards and related infrastructure required greater spending in this area. The category depreciation, impairment and disposal of fixed assets was up by 2.8% to CZK 1,754 million, as higher amortisation of software applications was only partially offset by lower depreciation of buildings and IT hardware.

Gross Operating Income

Gross operating income for 2013 was down by 7.5% to CZK 17,746 million.

Cost of Risk

In accordance with the good quality of KB's assets portfolio, the cost of risk diminished by 7.1% to CZK 1,739 million. The risk profile developed positively in both retail and corporate segments. Stated in relative terms, the cost of risk in 2013 was 37 basis points while in the previous year it had been 41 basis points.

Share of Profit of Pension Scheme Beneficiaries

The proportion of profit attributable to clients of the transformed pension fund declined to CZK 484 million from CZK 489 million. This line represents a remuneration of funds of participants who have been saving based on the contracts concluded before 1 December 2012.

Profit before Taxes

Consolidated profit before income taxes decreased by 7.1% year on year to CZK 15,731 million.

Income Taxes

Income taxes rose by 4.3% to CZK 2,825 million.

Net Profit

KB Group's consolidated net profit for 2013 came to CZK 12,906 million, which was 9.3% less than in the previous year. Of this, CZK 378 million was profit attributable to holders of minority stakes in KB's subsidiaries; the profit attributable to the Bank's shareholders amounted to CZK 12,528 million (down 10.2% year on year).

Other Comprehensive Income, Net of Tax

Other comprehensive income, which derives from hedging of cash flows, hedging of currency risk for foreign net investments, and profits and losses from financial assets available for sale, net of tax, reached CZK -8,005 million in comparison with CZK 10,620 million in 2012.

Comprehensive Income, Net of Tax

The Group's comprehensive income for 2013 amounted to CZK 4,901 million, lower by 80.3% year on year.

COST OF RISK

-7.1%

to CZK 1,739 million
thanks to the good
quality of asset portfolio



Statement of Financial Position

KB Group's total assets as of 31 December 2013 grew by 9.8% year on year to CZK 864.0 billion.

Assets

Amounts Due from Banks

Amounts due from banks climbed by 96.1% to CZK 125.7 billion. The largest component of this item consisted of placements with central banks as part of reverse repo operations, which jumped by 279.9% to CZK 87.0 billion, and term placements with other bank that were lower by 23.8% at CZK 14.3 billion.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss declined by 28.0% to CZK 37.1 billion. That portfolio comprises the Group's proprietary trading positions.

Loans and Advances to Customers

Total net loans and advances grew from the end of the previous year by 4.8% to CZK 473.1 billion. The gross amount of client loans and advances was higher by 4.8%, at CZK 491.6 billion.¹ Standalone KB had and 89% share in the loan portfolio. Modrá pyramida had a share of 9% in the consolidated portfolio.

Of the total amount of loans, credits to individual clients comprised 44%, increasing by 4.0% from the year earlier. Mortgages constituted the main driver for growth in lending to individuals, as demand was underpinned by low client interest rates. The portfolio of mortgages to individuals rose by a strong 10.2% year on year to CZK 148.6 billion, but this was partly offset by lower demand for building savings loans as the volume of Modrá pyramida's loan portfolio dropped by 11.6% to CZK 43.6 billion. The demand for consumer lending began cautiously to improve at mid-year. In a year-on-year comparison, the volume of consumer loans (from KB and ESSOX) grew by 3.8% to CZK 28.5 billion.

The total volume of loans provided by KB Group to businesses expanded by 5.4% to CZK 273.0 billion. The overall volume

of credit granted by KB to (medium-sized and large) corporate clients in the Czech Republic and Slovakia and including factor finance outstanding at Factoring KB rose by 5.7% to CZK 218.4 billion*. The demand of corporations for financing of exports and acquisitions was particularly strong. Lending to small businesses diminished by 2.0% to CZK 28.3 billion*. Total credit and leasing amounts outstanding at SGEF were up 6.7% year over year, at CZK 21.6 billion.

The loan portfolio's quality has improved compared to 2012. The share of standard loans within that total climbed to 92.4% (CZK 454.0 billion) while the proportion of watch loans was 1.9% (CZK 9.6 billion). Loans under special review (substandard, doubtful and loss) comprised 5.6% of the portfolio, with volume of CZK 27.5 billion. The volume of provisions created for loans reached CZK 18.5 billion, which was 4.4% more than at the end of 2012.

Securities Available for Sale

The portfolio of securities available for sale diminished by 0.4% to CZK 141.2 billion. From the CZK 141.2 billion total volume of debt securities in this portfolio, Czech government bonds comprised CZK 98.2 billion and foreign government bonds CZK 17.4 billion.

¹⁾ There was a slight contribution to the CZK growth rates of loans and deposits (mainly in corporate segments) from revaluation of foreign currency denominated instruments, reflecting weaker CZK following CNB intervention in November.

Investments Held to Maturity

The volume of securities in the held-to-maturity portfolio increased by 26.4% to CZK 4.2 billion. This portfolio consists entirely of bonds.

Tangible and Intangible Fixed Assets

The net book value of tangible fixed assets slipped by 1.5% to CZK 7.9 billion, while that of intangible fixed assets was lower by 3.6%, at CZK 3.8 billion.

Goodwill

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

Liabilities

Total liabilities were 11.8% greater in comparison to the end of 2012, reaching CZK 767.4 billion.

Amount Due to Banks

In 2013, amounts due to banks increased by 27.7% to CZK 49.7 billion. This item represents primarily amounts drawn to cover the Group's short-term liquidity needs in certain currencies.

Amount Due to Customers

The total volume of deposits on KB Group's balance sheet rose by 9.1% year on year to CZK 624.6 billion¹. Deposits from businesses climbed by 13.3% to CZK 349.1 billion. This category was influenced by several large short-term placements that clients deposited close to the end of the year. Deposits at KB from individual clients rose by 3.2% to CZK 157.4 billion.

The deposit book at Modrá pyramida added 0.7% year on year to reach CZK 72.3 billion. Client assets in the transformed fund managed by KB Penzijní společnost grew by 12.1% to CZK 35.8 billion. These client assets continued to be consolidated into the KB Group accounts. Total technical reserves in life insurance at Komerční pojišťovna expanded by 22.0% to CZK 34.8 billion.

Securities Issued

The outstanding volume of issued securities rose by 14.2% to CZK 22.4 billion. The majority of this item is comprised of mortgage bonds issued during 2005–2007.

Provisions

Provisions increased by 12.6% to CZK 1.1 billion. This line item does not include provisions for loan losses, which are reflected at the item "Loans and advances to customers". It includes provisions for contractual commitments and provisions for other credit commitments, comprising provisions for off-balance sheet commitments and provisions for undrawn loan facilities.

Shareholders' Equity

KB Group's shareholders' equity dropped year over year by 4.0% to CZK 96.5 billion. The generation of net profit added to the equity. On the other hand, KB paid out a dividend of CZK 8.7 billion in May, and the book value of the available-for-sale portfolio and cash flow hedges (both of which represent primarily reinvestment of client deposits) decreased due to slightly higher interest rates in comparison with the end of 2012. KB's share capital remained stable at CZK 19.0 billion.

The cash flow hedging, which reflects the change in the fair value of hedging derivatives, decreased by 42.7% from CZK 14.3 billion at the end of 2012 to CZK 8.2 billion at the end of 2013, while the available-for-sale portfolio revaluation reserve dropped by 23.5% in the same period from CZK 8.1 billion to CZK 6.2 billion.

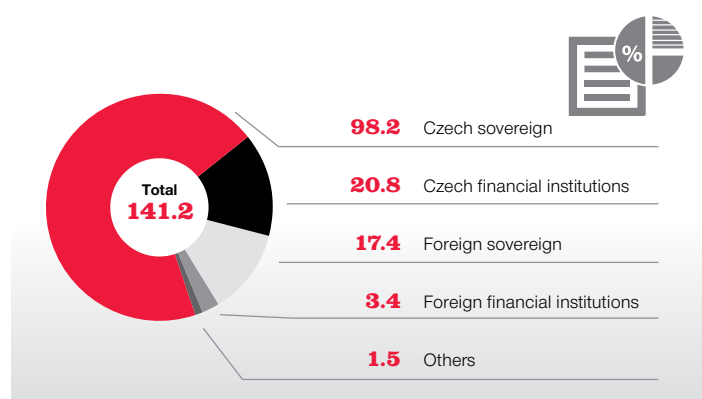
Revaluation of hedging derivatives and the portfolio of securities available for sale provides only a limited picture for determining the balance sheet value, as, in accordance with accounting standards, assets and liabilities hedged by derivatives are valued on an accrual basis. Therefore, the book value of the hedging reserve and the value of the hedged assets and liabilities are generated on the basis of different accounting regulations. Similarly, the portfolio

of securities available for sale is managed to correspond with the development of liabilities having stable interest yields. These, however, are not revalued on a mark-to-market basis.

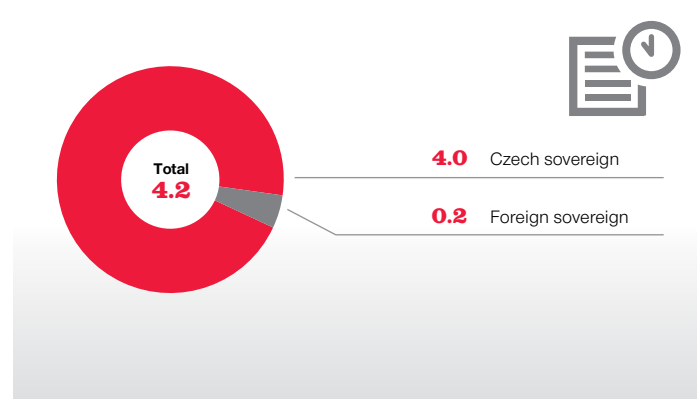
For the purposes of capital adequacy under Basel II standards, revaluation of the the cash flow hedging and the available-for-sale portfolio is not included in calculating the regulatory capital. Consolidated regulatory capital for the capital adequacy calculation stood at CZK 59.1 billion as of the end of 2013. KB Group's regulatory capital was composed solely of Core Tier 1 equity. The capital adequacy, as well as the Core Tier 1 capital ratio under Basel II standards, stood at a high level of 15.8%. Regulatory capital was higher in 2013 thanks to the undistributed profit allocated to the Group's capital in April 2013. KB Group's risk-weighted assets (RWA) increased year over year due to growth of the credit portfolio, but average risk weight declined thanks to an improvement in the risk parameters for an important part of the clients, a larger share of exposures bearing relatively low risk weights (such as mortgages), divestment of relatively more risky sovereign exposures from southern Europe, and continuous refinement of risk management models and parameters.

¹ Excluding repo operations with clients. Total amounts due to clients rose by 12.1% to CZK 649.2 billion.

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



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



Expenses on Research and Development

In 2013, Komerční banka had outlays through operating expenses of CZK 199 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.



Trademarks, Licences and Sublicenses

In 2013 Komerční banka also used trademarks for labelling its products and services both in the Czech Republic and the Slovak Republic. The used trademarks 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 168 trademarks. In case of further 11 trademarks, a registration process has been initiated, however, the process has not been

completed yet. 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 licensee and sub-licensee, typically from providers of IT services.



Financial and Non-financial Investments

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

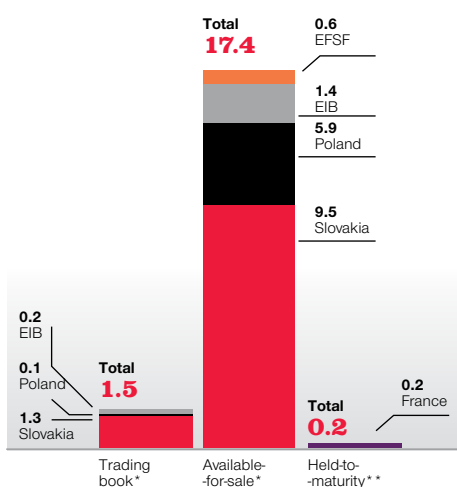
CZK million, IFRS	31 December 2013	31 December 2012
Bonds and treasury bills	114,145	127,707
Shares	2	2
Emissions allowances	381	813
Equity investments in subsidiary and associated undertakings	26,220	24,928
Total	140,747	153,450

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

CZK million, IFRS	31 December 2013	31 December 2012
Tangible fixed assets	5,235	6,581
Intangible fixed assets	3,363	3,496
Total tangible and intangible fixed assets	8,598	10,077
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.

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



* Fair value
** Amortised cost

Main ongoing investments – excluding financial investments

In 2013, the Bank made non-financial investments in a total above CZK 1.4 billion. Most of this amount was invested in the area of information technologies (over CZK 0,9 billion) for acquisition and development of software and hardware. Significant part of total amount was invested into development and reconstruction of real estate owned by the Bank. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments

The investments planned by Komerční banka for 2014 should not exceed CZK 1.7 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 development of economic environment.

Acquisition of Treasury Shares in 2013

Komerční banka held 238,672 of its own shares as at 31 December 2013. These securities had been purchased during 2006 and 2011 in accordance with decisions by

the Bank's general meetings of 28 April 2005, 26 April 2006 and 21 April 2011 allowing KB to acquire its own shares into treasury. These shares are recognised in the

portfolio of financial assets available for sale (banking book).

Komerční banka shares held in treasury

	Number of shares as at 1 January 2013	Part of registered share capital as at 1 January 2013	Number of shares as at 31 December 2013	Part of registered share capital as at 31 December 2013
Financial assets available for sale (banking book)	238,672	0.628%	238,672	0.628%

During 2013, 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 2013 intermediate transactions in KB shares for its clients.

Based upon the consent of the General Meeting convened on 24 April 2013, Komerční banka was authorised to acquire

its ordinary shares as treasury stock under the following conditions:

- The maximum number of shares that can be held by the Bank at any specific point in time shall be 3,800,985 ordinary shares representing the total nominal value of CZK 1,900,492,500.
- The acquisition price must be at least CZK 1 per share and not greater than CZK 6,000 per share.

- The period during which the Bank may acquire its own shares is 18 months.
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in Section 161a (1)(b), (c) and (d) of the Commercial Code.
- During the valid period, the Bank may buy and sell shares repeatedly without further limitations.