ANNUAL REPORT 2014

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Československá obchodní banka, a. s.

MMXIV

Business name:	**Československá obchodní banka, a. s.**
Registered office:	Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic
Legal status:	Joint-stock company
Registration:	Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46
Date of registration:	21 December 1964
Business activities:	Bank
ID No.:	00001350
Tax registr. No.:	CZ699000761(for VAT) CZ00001350 (for other taxes)
Bank code:	0300
SWIFT:	CEKOCZPP
Telephone:	+420 224 111 111
E-mail:	info@csob.cz
Internet address:	http://www.csob.cz
Data box:	8qvdk3s
Supervisory body:	Czech National Bank (CNB), Na Příkopě 28, Praha 1, Postal Code 115 03, Czech Republic

Year-on-year percentage changes are computed on mathematical basis from non-rounded figures.

Data for the years 2014, 2013 and 2012 are adjusted for the effect of the joint venture and associated companies.

KEY FIGURES

Consolidated, EU IFRS	2014	2013	2012
Financial Statements Figures			
Balance sheet at the year end (CZKm) 9)			
Total assets	865,639	962,954	865,065
Loans and receivables	506,635	475,543	418,990
Deposits received from other than credit institutions	599,143	591,619	548,985
Debt securities in issue	27,928	31,018	31,156
Shareholders' equity 1)	85,372	80,249	73,930
Statement of income (CZKm) 9)			
Operating income	31,443	31,202	33,009
Operating expenses	14,981	14,808	15,331
Impairment of loans and receivables	927	1,206	1,507
Profit before tax	16,178	15,900	17,276
Profit for the year 1)	13,604	13,658	15,291
Ratios (%)			
Return on average equity (ROAE) 2), 9), 10)	16.4	18.2	22.6
Return on average assets (ROAA) 2), 9), 10)	1.40	1.53	1.77
Cost / income ratio 2), 9)	47.6	47.5	46.4
Capital adequacy ratio – the Bank 3)	16.4	15.3	14.4
Capital adequacy ratio – ČSOB group 3)	17.5	15.6	15.2
Leverage ratio 4)	5.15	5.46	4.73
Net stable funding ratio 4)	135.9	135.7	133.2
Loan-to-deposit ratio 2), 9)	76.4	75.9	73.1
Return on assets – the Bank	1.67	1.56	1.90
Return on assets – ČSOB group 9)	1.57	1.42	1.77
General Information (as at the year-end)			
Number of employees – ČSOB group 5)	7,406	7,241	7,472
Number of clients – the Bank (thousands)	2,908	2,947	3,054
Number of branches – the Bank 6)	319	319	322
Number of ATMs 7)	1,047	1,006	914

Credit Rating 8) (as at 31 December 2014)	Long-term Rating Effective since	Long-term	Short-term	Outlook
Moody's	20 June 2012	A2	Prime-1	negative
Standard & Poor's	1 October 2014	A	A-1	negative

1) Attributable to equity holders of the Bank.
2) As at the year end; for definition please refer to page 6.
3) According to the CNB methodology; based on Basel III; as at the year end. End of period regulatory capital (ratios) does not reflect retained earnings until shareholders' approval of the audited financial statements in the following year.
4) According to Basel III. For definitions, please refer to the Report of the Board of Directors.
5) Full-time equivalent employees (excluding employees of the joint venture and associated companies).
6) Includes ČSOB branches and Era financial centers, i.e. without approximately 3,100 post offices.
7) Includes the Bank's ATMs, i.e. without 6,704 payment terminals enabling cashback.
8) Credit ratings as of the date of this Annual Report are part of the Report of the Board of Directors. As of 30 September 2014, rating agency Fitch has withdrawn the ratings of ČSOB, as we decided to end the commercial relationship with the agency. As of 1 October 2014, ČSOB is rated by Standard & Poor's. On 17 March 2015, outlook from Moody's was changed to stable.
9) Figures for 2012 and 2013, has been restated due to methodological changes (change in ČMSS's consolidation method since 2014).
10) For 2012 average assets and equity calculation, figures for 2011 were not restated (change in ČMSS's consolidation method since 2014), estimated figures were used.

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OPENING STATEMENT

Dear ladies and gentlemen,

the year 2014 was an exceptional one for the ČSOB group. We introduced a number of unique products to the market, won many prestigious awards, launched a transformation and modernisation programme of our retail division, and above all achieved excellent financial results exceeding market expectations. All this despite the low interest rate environment and increasing regulation.

I am delighted that in spite of market saturation, the ČSOB group managed to significantly increase its loan portfolio, while maintaining its very high quality. Towards the end of the year, ČSOB had the lowest share of non-performing loans since 2009. Mortgages and loans to SME / Corporate segment fared best. Thanks to the excellent results, we achieved several firsts: for the fifth consecutive year we have maintained the position of the largest mortgage provider, and we are the market leader both in building savings loans and leasing. We were also the first on the Czech market to introduce a unique platform enabling prepaid payment cards to be issued and tourniquets in public transport that allow tickets to be purchased simply by applying a contactless payment card.

Looking forward we understand that people have increasing expectations of financial services providers. This is why 2015 will see the launch of a major transformation of our branch network and client service model, where banks will be divided into various zones depending on clients' needs. At the same time, we will offer entrepreneurs the unique "Gap in the market" project, through which we will connect them directly to potential customers who will suggest which shops are missing in their area. With help from ČSOB, entrepreneurs will be able to do business precisely where people are asking for it.

As we seek to be the reference in the supply of banking services, so we are more conscious of our opportunity to serve society as a whole. We are here not only for clients, but also for those in need. I am proud to say, that in 2014 we have celebrated the 19th anniversary of our Education Fund which together with the Committee of Good Will – the Olga Havel Foundation supports education of students with a medical or social disability and children from children's homes. But not only ČSOB helps, it is also our clients who get involved in individual donations by actively using the ČSOB Good Will Card.

Ladies and gentlemen, in conclusion allow me to thank all of our people for their excellent work and our clients for their trust, which I appreciate greatly. I also pay tribute to my predecessor, Mr. Pavel Kavánek, who served our company with distinction as its CEO for over 22 years.

John Arthur Hollows
Chairman of the Board of Directors

General Economic and Market Indicators

The ČSOB group's business is conducted in the Czech Republic and is, therefore, influenced by macroeconomic trends in the country.

The year 2014 was marked by the continuing recovery of the Czech economy. The supply side was supported mainly by manufacturing, especially car production which reached historical record high levels while the demand side was driven by renewed household consumption and investments. Acquisitions of new machinery by companies was particularly noteworthy, nonetheless investments in new buildings and construction were not behind and clearly contributed to a positive and long-awaited turnaround in the construction sector.

Favorable trends in the industry, supported by growth in foreign demand together with innovations in the automotive industry were reflected in increased export and further growth in the foreign trade surplus reaching new historic highs. In particular, thanks to the latter, also Czech balance of payments returned to surplus.

Economic growth was visible across the whole economy and started to be positively reflected in the domestic labor market. Unemployment began to fall faster and real wages returned to growth. Overall, the real financial situation of households has improved, which was subsequently reflected in their positive expectations and their willingness to increase consumption and indebtedness.

Neither the positive trend of the economy nor the previous weakening of the Czech koruna by the central bank had a visible impact on inflationary pressure during the last year. Average inflation reached a mere 0.4% mainly thanks to a significant decline in energy prices. Despite the fact that inflation was lagging behind the inflation target, the central bank left its interest rates as well as its exchange rate regime established in November 2013 unchanged.

Low interest rates on money market as well as expectations for a later exit from the current set-up of the CNB's monetary policy, together with declining interest rates on a European level lead to further decline in Czech government bond yields. This trend was further supported by the Ministry of Finance of the Czech Republic utilizing to a greater extent previously accumulated liquidity reserve at the expense of further growth in government debt.

The following table sets out key Czech macroeconomic indicators for the periods indicated.

Indicator [1]	Measurement Unit	2014	2013	2012	2011	2010
Nominal GDP	CZKbn	4,266	4,086	4,048	4,022	3,954
Real GDP growth	% change, Y / Y	2.0	(0.7)	(0.8)	2.0	2.3
Real GDP per capita	CZKths	384.8	377.8	380.5	384.1	375.9
Real GDP growth per capita	% change, Y / Y	1.9	(0.7)	(0.9)	2.2	2.0
Inflation rate (CPI)	%, year end	0.1	1.4	2.4	2.4	2.3
Unemployment rate	%, average	6.1	7.0	7.0	6.7	7.3
General government budget balance / Nominal GDP		(2.0)	(1.2)	(3.9)	(2.7)	(4.4)
General government debt	CZKbn	1,816.1	1,839.7	1,803.6	1,604.0	1,508.5
General government debt / Nominal GDP	%	42.6	45.0	44.6	39.9	38.2
Exports of goods and services [2]	% change, Y / Y	13.2	1.7	7.6	10.2	13.5
Imports of goods and services [2]	% change, Y / Y	12.3	0.6	6.4	9.1	15.8
Trade balance / Nominal GDP [2]	%	5.6	4.1	3.1	1.9	1.0
Interest rate (three month PRIBOR) [2]	%, average	0.4	0.5	1.0	1.2	1.3
CZK / EUR exchange rate [2]	average	27.5	26.0	25.1	24.6	25.3

Source:
1) CZSO, unless stated otherwise.
2) CNB.

Highlights and Main Events

The terms used in this section are defined and further discussed below.

Key Figures of the ČSOB Group in 2014:

- In 2014, the ČSOB group's **net profit** attributable to the owners of the parent according to EU IFRS came in at **CZK 13.6 bn** (flat year on year).
- **Credit portfolio** further grew and reached **CZK 480 bn** (+9% year on year), especially thanks to SME / corporate loans, mortgages and leasing. **Group deposits** (excl. ČMSS, pension fund and repo with MF CR*) increased to **CZK 585 bn** (+5% year on year).

** Since April 2014, the Bank changed its investment policy and process of concluding deals with the CNB and MF CR (please refer to the Note 18 of the Consolidated Financial Statements for the year 2014). On comparable basis, repo operations with MF CR (CZK 14,140 m) were excluded in 2014.*

The ČSOB group closely manages the credit risk and maintains strong capital and liquidity positions as reflected by the following 2014 year-end figures:

- **Credit costs** decreased in 2014 both in absolute and relative terms. The credit cost ratio (CCR) stood at **18 bps**.
- The **loan to deposit** ratio reached **76.4%** and the **Tier 1** ratio increased notably to **17.2%**.
- In May 2014, a **dividend per share of CZK 27.70** was distributed from the non-consolidated net profit for the year 2013; the total amount was CZK 8.1 bn.

Top Management Changes

As of 1 May 2014, Pavel Kavánek was appointed as a member of the Supervisory Board and his position as the Chairman of the Board of Directors and CEO of ČSOB was assumed by John Arthur Hollows.

For **personnel changes in ČSOB's Managing and Supervisory Bodies** please refer to the Corporate Governance section of this Annual Report.

Changes in Ownership Interests

On 10 December 2014, ČSOB's Board of Directors approved the intention to buy 100% stake of **Patria Online, a.s.** from KBC Securities NV (Belgium). With effect from 1 January 2015, ČSOB has became 100% owner of Patria Online.

Financial Ratios

	2014 (%)	2013 (%)	Y/Y change (pp)
Return on average equity (ROAE) [1),10)]	16.4	18.2	(1.8)
Return on average assets (ROAA) [2),10)]	1.40	1.42	(0.02)
Net interest margin [3),10)]	3.17	3.20	(0.03)
Cost / income ratio [4),10)]	47.6	47.5	0.1
Credit cost ratio [5),10)]	0.18	0.25	(0.07)

	31. 12. 2014 (%)	31. 12. 2013 (%)	Y/Y change (pp)
Loan-to-deposit ratio [6),10)]	76.4	75.9	0.5
Capital adequacy ratio [7),11)]	17.5	15.6	1.9
Leverage ratio [8)]	5.15	5.46	(0.31)
Net stable funding ratio [9)]	135.9	135.7	0.2

1) *ROAE is net profit for the year as a percentage of the five point average of total shareholders' equity calculated based on the period end closing balance and the closing balances of the preceding four quarters.*

2) *ROAA is net profit for the year as a percentage of the five point average of total assets calculated based on the period end closing balance and the closing balances of the preceding four quarters.*

3) *Net interest margin is net interest income as a percentage of total average interest-bearing assets excluding repo-operations (calculated based on the period end closing balance and the closing balances of the preceding four quarters).*

4) *The cost / income ratio represents operating expenses before net provisions as a percentage of operating income.*

5) *The credit cost ratio represents total impairment losses on the granted credit portfolio as a percentage of average outstanding volume of the credit portfolio. For the purposes of this calculation, the credit portfolio includes (i) the outstanding gross amount of the credit portfolio , (ii) contingent liabilities gross (i.e. guarantees and other off-balance sheet commitments), and (iii) nominal value of bonds from Investment portfolio (excl. sovereign bonds). Average outstanding volume is calculated as average of the outstanding balances at the beginning and at the end of the period to which the credit cost ratio relates.*

6) *Loan-to-deposit ratio represents loans and receivables as a percentage of primary deposits. For the purpose of this calculation, the definitions are as follows:*
   a) *loan portfolio: Loans and receivables to other than credit institutions plus loans and receivables to credit institutions minus exposure to banks from inter-bank transactions plus credit replacing bonds (in HTM, AFS and FVPL portfolios);*
   b) *primary deposits: ČSOB group deposits minus pension funds minus repo operations with non-banking financial institutions plus deposits to credit institutions (excl. repo operations with credit institutions). In line with system of internal managerial reporting of liquidity.*

7) *End of period regulatory capital (ratios) does not reflect profit for the current year until shareholder approval of the audited financial statements for the period in the following year.*

8) *Tier 1 capital / non-risk value of assets (According to Basel III).*

9) *Available amount of stable funding (equity and liability which are expected to be reliable sources of funds over a one-year time horizon under extended stress) to stable funding required by an institution based on types of its assets, off-balance sheet exposures and activities pursued (according to Basel III).*

10) *Figure for 2013 has been restated due to methodological changes (ČMSS consolidation method).*

11) *Figure for 2014 reported according to Basel III, for 2013 according to Basel II.*

Note: pp = percentage point.

Awards

Major Awards Announced for the ČSOB Group in 2014 Included:

- Financial advisory company **Fincentrum** named ČSOB the **Bank of the Year 2014** and the best **Private bank 2014** in the Czech Republic
- ČSOB was named the **Best Private Bank 2014 in the Czech Republic** in PWM / The Banker Global Private Banking Awards 2014.
- The US-based magazine **Global Finance** awarded ČSOB as the **Best FX Bank 2014** for **the eleventh time in a row** and the **Best Bank 2014** in the Czech Republic.
- ČSOB Private Banking awarded by the renowned magazine **Euromoney** as the **Best Private Bank 2015** in the Czech Republic.
- Magazine **Structured Retail Products** selected ČSOB as the **Best Bank in Sales, Distribution** and **Product Performance in 2014**.
- **MasterCard** recognized ČSOB the most successful partner for 2014 with winning four out of eleven categories – best **Issuer 2014, Acquirer 2014, Premium Product 2014** and **Acquiring Innovation 2014**, furthermore awarded ČSOB Private Banking in the category the **best premium product** for its **Good Will Card**, contactless debit card MasterCard World ELITE that donates 0.6% of each payment to charitable purposes.
- **Patria** awarded by the magazine **Acquisition International** as the **Best Investment Bank of the Year 2014** in the Czech Republic.
- Financial advisory company **Fincentrum** awarded ČSOB silver medal in category **Bank without barriers**.
- In the **Zlata koruna** contest **ČSOB Leasing** received silver medal.
- ČSOB was nominated for award **Ashoka Changemakers** for its project **eScribe** (on-line speech transcript for clients with hearing disability provided in all Era financial centers) and took place among 15 top finalists out of 300 nominees.
- **PSB** was awarded by its clients as **the most helpful bank**. Clients appreciated primarily excellent branch network availability, transparent product offer and flexible client oriented approach.

For a full list of awards won by the ČSOB group, please go to www.csob.cz.

Innovation Leadership in 2014

Enhancing the Product Offer:

- Together with partners, ČSOB introduced **public transport ticket machines allowing contactless payments** in Brno and Liberec.
- ČSOB issued successfully **secured bonds** for the first time in its history.
- ČSOB offered **second tranche of loans in cooperation with the European Investment Bank**.
- ČSOB introduced **new cash loan with interest rate discount** applicable in the second half of the repayment period for retail clients.
- ČSOB launched **new mixed fund – Vyvážený dividendový** offering the possibility to get the yield as an annual dividend.

Enhancing Client Comfort:

- ČSOB introduced the possibility to get **cash loans** comfortably **on-line** via www.erasvet.cz.
- ČSOB extended portfolio of contactless payment solutions with introduction of **contactless stickers**.
- ČSOB offered the **purchase and extended warranty insurance** introduced for additional more than 40 new items (incl. tablets, smartphones and their displays) when bought with a credit card.
- ČSOB, as the first bank on the Czech market, offered merchants **portable payment terminal** "mPOS" connected to smartphone or tablet, enabling acceptance of payment cards.
- ČSOB **strengthened bank-insurance sales capacity** at the branches by 55 new insurance specialists and **one-stop shop** concept allowing clients to buy protection in the bank and save time.
- ČSOB introduced **loyalty scheme Svět odměn** is a product designed to enable clients earn loyalty points easily when using their payment debit or credit card. Furthermore, clients can benefit points from using other banking services (e.g. incoming payments, ovedrafts, loans, smartbanking).
- ČSOB introduced annual **educational program ČSOB Academy** for its corporate clients which offers workshops on banking topics.
- ČSOB and KBC **mutual funds offered via Patria portal**.
- **RENTO**, unique product on the Czech market, which offers insurance cover in case of car accident, **made available also for bank sales network**.
- ČSOB launched **QR code for payment orders in the smartbanking application**. Clients can generate a QR code summarizing all the necessary payment order features so it can be easily forwarded digitally to the counterparty.
- As of April 2014, ČSOB started to provide **mortgage with variable interest rate** for clients who prefer the interest rate reflecting instantly changing the market conditions. The interest rate consists of margin and 1-month PRIBOR rate.

The Board of Directors' Assessment of 2014 and Expectations for 2015

In 2014, the entire **Czech banking sector** continued to grow with both loans and deposits increasing, CNB data show. Levels of NPLs and credit costs remained benign. The Czech economy continued to recover in 2014 despite a backdrop of weak euro. In particular, the market for company loans and mortgages expanded significantly.

The year of 2014 was successful for the ČSOB group which had met its 2014 business plans as a result of the trends detailed below. ČSOB builds on good relations with its clients. ČSOB offers a unique combination of trustworthiness, one of the widest product portfolios, professional advice and unparalleled distribution reach. The ČSOB group saw a **growth of deposits as well as loans**, the former in all client segments and the latter especially in mortgages and the corporate segment. **AUM increased by 13% in 2014**, of which structured/capital protected and other mutual funds improved in total by 23% year on year, fully driven by the latter.

While the loan portfolio expanded in 2014, **credit cost ratio** decreased and remained below what the Board of Directors believes to be the through-the-cycle level. **The credit cost ratio** decreased to 18 bps in comparison with 25 bps for 2013 as the loans and receivables impairments decreased across all client segments.

The NPL (non-performing loans) ratio decreased by 58 bps year on year to 4.07%, positively influenced by the growth of loans as well as decreasing NPLs in almost all segments. The ratio is newly defined as a ratio of uncertain (performing and non-performing) and irrecoverable loans to credit portfolio fully compliant with KBC's methodology adjusted based on European Parliament and Council regulation (EU) No. 575/2013.

The provision coverage of NPLs stands at 53.4%. Mortgages representing 45% of the group's loan portfolio, require less provisioning because they are largely secured by collateral.

The ČSOB group is embedded and committed to the market in good times or worse. The ČSOB group will remain a **responsible lender**. **ČSOB's main aim** is to better serve the needs of its existing clients and capture the right market share in selected parts of the market, inter alia by expansion of its client base. ČSOB works continuously to make an attractive value proposition for its clients.

The ČSOB group will endeavor to maintain adequate **profitability** while focusing on asset quality. Strong **capital** and **liquidity** positions of the ČSOB group allow it to grow the loan portfolio faster than its deposits without abandoning its independence of market funding. The Board of Directors assumes that the 2014 level of **credit costs** cannot be sustained in the coming years.

Strategy of the ČSOB Group and its Business Model

The ČSOB group is one of the three large financial services groups in the Czech Republic. It is among the top three players in virtually all banking products and is the market leader in mortgages, building savings, asset management, private banking and leasing. The ČSOB group serves clients through multiple brands and distribution channels.

The ČSOB group is also facing a situation where traditional banking and insurance products and services are getting commoditized. In this environment the **goal is to develop new beyond-bank-insurance** products (e.g. customer identity management, secured digital archive). These products should stimulate the use of traditional products and strengthen connection with the customers. The goal is to put the customer in the center, build trust, engage and empower him.

The ČSOB group operates a portfolio of businesses that are at different stages of maturity and market position. The portfolio is reviewed regularly, comparing relative performance of individual businesses, and resources are allocated accordingly. Key resources (human capital, equity, liquidity and ICT solutions create capacity) are allocated to areas of the **best fit with this ambition**.

Servicing the Retail and SME segments is core to the business of the ČSOB group. In addition, the ČSOB group manages for value its **corporate banking services**. Furthermore the results of clients' products and services satisfaction survey are in line with the ČSOB group ambition in the area of corporate and social responsibility (for further information see section CSR of this Annual report).

The ČSOB group: (i) cultivates its market positions, driven by value creation and through-the-cycle portfolio view; (ii) moves forward from channel-centric model to a client-centric seamlessly integrated model, which is aimed at ringing together clients, third parties and bank-insurance; and (iii) builds capabilities which its management believes are critical for future success.

Financial Results

All financial figures hereinafter were drawn from ČSOB's 2014 audited, consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated.

Consolidated Statement of Income

	2014 (CZKm)	2013*) (CZKm)	Y/Y change (%)
Interest income	26,841	27,102	(1.0)
Interest expense	(3,969)	(4,451)	(10.8)
Net interest income	**22,872**	**22,651**	**1.0**
Fee and commission income	9,106	8,594	6.0
Fee and commission expense	(3,127)	(2,986)	4.7
Net fee and commission income	**5,979**	**5,608**	**6.6**
Dividend income	8	10	(20.0)
Net gains from financial instruments at fair value through profit or loss	1,700	2,048	(17.0)
Net realized gains on available-for-sale financial assets	214	408	(47.5)
Other net income	670	477	40.5
Operating income	**31,443**	**31,202**	**0.8**
Staff expenses	(6,880)	(6,731)	2.2
General administrative expenses	(7,416)	(7,328)	1.2
Depreciation and amortization	(685)	(749)	(8.5)
Operating expenses	**(14,981)**	**(14,808)**	**1.2**
Impairment losses	(975)	(1,294)	(24.7)
In which Impairment on loans and receivables	(927)	(1,206)	(23.1)
Share of profit of associates	691	800	(13.6)
Profit before tax	**16,178**	**15,900**	**1.7**
Income tax expense	(2,557)	(2,249)	13.7
Profit for the year	**13,621**	**13,651**	**(0.2)**
Attributable to:			
Owners of the parent	13,604	13,658	(0.4)
Non- controlling interests	17	(7)	(342.9)

** Figures for 2013 has been restated due to methodological changes (ČMSS consolidation method).*

Discussion of the Statement of Income Main Items

With a 73% share, **net interest income** (NII) was the largest part of the operating income. The ČSOB group generated 1.0% higher NII in 2014 compared to 2013, driven primarily by an increase in the main categories on the revenue side. The net interest margin (NIM) was resilient, and dropped only slightly to 3.17% in 2014 from 3.20% in 2013 due to the generally low interest rates in the economy partly compensated by the strong volume growth in corporate loans, where the margins are typically lower than in retail.

Of the reporting segments, the highest contribution came from the ČSOB Retail segment which represents 60% of the consolidated NII; the NII in this segment increased 3.0% year on year. The ČSOB SME / Corporate segment, making up 30% of the consolidated NII, grew 8.1% year on year thanks to higher volumes and resilient margins. Financial markets decreased its NII by 35.6%, the Group Center, which accounts for 9% of the consolidated NII, reported a 18.6% year on year decline.

The **net fee and commission income** (NFCI) represented 19% of operating profit. In 2014, NFCI increased by 6.6% compared to 2013 as income increased by 6.0% and expenses increased by 4.7%. The year-on-year increase stemmed mainly from higher demand for mutual funds and higher sales in the SME / Corporate segment driven by higher loan fees.

Other net income increased by 40% year on year due to positive one-off items and technical adjustments.

Staff expenses represented 46% of the ČSOB group's operating expenses in 2014. The item includes wages and salaries, variable compensation and social security charges. The largest part (72%) were wages and salaries which increased by 2.6% year on year due to a higher average number of employees.

General administrative expenses (GAE) represented 50% of the ČSOB group's operating expenses in 2014. The item includes IT rental and IT operating expenses, marketing, deposit insurance premium, contribution to the Securities Traders Guarantee Fund and other miscellaneous expenses. GAE increased by 1.2% year on year to CZK 7.4 bn largely due to higher IT investments linked to client focused solutions and higher deposit insurance premium partly compensated by targeted savings in postage.

IT related expenses represent the largest part of GAE (42%). This item showed an increase of 7.1% year on year. Other major items of GAE showed various development in 2014: buildings-related expenses slightly decreased (14% of GAE; -0.3% year on year), deposit insurance grew approximately in line with group deposits (12% of GAE; +7.7% year on year) and marketing expenses decreased (7% of GAE; -10.6% year on year).

Impairment losses comprise of losses in the asset portfolio arising from on-balance-sheet and off-balance-sheet transactions, taking into account the structure and quality of the asset portfolio and general economic factors. Total impairment losses decreased significantly by 24.7% year on year.

This decline was a result of a decrease in impairments on loans and receivables (by 23.1%) and impairment on other assets (by 45.5%). The former was due to the release of an impairment related to a historical file. The latter was impacted by the sale of other assets.

As a result of the above trends, the **profit for the year 2014 attributable to owners of the parent was CZK 13,604 m**, i.e. flat when compared to the figure for 2013.

Consolidated Statement of Financial Position

(Excerpt)

	2014 (CZKm)	2013 [1] (CZKm)	Y/Y change (%)
Financial assets held for trading [2]	50,626	204,729	(75.3)
Available-for-sale financial assets	56,121	75,843	(26.0)
Held-to-maturity investments	144,074	150,944	(4.6)
Financial assets at fair value through profit or loss	3,327	7,467	(55.4)
Loans and receivables	506,635	475,543	6.5
Total assets	**865,639**	**962,954**	**(10.1)**
Financial liabilities held for trading	69,624	186,920	(62.8)
Deposits received from other than credit institutions	599,143	591,127	1.4
Total liabilities	**780,059**	**882,501**	**(11.6)**
Total equity	85,580	80,453	6.4
Total liabilities and equity	**865,639**	**962,954**	**(10.1)**

1) Figures for 2013 has been restated due to methodological changes (ČMSS consolidation method).
2) Reclassification of reverse repo operations with CNB to LAR portfolio.

Discussion of the Statement of Financial Position Items

Total consolidated assets of ČSOB decreased by 10.1% year on year. Loans and receivables, the largest item thereof with a 59% share, increased by 6.5% year on year. Loans and receivables are discussed in detail in the Business Results section below.

The development of securities portfolios (29% of total assets in aggregate) was varied in 2014:

- Financial assets held for trading comprised 6% of total assets and declined by 75.3% year on year due to the change of group's investment policy and process of concluding deals with CNB and MF CR.
- Held-to-maturity investments (HTM; 17% of total assets) went down by 4.6% year on year.
- Available-for-sale financial assets (AFS; 7% of total assets) declined by 26.0% year on year mainly due to the deconsolidation of the Transformed pension fund.
- Financial assets at fair value through profit or loss (less than 1% of total assets) decreased by 55.4% year on year mainly due to the deconsolidation of the Transformed pension fund.

Further discussion of the portfolios can be found in the Consolidated Financial Statements for the year 2014, including the breakdown of exposure per type of borrower (Notes 16 and 17) or per country (Note 40).

No treasury shares were held by the ČSOB group at 31 December 2014 and 2013.

Regulatory Capital Adequacy

The primary objectives of ČSOB's capital management are to ensure that it complies with externally and internally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The ČSOB group manages its capital structure in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain the capital structure, ČSOB may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The ČSOB group incorporated major changes and ratios based on Basel III regulations into the regular management of the risk and capital positions.

Consolidated Capitalization and Risk Weighted Assets of the ČSOB Group

(CZKm, unless indicated otherwise)	2014 [1]	2013 [2]	Y/Y change (%)
Tier 1 capital = Core Tier 1 capital	60,104	55,245	8.8
Tier 2 capital	749	76	885.5
Deductible items of Tier 1 and Tier 2	0	(16)	(100.0)
Total capital	**60,853**	**55,305**	**10.0**
Capital requirement on credit and settlement risk	21,959	22,475	(2.3)
Capital requirement on market risk	1,364	1,410	(3.3)
Capital requirement on operational risk	4,571	4,524	1.0
Total capital requirement	**27,894**	**28,409**	**(1.8)**
Risk weighted assets	348,670	355,114	(1.8)
Tier 1 ratio = Core Tier 1 ratio (in %)	17.2	15.6	10.3
Capital adequacy ratio (in %)	17.5	15.6	12.2

Calculation is based on CNB rules.

1) Figures for 2014 reported according to Basel III.
2) Figures for 2013 reported according to Basel II.

End of period regulatory capital (and the respective ratios) does not reflect retained earnings until shareholders' approval of the audited financial statements in the following year.

Credit Rating

In this section, the Board of Directors discusses events related to ČSOB's credit ratings between 1 January 2014 and the date of this Annual Report. In 2014, ČSOB was using the service of following rating agencies: Fitch Ratings ("Fitch"; until September 2014), Moody's Investor Service Ltd ("Moody's") and Standard & Poor's Rating Services, LLC ("S&P"; as of 1 October 2014). All rating agencies were registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies of 16 September 2009. No bonds issued by ČSOB had a credit rating assigned.

In May 2014, **Moody's** affirmed the ratings of ČSOB. At the same time, the agency changed the outlook of long-term ratings, as a reaction to the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) adoption, on 82 European banks, including the outlook of ČSOB to negative from stable. In June 2014, Moody's maintained the negative outlook for the Czech banking system, however Moody's notes that improving economic conditions should contribute to a more stable operating environment for Czech banks, but the low interest rate environment will continue to affect banks' performance.

On 30 September 2014, the **Fitch** rating agency has upgraded ČSOB long term rating to A- from BBB+, with stable outlook, however Fitch withdraw the rating when ČSOB ended the commercial cooperation.

On 1 October 2014, **S&P** assigned ČSOB the rating A with negative outlook.

On 17 March 2015, in line with new methodology, **Moody's** confirmed ČSOB's long-term rating A2 and changed its outlook to stable from negative.

Business Results

Main Factors Influencing the Financial and Business Results of the ČSOB Group and the Market Position of the ČSOB Group

The ČSOB group's business results are affected by a range of economic, political and other external factors that affect business in the banking and financial sector in general and the ČSOB group's operations in particular. In addition, its business is subject to general global economic conditions, the development of the international financial markets, international political events, interest rate levels and volatility, currency exchange rates and general competitive factors in the banking industry. These factors also include the impact of the regulatory environment.

The Board of Directors believes that the following factors have been or will be the principal drivers for the development of the ČSOB group's business and thus its results of operations and financial condition.

1. The global financial slowdown in previous years led to a global economic downturn and a deterioration of economies in the EU, including the Czech Republic. We consider following factors important to include:
    - **Real GDP growth** in the Czech Republic may have a positive impact on the ČSOB group; the impact is most notable in the SME / Corporate segment.
    - **Increases in the volumes of imports and exports** may have a positive impact on the ČSOB group.
    - An increase in **unemployment** may cause an increase in loan losses and thus have a negative impact on the ČSOB group.
    - An excessive increase in the **government budget deficit** could lead to a future decrease in government spending, which may have a negative impact on the ČSOB group.
2. The **interest rate** environment has an impact on the ČSOB group's business, particularly on the ČSOB group's net interest income and the net interest margin. With CNB's repo rates at historical lows, the net interest margin continues to suffer.

3. A deterioration of **credit quality** of loans and receivables, both on-balance sheet and off-balance sheet, a decrease in recovery ratios or a deterioration in the value of available collateral would result in an increase in required provisioning ratios.
4. ČSOB holds significant amounts in its **securities portfolio** which may have to be revalued or impaired, e.g. due to the lack of liquidity, increase in volatility, the absence of reliable pricing information, adverse changes in the business climate, credit rating downgrades, adverse regulatory actions or unanticipated changes in the competitive environment. This also applies to any sovereign bonds held; for detail please refer to the Note 40 to the Consolidated Financial Statements.
5. **Competition:** 44 banks had a banking license in the Czech Republic as of the 2014 year end. In addition, EU legislation allows banks from other EU member states to easily enter the Czech banking market, thus possibly intensify the competitive environment.

ČSOB Group Market Position

1

Building saving loans [1]	46.9%	↗
Building saving deposits [1]	37.2%	↗
Mortgages [1]	29.6%	↘
Mutual funds [1]	26.8%	↘
Leasing [2]	15.0%	↗

2

Total loans [1]	19.8%	↗
Total Deposits [1]	19.5%	↘
Equity trading (Patria) [5]	22.7%	↘

3

Pension fund [3]	14.0%	↘
Corporate/SME loans [1]	15.2%	↗
Consumer lending [1), 4)]	11.3%	↗
Factoring [2]	18.6%	↘

Insurance [2]	Market Share		Rank
Life	6.1%	↘	7
Non-life	6.6%	↗	6
Total	6.4%	↘	5

Arrows show year on year change.
Market shares as at 31 December 2014.
1) Outstanding at the given date.
2) New business in the year; for insurance gross written premium.
3) Number of clients at the given date.
4) Retail loans excluding mortgages and building savings loans.
5) Equity trading volumes.

ČSOB Retail

The ČSOB Retail segment represents 30.1% of ČSOB's assets and 48.4% of ČSOB's liabilities.

The segment focuses on deposits, consumer loans, overdrafts, credit cards facilities, mortgages, building savings loans, mutual funds, asset management, leasing, pension funds and funds transfer facilities and other transactions with retail customers. Retail customers comprise private individuals and entrepreneurs. The former include affluent (with financial assets up to CZK 10 m) and private banking clients (above CZK 10 m), as well as all categories of mass customers.

Most Notable Events and Trends in the Segment:

- Rebounding real estate prices, interest rates at almost new historical record lows and refinancing building savings loans contributed to the 10% year on year growth of the mortgage market (measured by the total outstanding portfolio). The **ČSOB group's credit portfolio of mortgages increased by 8%** in the same period. In 2014, ČSOB reached new sales in the total amount* of CZK 42 bn, a 4% decrease year on year, while total market decreased by 7% year on year. Thus **ČSOB strengthened its leading market position in new sales**. All mortgages provided via various distribution channels are booked in Hypoteční banka. During 2014, more than 23,000 mortgages* were granted and the average size of a new mortgage was CZK 1.8 m and the interest rate is most frequently fixed for 5 years.

- The portfolio of **building savings loans** remained flat year on year as clients in general preferred mortgages to building savings loans in the low interest rate environment. As a result, the whole **market of building savings loans declined by 4% in 2014**. Although its volumes and new sales decreased, ČMSS managed to strengthen its leading market position in 2014.
- ČSOB managed to increase volume of **consumer finance** despite stagnating market
- **ČSOB Leasing strengthened its leading position**, outperforming a very competitive market.

** Include new withdrawn mortgages.*

ČSOB updated its Business model and made following changes in the Organisation structure from 1 July 2014.

- Three customer focused divisions have been created:
  - **Convenient Retail Services** division covers all retail clients' relationships including the PSB, distributed via Czech Post outlets.
  - **Relationship Services** division comprises ČSOB-branded sales networks for corporate and institutional banking and SME as well as the leasing, factoring and private banking.
  - **Insurance, Markets and Investments** division contains major activities of ČSOB's subsidiaries focused on insurance, building savings, assets management, pension funds as well as brokerage.
- As of 1 July 2014, Petr Hutla, a member of the Board of Directors, was appointed responsible for newly established division **Convenient Retail Services**. The division was primarily designed to manage business activities for the ČSOB, PSB and Era brands and their distribution channels. Petra Hutla with cooperation of the head of Operations and Technologies division, together have created a common team for retail banking transformation. The main goal of the transformation team is the overall simplification of the bank's business and operating model; and its flexible tailoring to constantly changing clients' needs. The first steps headed to governance, organisational and process simplification to support the optimum operation of both divisions.
- To be more effective in the process of retail transformation, a new division so called **Change Zone** was established (consisting of departments Digital Service and Channels, Customer Insight and Data and Products & Integration).

ČSOB Retail: Key Volumes

	2014 (CZKm)	2013 (CZKm)	Y/Y change (%)
Credit portfolio – consumer loans	19,324	19,142	1.0
Credit portfolio – mortgages	214,754	199,310	7.7
Credit portfolio – building savings loans (55%)	67,061	67,184	(0.2)
Credit portfolio – leasing	27,405	23,461	16.8

ČSOB SME / Corporate

The ČSOB SME / Corporate segment includes services to both small and medium sized enterprises as well as corporates and made up 25.3% of assets and 31.3% of liabilities of the ČSOB group as at the 2014 year end.

The SME segment includes small and medium sized enterprises with an annual turnover of up to CZK 300 m, housing cooperatives and municipalities. In 2014, the group's segment reporting was modified and as a result companies of the SME segment were included into a business segment SME / Corporate. Thus, SME customers are managed with a similar business approach as corporate clients.

Corporate customers include domestic companies with annual turnover in excess of CZK 300 m, local subsidiaries of international corporations, and selected institutional customers, including non-banking financial institutions, banks and central public institutions. With regards to corporate clients, ČSOB principally targets mid-sized corporations and seeks to combine local market expertise, products and standards of service customary in developed markets.

As at 31 December 2014, the ČSOB group had approximately 4,000 corporate and 130,000 SME customers in the Czech Republic.

The ČSOB group has a sales network of **11 regional branches** devoted to serving corporate customers, a unique regional coverage among Czech banks. In addition, the ČSOB group also has a specialized branch servicing non-banking financial institutions. SME customers benefits from wide coverage of 234 shared retail / SME branches.

The ČSOB group provides its SME and corporate customers with a **wide range of financial services** (some of them uniquely to the latter), from traditional account and payment management services and classic forms of investment and working capital financing, to solutions for managing customers' foreign currency and interest rate risks, specialized financing, financing with EU support, acquisition and project financing, cash pooling and internet-based transactional systems. The range of its products combined with its distribution network has enabled the ČSOB group to become an important service provider in key product areas, including cash management, acquisition, export and online trade finance services.

ČSOB also offers a range of **products for institutional customers**. This range comprises both regular banking products tailored to meet the requirements of institutional customers, and specialized services in the areas of cash management, custody of securities, and fund depository services.

Most Notable Events and Trends in the Segment:

- The volumes of the corporate credit portfolio have grown continuously since late 2010 and reached CZK 136.6 bn at the end of 2014 which brought ČSOB's market share above its pre-crisis level; the risk profile of the credit portfolio further improved.
- SME volumes **ended up 6%** above the 2013 year end level. This led to an **increase** of the ČSOB group's **market share** by about 1 pp year on year.
- ČSOB experienced an increased demand for structured types of financing, e.g. acquisition finance and export finance as well as for plain vanilla loans and credit replacing bonds. Trade finance grew especially thanks to export letters of credit.
- The provision of new loans to the clients was in many cases accompanied by an agreement on the protection of the interest rate exposure, leading to increased sales of the interest rate derivatives.

ČSOB SME / Corporate: Key Volumes

	2014 (CZKm)	2013 (CZKm)	Y/Y change (%)
Credit portfolio – corporate	136,595	121,531	12.4
Credit portfolio – SME	77,786	73,731	5.5
– of which investment loans	*52,343*	*49,346*	*6.1*
– of which short term loans	*25,443*	*24,385*	*4.3*
Credit portfolio – factoring	4,044	4,072	(0.7)

ČSOB Financial Markets

The ČSOB Financial Markets segment represented 6.0% of ČSOB group's assets and 8.9% of its liabilities as at the 2014 year end.

The segment contains investment products and services to institutional investors and intermediaries, fund management activities and trading included in dealing services. The ČSOB Financial Markets segment focuses on customer-driven activities for retail, SME, corporate and institutional customers, while trading is a support business for sales activities.

Group Center

The Group Center comprised 38.7% of ČSOB group's assets and 11.5% of its liabilities as at the 2014 year end.

The segment comprises of the following:

- Interest charge on capital provided to subsidiaries which are a part of the Retail segment and of the SME / Corporate segment.
- The results of the reinvestment of free equity of ČSOB.
- Asset-liability management (ALM).
- Income and expenses not directly attributable to other segments and eliminations.

Insurance

As at 31 December 2014, ČSOB Pojišťovna reached a 6.1% market share in life insurance in terms of gross written premiums and a 6.6% market share in non-life insurance in terms of gross written premiums (according to the Czech Insurance Association's methodology).

ČSOB Pojišťovna provides its customers with a wide range of insurance products, including single and regular premium life insurance as well as car (for individuals, fleets and leasing business), house, accident, travel and industrial insurance. As at 31 December 2014, ČSOB Pojišťovna had 1.094 million customers, comprising of individuals and business entities (including SME's as well as large corporations). Insurance products are mainly distributed through an internal agent network, ČSOB group's branches and external brokers.

ČSOB Pojišťovna is rated by Standard & Poor's Rating Services. On 10 March 2014, the rating of ČSOB Pojišťovna was raised to A- with a negative outlook from BBB+ and on 2 September 2014 outlook was changed to stable.

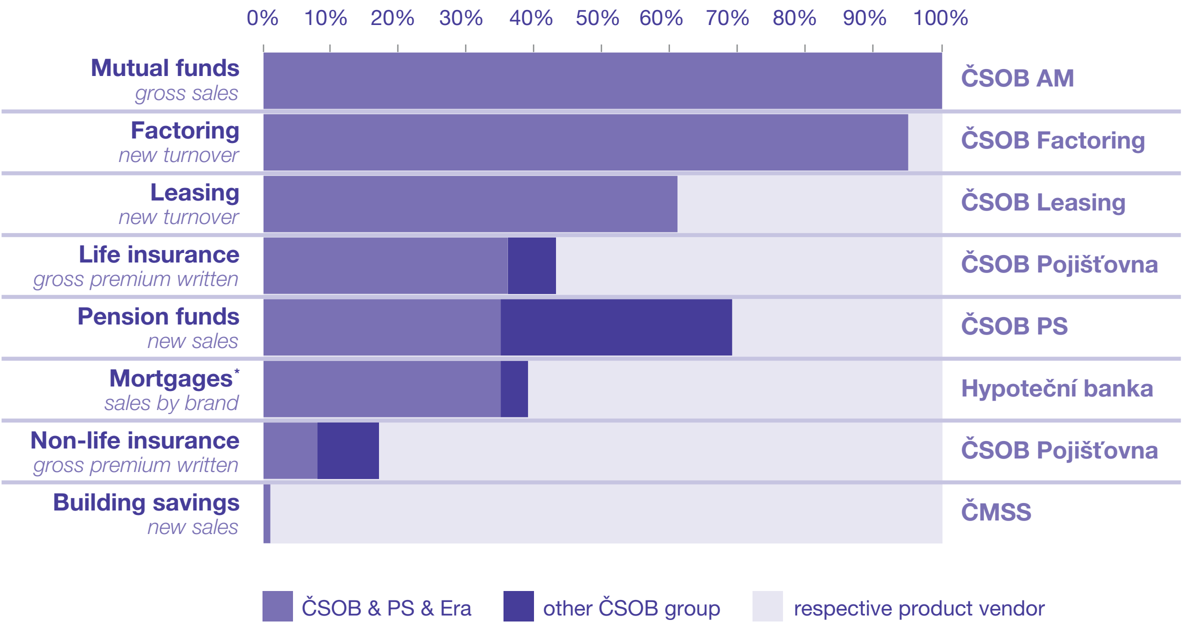
Insurance: Key Volumes

	2014 (CZKm)	2013 (CZKm)	Y/Y change (%)
Single life insurance	1,761	2,412	(27.0)
Regular life insurance	2,655	2,741	(3.2)
Life insurance total	**4,416**	**5,153**	**(14.3)**
Non-life insurance total	**4,645**	**4,470**	**3.9**
Total	**9,061**	**9,623**	**(5.8)**
Amount of benefits paid to clients	8,910	8,945	(0.4)
Number of cases settled	209,848	214,063	(2.0)

ČSOB Group Synergies

The concept of multibranding and multichannel distribution gives the ČSOB group an opportunity to better serve its target customer groups. The following charts document the cross-selling activities within the ČSOB group. This distribution model allows the ČSOB group to combine diversification with specialization.

New Production in 2014 – Shares of Distribution Channels per Product Type:



The chart shows the volumes distributed in 2014 by the companies of the ČSOB group. Distribution by third parties is included in the figures for the respective product vendors (stated in white).

** The mortgage volumes originated by third parties are included under the specific brands under which they are sold by third parties.*

Company Profile

From ČSOB's History

1964 ČSOB established by the state as a bank to provide foreign trade financing and convertible currency operations in the then Czechoslovak market.

1993 Continuation of ČSOB's activities in both Czech and Slovak market after the split of Czechoslovakia.

1999 ČSOB privatized – Belgium-based KBC Bank becoming the majority shareholder of ČSOB.

2000 Acquisition of Investiční a Poštovní banka (IPB).

2007 KBC Bank becoming ČSOB's sole shareholder after buying out all minority shareholders. New environmentally friendly building of ČSOB's headquarters in Prague – Radlice (Building of the Year 2007).

2008 As at 1 January, ČSOB's Slovak branch separated into a separate entity, fully controlled by KBC Bank via 100% of voting rights.

2009 In December, ČSOB sold remaining interest in the Slovak activities to KBC Bank.

2013 The establishment of the separate Business Unit Czech Republic within the KBC Group.

ČSOB and ČSOB Group Profile

Československá obchodní banka, a. s. (ČSOB) is operating in the Czech Republic as a universal bank. ČSOB is a wholly-owned subsidiary of Belgian KBC Bank NV (since 1999, since 2007 fully). KBC Bank is fully owned by an integrated bank-insurance group KBC Group NV.

ČSOB provides its services to all groups of clients, i.e. retail as well as SME, corporate and institutional clients. In retail banking in the Czech Republic, ČSOB is operating under the main recognized brands – ČSOB (branches), Era (financial centers) and Poštovní spořitelna (Postal Savings Bank – PSB; outlets of the Czech Post network).

ČSOB offers its clients a wide range of banking products and services, including the products and services of the entire ČSOB group. The ČSOB group mainly consists of ČSOB (including Era and PSB), Hypoteční banka, ČMSS, ČSOB Penzijní společnost, ČSOB Leasing and ČSOB Factoring.

Effective as of 1 January 2013, KBC Group has organized its core markets activities into three business units – Belgium, Czech Republic (includes all KBC's business in the Czech Republic) and International Markets. In addition to the ČSOB group, the Business Unit Czech Republic also includes ČSOB Pojišťovna, ČSOB Asset Management and Patria group (since 1 January 2015, part of the ČSOB group).

The product portfolio of the ČSOB group (the Business Unit Czech Republic) includes next to standard banking services:

- financing housing needs (mortgages and building savings loans),
- insurance products,
- pension funds,
- collective investment products and asset management,
- specialized services (leasing and factoring) and
- services related to trading equities on financial markets (Patria).

With total assets of CZK 866 bn as at 31 December 2014 and a total net profit of CZK 13.6 bn in 2014, the ČSOB group is one of the top three banking groups in the Czech Republic. As at 31 December 2014, the ČSOB group had CZK 585 bn of group deposits (excl. ČMSS, pension fund and repo operations) and a loan portfolio of CZK 480 bn (excl. ČMSS). As of the end of 2014, the ČSOB group employed approximately 7,400 employees (FTEs; excl. employees of the joint venture and associated companies).

ČSOB Group in Figures

	31. 12. 2014	31. 12. 2013
Employees (FTEs) [1]	**7,406**	**7,241**
of which the Bank	6,424	6,253
Clients (the Bank; in millions)	**2.9**	**2.9**
Users of internet banking (the Bank; in millions)	**1.5**	**1.5**
Retail / SME branches and advisory centers	**556**	**556**
ČSOB retail / SME branches	232	234
Era financial centers	76	74
ČMSS advisory centers	132	136
Hypoteční banka centers	28	26
ČSOB Pojišťovna branches	88	86
Leasing branches	**10**	**11**
ČSOB corporate branches	**11**	**11**
PSB – outlets of the Czech Post network	**ca. 3,100**	**ca. 3,100**
ATMs (the Bank) [2]	**1,047**	**1,006**

1) Excluding employees of the joint venture and associated companies.
2) Including ATMs of cooperating banks.

Annual reports and other information about ČSOB and the ČSOB group are available at www.csob.cz.

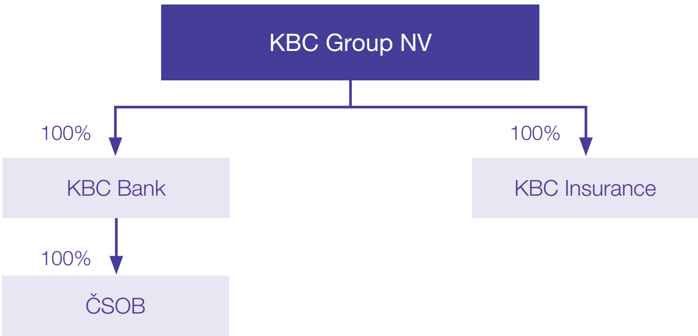
KBC Group Profile

ČSOB is a wholly-owned subsidiary of KBC Bank NV. KBC Bank is fully owned by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

KBC is an integrated bank-insurance group, catering mainly for retail, private banking, SME and mid-cap clients. Geographically, KBC focuses on its home markets of Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. Elsewhere in the world, KBC is present in Ireland and, to a limited extent, in several other countries to support corporate clients from its core markets. As of the end of 2014, the KBC Group served approximately 10 million clients in its five home markets and Ireland, and employed approximately 36,000 employees (FTEs), roughly half of which in Central and Eastern Europe.

For more information please refer to the 2014 Annual Report of the KBC Group available on www.kbc.com.

The Simplified Scheme of the KBC Group as at 31 December 2014



KBC Group's shares are traded publicly on the Euronext Exchange in Brussels. KBC Group's core shareholders are: KBC Ancora, Cera, MRBB (a farmers association) and the other core shareholders.

KBC Group in Figures

		31. 12. 2014	31. 12. 2013*
Total assets	EURbn	245.2	238.7
Loans and advances to customers	EURbn	124.6	120.4
Deposits from customers and debt securities	EURbn	161.8	161.1
Net profit, group share	EURm	1,762	1,015
Common equity ratio, group level (Basel III, fully loaded, including remaining state aid)	%	14.3	12.8
Cost / income ratio, banking	%	57	52

** Restated due to IFRS 11 standard.*

For more information please refer to KBC's corporate website www.kbc.com.

Long-term Ratings

(as at 31 December 2014)

Long-term ratings	Fitch	Moody's	S & P
KBC Bank	A-	A2	A
KBC Insurance	A-	-	A
KBC Group	A-	A3	A-

For current long-term ratings and for more information please refer to KBC's corporate website www.kbc.com.

ČSOB as a Controlled and Controlling Entity

Within the KBC group and the ČSOB group, ČSOB acts as both a controlled entity and a controlling entity.

ČSOB is a **controlled entity** of the sole shareholder KBC Bank NV (ID No. 90029371), or more precisely, of KBC Group NV (ID No. 90031317), which is KBC Bank's sole shareholder. Both KBC Bank and KBC Group have their registered addresses at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium.

The control is exercised by decisions of the sole shareholder when exercising the general meeting´s competence according to the Corporations Act. Within the limits stipulated by law, the controlling entity also exercises influence through its representatives in the Supervisory Board or the Board of Directors The control covers cooperation and coordination in the area of risk management, audit functions and prudential rules. The Board of Directors is responsible for management of business.

ČSOB follows the legislation applicable on the territory of the Czech Republic which protect against abuse of position of controlling entity. In particular, ČSOB activities are governed by the Corporations Act, regulatory rules for banks and tax law including transfer pricing principles. ČSOB is also subject of supervision of the CNB. The regulatory and supervisory system is supplemented by the internal control system which is secured by the Board of Directors, the Supervisory Board, the Audit Committee and specialized department of internal audit, compliance and risk management. The Board of Directors is responsible for internal control system efficiency.

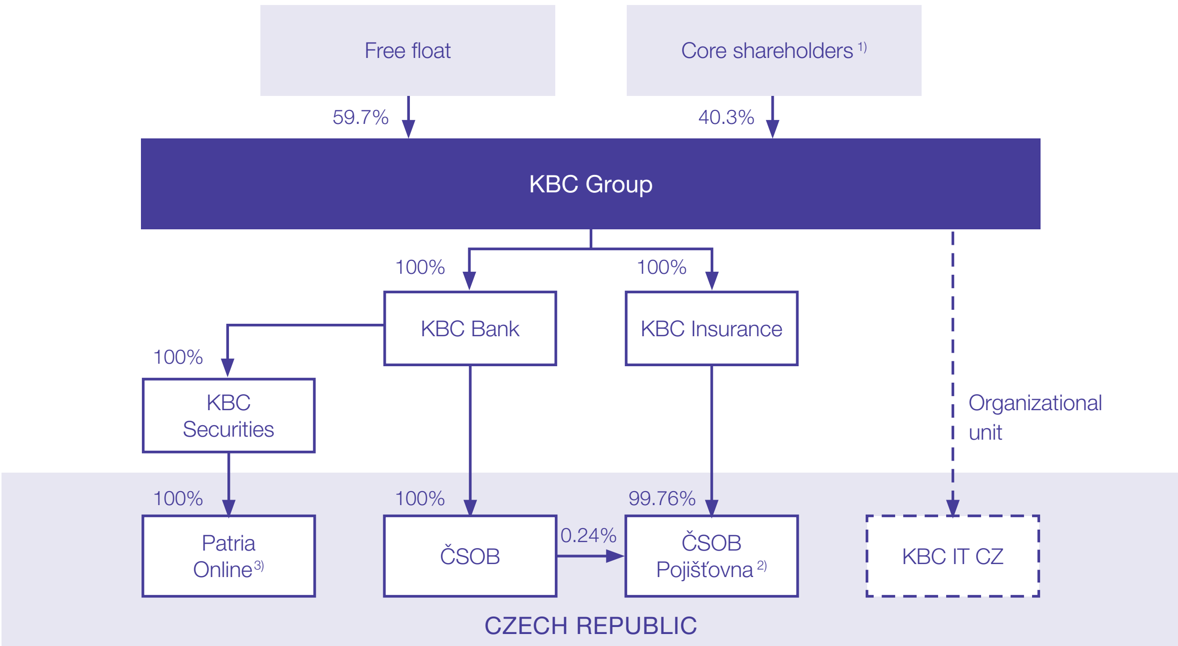
ČSOB did not hold any shares of KBC Bank or KBC Group between 1 January and 31 December 2014.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2014 please refer to the chapter Companies of the ČSOB group.

ČSOB is not dependent on any entity in the concern into which ČSOB belongs.

Main Companies of KBC Group in the Czech Republic

(as at 31 December 2014)



Percentages in the chart denote the ownership interest.

1) Main core shareholders are: KBC Ancora, Cera, MRBB (a farmers association) and the other core shareholders.
2) Voting rights in ČSOB Pojišťovna are distributed as follows: 40% ČSOB, 60% KBC Insurance.
3) Since 1 January 2015, 100% shares in registered capital and in votings rights owned by ČSOB.

For an overview of companies of the KBC group please refer to KBC's corporate website www.kbc.com.

Corporate Social Responsibility

Corporate social responsibility is one of the pillars of ČSOB's corporate philosophy and is an integral part of its business.

The strategy of ČSOB's corporate social responsibility is based especially on the expectations of its shareholders, clients, employees, partners in various authorities, profit as well as non-profit sectors and the general public. It is also in line with the present trends in corporate social responsibility (CSR) and with the philosophy of sustainability. To a large extent, the CSR strategy is reflected in internal measures which ČSOB meets on the Czech and European markets, as well as in voluntary commitments took in addition of ČSOB's legal liabilities.

The CSR strategy draws upon the business strategy of ČSOB and further develops the values of the company so that it can meet its primary goal - to offer its clients such services and products which react to their expectations and meet their needs. In other words, ČSOB believes in responsibility in doing business and good relations with its clients, employees and its environment and devotes attention to responsible management of risks, the Bank as a whole and individual departments, to impacts of its business on the environment and to transparency in all decisions and processes.

The **mission** of ČSOB's CSR is simple but binding: **...with the heart in the right place.**

"CSR is deeply rooted in our DNA. We strive to be good neighbours, create equal chances for all, do business responsibly and cultivate the desire to learn. People are in the centre of our focus - we try to react to their needs and help them to fulfil their dreams. We believe in values which our company shares with its employees. We have the courage to play the leading role in CSR and philanthropy."

ČSOB's CSR comprises of the way it conducts business:

- ČSOB is a bank that takes down communication barriers with visually and hearing impaired and in the approach to the disabled,
- ČSOB is a bank that creates useful applications and undergoes projects making the lives of non-profit organisations easier and connecting them - safely, fast and on-line - with their supporters,
- ČSOB is an employer whose employees like to take part in volunteering – individually or in teams, using their hands or their expertise,
- ČSOB is a bank which values expertise, interest and initiative of its employees – we welcome and put to life ideas for embedding CSR values into our products and services.

Priorities of ČSOB's CSR

Responsible business
(responsible products and services, business ethics, employee volunteerism and social business)

Education
(projects to increase financial literacy, individual donations and educating the socially and medically disadvantages children and youth)

Diversity
(support to equal opportunities and employing the disabled)

Regions
(responsible approach to the environment, embedding communities in regional development, support of cultural and natural heritage)

The principle of ČSOB's CSR exceeds mere philanthropy. ČSOB builds on long-term partnerships with selected non-profit organisations and on regular grant programmes. In the long term, ČSOB strives to cultivate the donor culture in the Czech Republic and to support an educated society. ČSOB tries hard to invite its employees, clients and the general public to participate in projects and initiatives with these aims.

In 2014, ČSOB devoted CZK 39.8 m to CSR activities. The funds were split comparably between philanthropic purposes and CSR investments.

Our Partner Organisations

ČSOB has been long cooperating with the following organisations: Výbor dobré vůle – Nadace Olgy Havlové (Committee of Good Will – the Olga Havel Foundation), Nadace VIA (VIA Foundation), Centrum Paraple (Paraple Centre), Asociace občanských poraden (Association of Citizens' Advisory Centres), Poradna při finanční tísni (Debt Advisory Centre), Nadace Charty 77 – Konto Bariéry (The Charta 77 Foundation – the Barrier Account), Nadační fond Českého rozhlasu – Světluška (Czech Radio Endowment Fund – the Firefly project), Domov Sue Ryder, Sdružení Neratov (Neratov Association), Sportovní klub vozíčkářů (Wheelchair Users' Sports Club) and many more. ČSOB has also been cooperating for several years with organisations that support the development of CSR and philanthropy in the Czech Republic - Fórum dárců (Donors Forum), Byznys pro společnost (Business for Society), and Business Leaders Forum.

Awards Earned in 2014

ČSOB's sustained efforts in corporate social responsibility have earned it numerous awards.

- ČSOB won the silver in the **Bank without Barriers** category of the Fincentrum Bank of the Year 2014 contest.
- **MasterCard** awarded ČSOB for **the best premium product** - the exclusive debit card **ČSOB Good Will Card**.
- ČSOB was nominated for the **Ashoka Changemakers for the eScribe project** (on-line speech transcription for clients with hearing impairments available in all 76 Era Financial centres) and ranked among TOP 15 finalists from among 300 nominees.

Selected CSR Activities in 2014

Responsible Business

Responsible Company

ČSOB's values are based on the belief that it's necessary to maintain professionalism, fulfil the competition rules and provide dignified working conditions. It's the only way for the company to maintain the loyalty of employees and sound reputation with the public. Key initiatives in this respect include the Anti-Corruption Programme, which contains rules and policies with the main aim to prevent corruption behaviour and conflict of interests. ČSOB does not finance transactions with weapons or support trade with countries where human rights are grossly violated.

Good Will Card

Since May 2014, ČSOB Private Banking clients may use a Good Will Card - a special debit contactless payment card World Elite MasterCard which sends 0.6% of each transaction to charity. More than 460 clients use the card. Thanks to their payments, ČSOB divided a total of CZK 668 ths among five non-profit organizations (Committee of Good Will – the Olga Havel Foundation, VIA Foundation, Czech Radio Endowment Fund – the Firefly project, Livia and Václav Klaus Endowment Fund and The Charta 77 Foundation – the Barrier Account).

Click and Donate Mobile Application

ČSOB has been focusing on supporting individual donations and thus under its Era brand initiated in 2014 the creation of the Click and donate application which is unique on the Czech market. The application allows smartphone users to make a comfortable donation to trusted non-profit organizations and support their charitable projects. Payments of any amount can be sent via a payment card or from the PaySec electronic wallet. Android users can make the payment also via ČSOB or Era Smartbanking or via MasterCard Mobile. QR code payment is another simplification. In 2014, users had a choice of 77 non-profit organisations and more than 91 individual projects – from helping seniors, to support for the disabled to initiatives to protect the environment or provide humanitarian help.

People in the Focus

Blue Life Academy

ČSOB launched a pilot series of workshops for non-profit organisations in the fall of 2014. In reaction to the feedback from the cooperating organisations, topics of the workshops included marketing, PR and communications, fundraising and contacting individual and corporate donors. Voluntary lectors recruited from among ČSOB employees, members of the partner non-profit organisations as well as corporations who do business with ČSOB. Seven non-profit organisations took part in the first run of the Academy and used the opportunity to have an action plan for communication activities, to consult their ideas with experts and networked with other organisations from various areas and regions. Based on the success of the Academy, the second run was planned for 2015 which will be focusing on internal resources, strategic planning, team cooperation and other topics.

I Cheer for the Disabled (Fandím OZP)

ČSOB launched the long-term internal campaign to support employment of the disabled already in 2013. It aims to increase the share of the disabled among employees and improve the awareness of ČSOB employees in relation to this issue. Current information has been published in internal media as well as on a dedicated intranet website throughout 2014. On its website, ČSOB updates a list of positions that have been deemed suitable for the disabled upon the request to fill them. ČSOB also trained personal consultants who know the specifics of an interview with disabled candidates and understand various types of disablement as well as the related legal matters.

Another event in the **Na vlastní kůži** (Have a hands-on experience) series took place: employees got to meet our partner organisations (Nadační fond Mathilda / Mathilda Endowment Fund and Nadační fond Českého rozhlasu – projekt Světluška / Czech Radio Endowment Fund – the Firefly project) which help the visually impaired. Employees with their eyes covered could enter a slalom competition with a white cane or in blindfold chess or donate their old optical spectacles to the Spectacles for Africa project.

Community

Era Helps the Regions

In 2014, 60 non-profit organisations from across the Czech Republic competed for more than three months to win the support of the public under the programme Era helps regions aiming to support and development of individual donors. More than CZK 1.7 m was collected from individual donors in 20 micro-regions. Era distributed additional CZK 2 m among the most successful projects. The project which won the highest contribution from individual donors received an additional CZK 45 ths contribution from Era, the second project received CZK 35 ths and the third CZK 20 ths.

Mayor of the Year 2014

Via the Mayor of the Year, ČSOB intends to increase the activity of people in the regions and to improve the neighbourhood relations. Petr Zálešák, the mayor of Nenkovice in the South Moravian Region, won the sixth annual contest among 63 nominees. With the prestigious title, the mayor also won CZK 250 ths for the municipality budget.

Volunteerism

Supporting volunteerism is one of key topics for ČSOB's CSR. Bank employees participate in various charitable activities and collections, help with their work, expertise, experience, sport or by donating things or funds. In addition, employees can dedicate one working day to volunteer activities.

The interest among employees in volunteer events was at a record high in 2014; the following list contains only the major events:

A total of 922 employees participated in the seventh annual run of **volunteer days**, helping 75 non-profit organisations – they painted walls, cleaned construction sites, painted a fence, helped to repair historical sights, maintained gardens, plots of land and playgrounds, organised charitable events or shared their expertise and experience.

ČSOB intends to further develop **expert volunteerism** and draw upon the experience from 2013 and 2014 when coaches from the ČSOB group (auditors, lawyers and tax experts) helped by providing advice in organisation management, fund raising or accounting in non-profit organisations Safety Line, People in Need, Wild Geese Foundation and Czech Radio Foundation.

A total of 394 employees participated in the fifth **Run for a Good Cause** and raised almost CZK 313.4 ths for the Committee of Good Will – the Olga Havel Foundation. For each kilometre they have run, Bank donated CZK 50 to help the disabled. Over the history of Run for a Good Cause, the amount raised exceeds CZK 1.5m. Several runners also participated in the **Night Run for Světluška**, organised by the Czech Radio Endowment Fund. The proceedings went to support the visually impaired.

In 2014, ČSOB employees themselves had the idea of **helping via gastronomy**. By purchasing breakfast packages, employees raised over CZK 80 ths for the Wild Geese Foundation. Both sweet and salty treats baked by employees and purchased by other employees raised almost CZK 52 ths which were donated via the Barrier Account to 16-years old Lukáš who is paralysed after spinal cord inflammation. Mulled wine and alcohol-free punch sold in front of the ČSOB headquarters in December by employee volunteers raised CZK 23 ths for Domov Sue Ryder, the Czech Paraplegic Association and the Wheelchair Users' Sports Club Praha.

Environmental Responsibility

ČSOB focuses on using energy and resources economically and support environmentally conscious behaviour among its employees. It purchased 35% of its electricity consumption from renewable resources for the Bank's headquarters in Prague – Radlice. ČSOB's goal is to purchase 100% of its electricity from renewable resources for all of the Bank's buildings and branches. New technologies (air conditioning, LED diode lighting and ventilating system) and sleep mode of personal computers that after one hour of inactivity automatically switches with a minimal energy consumption brought higher savings. ČSOB employees use lighter-weight office paper and office supplies whose production and liquidation do not burden the environment. Also office waste is sorted. ČSOB prefers cooperation with suppliers who hold certificates confirming adherence to environmental standards.

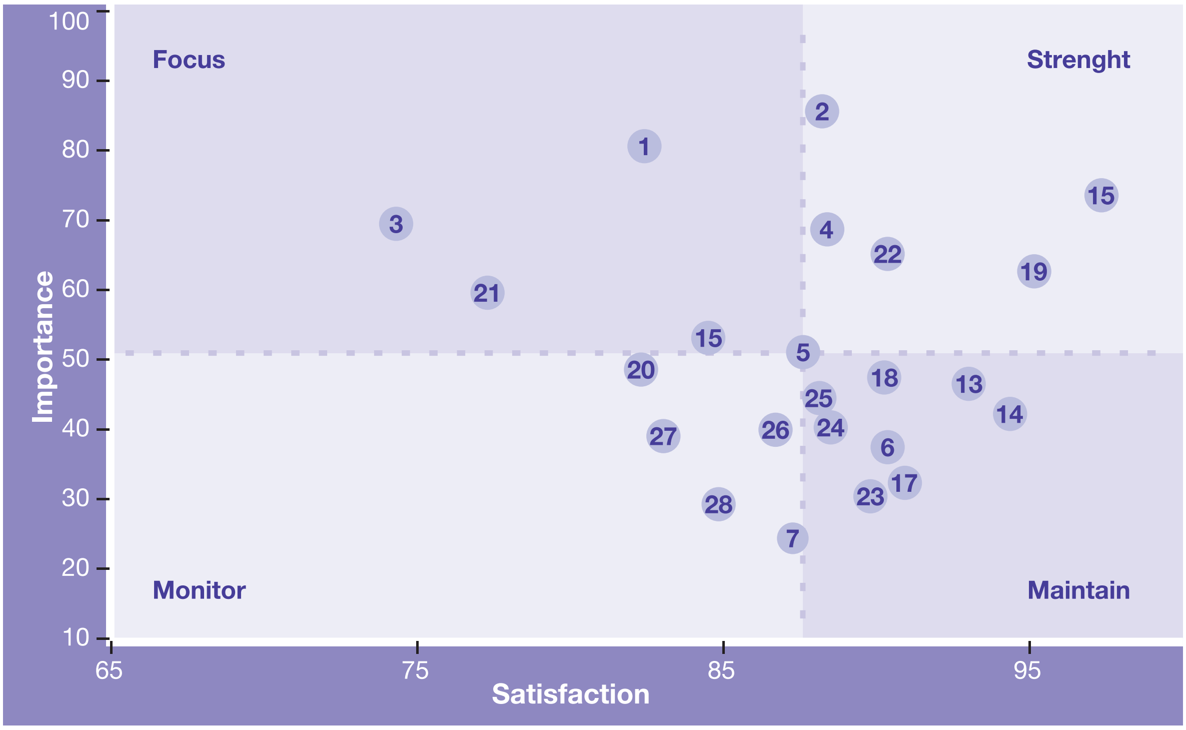
ČSOB as a Responsible Company Perception Survey 2014

The development of ČSOB to a large extent hinges on the views and expectations of its key partners. Therefore the Bank carries out regular public opinion surveys with various focuses. In 2014, ČSOB (as well as KBC, its parent) asked its clients, suppliers, employees and management of the Bank for feedback in relation to their satisfaction with the level of services provided.

In line with expectations, the survey results show that ČSOB is a major financial institution which offers high-quality products and services and takes care of consumer protection. The respondents especially value the financial stability of the Bank and its sensible risk management policies.

However, respondents see space for improvement in the present price-to-quality ratio of the services offered and clarity (and simplicity) of products and services. They would also welcome an offer of products from the view of life cycle, i.e. with the respect of the ageing population. All these findings represent challenges for the business policy of ČSOB in the near term.

Survey of satisfaction with ČSOB's services



Basis: Total for Clients (n=2000), Suppliers (n=43), Employees and Board of Directors (n=318).

1	*Transparency of products and services offered*
2	*Quality of products and services offered*
3	*Value for money*
4	*Protecting the consumer*
5	*Universal access to financial services*
6	*Physical proximity of ČSOB branches*
7	*International presence*
13	*Banking with respect for all stakeholders*
14	*Profitability of ČSOB*
15	*Financial stability of ČSOB*
16	*Short and long-term strategy*
17	*The range of socially responsible investment products*
18	*Product offering tailored to risk profile*
19	*Combating corruption, fraud and money laundering*
20	*Taking measures in response to population ageing*
21	*Offers products geared to every phase of life*
22	*Sound risk policy*
23	*Attention for the environment*
24	*Relationship with government authorities*
25	*Provision of finance and insurance to the (local) economy*
26	*Provision of finance and insurance to the social profit sector*
27	*Support for initiatives to combat poverty*
28	*Support for good causes*

More information can be found in the ČSOB Group Social Responsibility Report 2014 and on the website www.csob.cz/csr.

ČSOB Group

The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bancassurance KBC group which is active in Belgium and the CEE region.

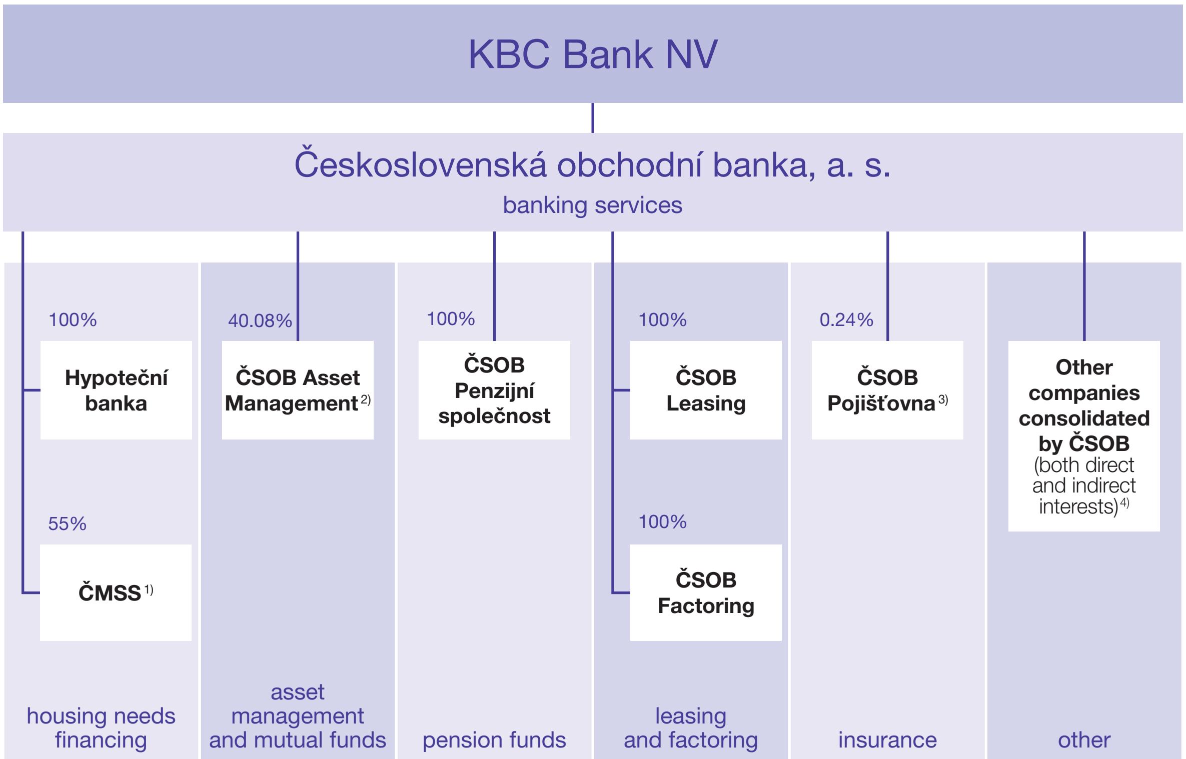
As at 31 December 2014, ČSOB had ownership interests in 27 legal entities and, in addition to ČSOB, other 23 companies were included in the group of consolidated companies.

The ČSOB group offers its clients in the Czech Republic the following types of services:

banking services, building savings and mortgages, asset management, mutual fund, securities brokerage, pension funds, leasing, factoring and insurance.

ČSOB's Consolidated Group

(as at 31 December 2014, EU IFRS)



Percentages in the chart denote the ČSOB's ownership interest on company's equity.
Percentages in voting rights in companies consolidated by ČSOB are stated in this part of ČSOB Annual Report 2014.

1) 45% of shares owned by Bausparkasse Schwäbisch Hall; subsidiary consolidated in ČSOB by an equity method.
2) 59.92% of shares owned by KBC Participations Renta C; subsidiary consolidated in ČSOB by an equity method.
3) 99.76% of shares owned by KBC Insurance; subsidiary consolidated in ČSOB by an equity method.
4) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report 2014.

Note: With effect from 1 January 2015, Patria Online has become a part of the ČSOB group (100% of shares owned by ČSOB).

Hypoteční banka, a.s.

Date of establishment:	10. 1. 1991
Business activities:	Provision of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Registered capital:	CZK 5,076,335 ths
Shareholders:	100% ČSOB

Contact

Address:	Radlická 333/150 150 57 Praha 5
Telephone:	+420 224 116 515
Fax:	+420 224 119 722
E-mail:	info@hypotecnibanka.cz
Internet:	www.hypotecnibanka.cz

Hypoteční banka focuses exclusively on providing mortgage loans. It has the most extensive portfolio of products and services in the Czech market and offers all possibilities for housing financing, including insurance products.

In 2014, Hypoteční banka provided about 24,400 mortgage loans with a total volume of CZK 43 bn and maintained its position as the leader in the market for new mortgage loans with a market share of 29%.

Hypoteční banka was awarded the 2nd place in the competition Bank of the year in the category Mortgage of the year. Jan Sadil, CEO of Hypoteční banka, was awarded the title Banker of the year in the same competition.

Indicator		2014	2013
Total assets*	CZKm	222,353	213,948
Loans and advances to customers*	CZKm	211,380	196,097
Total equity*	CZKm	30,619	27,918
Profit for the year after tax*	CZKm	3,078	2,858
Total volume of new mortgage loans	CZKm	43,055	42,954
** EU IFRS, audited.*			
Branches		28	26
Agents and brokers	ca.	3,720	3,700

Českomoravská stavební spořitelna, a.s.

Na těchto základech můžete stavět

Date of establishment:	26. 6. 1993
Business activities:	Building savings and loans
Identification number:	49241397
Registered capital:	CZK 1,500,000 ths
Shareholders:	55% ČSOB 45% Bausparkasse Schwäbisch Hall

Contact

Address:	Vinohradská 3218/169 100 17 Praha 10
Telephone:	+420 225 221 111
Fax:	+420 225 225 999
E-mail:	info@cmss.cz
Internet:	www.cmss.cz

In the long run, ČMSS has been the most popular building savings society on the Czech market.

In 2014, ČMSS achieved the total target amount of CZK 88.9 bn (i.e. market share of 47.4%) and concluded new construction loans and bridging loans of CZK 22.8 bn (i.e. market share of 61.5%).*

** According to methodology of MF CR.*

Indicator		2014	2013
Total assets*	CZKm	165,013	165,585
Volume of loans and bridging loans (Retail)*	CZKm	119,613	119,888
Volume of client deposits*	CZKm	153,482	153,830
Total equity*	CZKm	9,851	9,969
Profit for the year after tax*	CZKm	1,160	1,400
** EU IFRS, audited.*			
Advisory centers		132	136
Tied agents	ca.	2,150	2,110

ČSOB Asset Management, a.s., investment company

Date of establishment:	3. 7. 1998	
Business activities:	Collective and individual portfolio management as per license by the CNB	
Identification number:	25677888	
Registered capital:	CZK 499,000 ths	
Shareholders:	59.92%	KBC Participations Renta C
	40.08%	ČSOB

Asset Management

Contact

Address:	Radlická 333/150 150 57 Praha 5
Telephone:	+420 224 116 702
Fax:	+420 224 119 548
E-mail:	csobam@csob.cz
Internet:	www.csobam.cz

ČSOB AM provides to its clients investment services of asset management, collective investment services, including the management of local mutual funds and the distribution of the KBC group's funds in the Czech Republic and is one of the leading companies on the Czech market. ČSOB AM also participates in product development for the entire ČSOB group.

ČSOB AM also manages the assets of several foreign funds within the KBC group.

Customers of ČSOB AM include insurance companies, pension funds, municipalities, trading, production and energy companies, trade unions, foundations and other non-profit organizations, as well as private individuals.

ČSOB AM offers the services to clients via ČSOB branches, outlets of the Czech Post network, Era financial centers and Patria Finance.

Indicator		2014	2013
Total assets managed by ČSOB AM [1]	CZKm	185,691	162,520
Total assets in funds distributed by the ČSOB group [1, 2]	CZKm	89,438	76,107
Market share (according to methodology of AKAT) – total assets in funds		27.2%	27.5% [3]

1) According to methodology of Czech Capital Market Association (AKAT); total statistic including funds and asset management.
2) Local and foreign funds distributed by the ČSOB group.
3) Due to change in reporting methodology in AKAT taking place in 2014, market share of 2013 was restated.

ČSOB Penzijní společnost, a. s., a member of the ČSOB group

Date of establishment:	26. 10. 1994*
Business activities:	Activities related to the pension company
Identification number:	61859265
Registered capital:	CZK 300,000 ths
Shareholders:	100% ČSOB

** Date of establishment of ČSOB PF Stabilita. ČSOB PS was incorporated on 1 January 2013 through transformation of ČSOB PF Stabilita (the Transformed fund).*

ČSOB Penzijní společnost

Contact

Address:	Radlická 333/150 150 57 Praha 5
Telephone:	+420 495 800 600
Fax:	+420 224 119 536
E-mail:	csobps@csob.cz
Internet:	www.csob-penze.cz

Since 1994, ČSOB PS belongs among the most important and stable pension funds managers. Trusted by nearly 670,000 clients who have entrusted us with more than CZK 37 bn.

ČSOB PS provides pension insurance through the Transformed fund and offers pension savings through pension funds and supplementary pension savings through various participations funds with different investment strategy.

In the twenty-years history of the Transformed fund the average annual return on investment achieved 4.3%. (The average for the years 1994–2013.)

Indicator		2014	2013
Funds registered in favour of participants of the Transformed fund Stabilita	CZKm	36,061	32,471
- of which contributions of participants	CZKm	28,528	25,717
Participant funds in pension funds	CZKm	110	20
Participant funds in participation funds	CZKm	719	116
Profit (loss) for the year after tax*	CZKm	37	(30)

** EU IFRS, unaudited.*

Customers	ca.	667,000	697,000

ČSOB Leasing, a.s.

Date of establishment:	31. 10. 1995	
Business activities:	Financial services	
Identification number:	63998980	
Registered capital:	CZK 3,050,000 ths	
Shareholders:		
Registered capital	100%	ČSOB
Voting rights	50.82%	ČSOB
	49.18%	KBC Lease Holding

ČSOB Leasing

Contact

Address:	Na Pankráci 310/60 140 00 Praha 4
Telephone:	+420 222 012 111
Fax:	+420 271 128 028
E-mail:	info@csobleasing.cz
Internet:	www.csobleasing.cz

ČSOB Leasing provides financing of cars, trucks, machinery and equipment and technologies (incl. big ticket financing). ČSOB Leasing provides customers with a wide range of financial products for financing of productive assets.

ČSOB Leasing has been awarded many awards in various financial contests, e.g. Zlatá koruna, Zlatý měšec, Fleet award, CZECH TOP 100 or Flotila.

ČSOB Leasing is a holder of ISO 9001:2008 certificate of quality.

Indicator		2014	2013
Total assets 1)	CZKm	28,831	24,999
Amounts due from clients (gross) 1)	CZKm	27,423	23,461
Total equity 1)	CZKm	5,906	5,041
Profit for the year after tax 1)	CZKm	495	453
Volume of new leasing business 2)	CZKm	16,429	13,273

1) EU IFRS, audited.
2) According to methodology of Czech Leasing and Financial Association (ČLFA).

Branches	10	11

ČSOB Factoring, a.s.

Date of establishment:	16. 7. 1992
Business activities:	Factoring
Identification number:	45794278
Registered capital:	CZK 70,800 ths
Shareholders:	100% ČSOB

ČSOB Factoring

Contact

Address:	Benešovská 2538/40 101 00 Praha 10
Telephone:	+420 267 184 805
Fax:	+420 267 184 822
E-mail:	info@csobfactoring.cz
Internet:	www.csobfactoring.cz

ČSOB Factoring has been providing factoring services to its clients more than twenty years. Thanks to the quality of service maintains a market share of around 20%.

In 2014, the volume of receivables assigned to ČSOB Factoring increased by 4.5% and reached CZK 30.6 bn.

ČSOB Factoring is one of the founding members of the Association of Factoring Companies in Czech Republic and a member of Czech Leasing and Financial Association.

Indicator		2014	2013
Total assets*	CZKm	3,781	3,825
Amounts due from clients (gross)*	CZKm	4,044	4,072
Total equity*	CZKm	739	938
Profit for the year after tax*	CZKm	76	75
Turnover of receivables	CZKm	30,576	29,247

** EU IFRS, unaudited.*

ČSOB Pojišťovna, a. s., a member of the ČSOB holding

Date of establishment:	17. 4. 1992	
Business activities:	Life and non-life insurance	
Identification number:	45534306	
Registered capital:	CZK 2,796,248 ths	
Shareholders:		
Registered capital	99.76%	KBC Insurance
	0.24%	ČSOB
Voting rights	60%	KBC Insurance
	40%	ČSOB

ČSOB Pojišťovna

Contact

Address:	Masarykovo nám. 1458 532 18 Pardubice, Zelené předměstí
Telephone:	+420 467 007 111 +420 800 100 777
Fax:	+420 467 007 444
E-mail:	info@csobpoj.cz
Internet:	www.csobpoj.cz

ČSOB Pojišťovna is a universal insurance company providing a broad range of life and non-life insurance products for both individuals and companies. Insurance products are mainly distributed through tied agents, brokers and the ČSOB group's branches.

In 2014, ČSOB Pojišťovna posted a net profit of CZK 747 m mainly thanks to good business results. Gross written premium reached CZK 9 bn.

Indicator		2014	2013
Total assets*	CZKm	40,372	42,341
Total equity*	CZKm	4,873	4,708
Profit for the year after tax*	CZKm	747	635
Gross written premium life insurance	CZKm	4,416	5,153
Gross written premium non-life insurance	CZKm	4,645	4,470

** EU IFRS, audited.*

		2014	2013
Branches		88	86
Customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations	ca.	1,094,000	1,056,000

Companies of the ČSOB Group

(as at 31 December 2014)

ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Share of ČSOB in: Registered Capital Total	Direct	Indirect	Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS
			CZK	%	%	%	%		Y/N
Controlled Companies									
63987686	**Bankovní informační technologie, s.r.o.** Automated data processing and software development; creation of a network of payment card reading terminals	Praha 5, Radlická 333/150	20,000,000	100.00	100.00	none	100.00	none	Y
26760401	**Centrum Radlická a.s.** Real estate activity; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	500,000,000	100.00	100.00	none	100.00	none	Y
27081907	**ČSOB Advisory, a.s.** Activity of entrepreneurial, financial, economic and organisation advisors	Praha 5, Radlická 333/150	2,000,000,000	100.00	100.00	none	100.00	none	Y
45794278	**ČSOB Factoring, a.s.** Factoring	Praha 10, Benešovská 2538/40	70,800,000	100.00	100.00	none	100.00	none	Y
63998980	**ČSOB Leasing, a.s.**[2] Leasing	Praha 4, Na Pankráci 310/60	3,050,000,000	100.00	100.00	none	50.82	none	Y
27151221	**ČSOB Leasing pojišťovací makléř, s.r.o.** Insurance broker	Praha 4, Na Pankráci 60/310	2,000,000	100.00	none	100.00	100.00	ČSOB Leasing	Y
61859265	**ČSOB Penzijní společnost, a. s., a member of the ČSOB group** Pension insurance	Praha 5, Radlická 333/150	300,000,000	100.00	100.00	none	100.00	none	Y
27924068	**ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group**[3] Collective investment	Praha 5, Radlická 333/150	878,000,000	61.61	59.79	1.82	95.67	ČSOB AM, ČSOB Pojišťovna	Y
61251950	**Eurincasso, s.r.o.** Activity of economic and organisation advisors; recovery of receivables	Praha 10, Benešovská 2538/40	1,000,000	100.00	none	100.00	100.00	ČSOB Factoring	Y
13584324	**Hypoteční banka, a.s.** Mortgage banking	Praha 5, Radlická 333/150	5,076,335,000	100.00	100.00	none	100.00	none	Y
25617184	**Merrion Properties s.r.o.** Real estate activity; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	6,570,000	61.61	none	61.61	100.00	ČSOB Property fund	Y
00000949	**MOTOKOV a.s. in liquidation** Wholesale of machines and technical equipment	Praha 8, Thámova 181/20	62,000,000	70.09	0.50	69.59	70.09	ČSOB Advisory	Y
02451221	**Radlice Rozvojová, a.s.** Real estate activity; rent of flats and non-residential spaces	Praha 5, Radlická 333/150	186,000,000	100.00	100.00	none	100.00	none	Y
99999999[1]	**TEE SQUARE LIMITED, Ltd.** Advisory services for investment funds in the Caribbean area	British Virgin Islands, Tortola, Road Town, Third Floor, The Geneva Place, P.O.Box 986	9,364,315	100.00	100.00	none	100.00	none	Y
Joint Venture									
49241397	**Českomoravská stavební spořitelna, a.s.** Building savings bank	Praha 10, Vinohradská 3218/169	1,500,000,000	55.00	55.00	none	55.00	none	Y

Legal Entity				Share of ČSOB in:				Indirect Share of ČSOB via	Cons. EU IFRS
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital			Voting Rights		
				Total	Direct	Indirect			
			CZK	%	%	%	%		Y/N
Others									
26199696	**CBCB - Czech Banking Credit Bureau, a.s.** Software development, IT advisory, data processing, network administration databank services	Praha 4, Na Vítězné pláni 1719/4	1,200,000	20.00	20.00	none	20.00	none	Y
26760401	**COFELY REN s.r.o.** Production and sale of electricity from the solar irradiation	Praha 4, Lhotecká 793/3	186,834,000	42.82	42.82	none	42.82	none	Y
25677888	**ČSOB Asset Management, a.s., investment company**[4)] Collective investment and asset management	Praha 5, Radlická 333/150	499,000,000	40.08	40.08	none	40.08	none	Y
45534306	**ČSOB Pojišťovna, a. s, a member of the ČSOB holding**[5)] Insurance company	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	2,796,248,000	0.24	0.24	none	40.00	none	Y
27479714	**ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding** Insurance brokerage	Pardubice, Zelené předměstí, Masarykovo náměstí 1458	400,000	0.24	none	0.24	0.00	ČSOB Pojišťovna	Y
45316619	**IP Exit, a.s.**[6)] **– in bankruptcy** No activity	Praha 1, Senovážné náměstí 32	13,382,866,400	85.63	71.29	14.34	85.63	ČSOB Advisory, ČSOB Pojišťovna	Y
63078104	**Premiéra TV, a.s.** No activity	Praha 8, Pod Hájkem 1	29,000,000	29.00	29.00	none	29.00	none	Y
26439395	**První certifikační autorita, a.s.** Certification services and administration	Praha 9-Libeň, Podvinný mlýn 2178/6	20,000,000	23.25	23.25	none	23.25	none	Y
	Other companies where ČSOB has a share in registered capital / voting rights under 10%.								N

Prudential consolidation (Decree No. 163/2014 Coll.)

1) ID No. 99999999 – a foreign entity.
2) Shares in voting rights: ČSOB 50.82%, KBC Lease Holding 49.18%.
3) Shares in registered capital: ČSOB 59.79%, ČSOB Asset Management 4.33%, ČSOB Pojišťovna 35.88%; shares in voting rights: ČSOB 95.67%, ČSOB Asset Management 4.33%.
4) Shares in registered capital: ČSOB 40.08%, KBC Participations Renta C 59.92%; shares in voting rights: ČSOB 40.08%, KBC Participations Renta C 59.92%.
5) Shares in registered capital: ČSOB 0.24%, KBC Insurance 99.76%; shares in voting rights: ČSOB 40%, KBC Insurance 60%.
6) Shares in registered capital: ČSOB 71.29%, ČSOB Advisory 14.34%, ČSOB Pojišťovna 0.11%; shares in voting rights: ČSOB 71.29%, ČSOB Advisory 14.34%.

Changes in 2014

Property LM, s.r.o. in liquidation (SK; ID No.: 36859516; indirect share of ČSOB via ČSOB Property fund) – erased of an entry in the Register of Companies on 30 April 2014.
Property Skalica, s.r.o. (SK; ID No.: 36859541; indirect share of ČSOB via ČSOB Property fund) – company sold on 8 October 2014.

Changes in 2015

Patria Online, a.s. (CZ; ID No.: 61859273) – purchase of equity investments on 1 January 2015. Shares in registered capital and shares in voting rights: ČSOB 100%.

Corporate governance and administration of Československá obchodní banka, a. s. are based on the OECD principles and, while executing them, experience collected by the KBC Group, ČSOB's ultimate owner, is extensively exploited. ČSOB professes principles formulated in the Code of Governance and seeks to observe them consistently in its day-to-day activities.

Managing and Supervisory Bodies

ČSOB has a two-tier board system consisting of a **Board of Directors** and a **Supervisory Board**. The Board of Directors represents ČSOB in all matters and is assigned its management, while the Supervisory Board oversees the Board of Directors. Another important body is the **Audit Committee**, established under the Act on Auditors. The General Meeting is the supreme body of the Company.

ČSOB's Board of Directors

ČSOB's Board of Directors operates as the statutory and supreme executive body of the Bank. Members of the Board of Directors are elected and removed by the General Meeting of the Bank.

ČSOB's Board of Directors in 2014

First Name and Surname	Position	Membership since	The Beginning of Current Term in Office[1)]	Removed from
Pavel Kavánek	Chairman (since 20. 5. 2009)	17. 10. 1990	20. 5. 2009	30. 4. 2014
John Arthur Hollows	Chairman (since 2. 5. 2014)	1. 5. 2014	1. 5. 2014	_
Marek Ditz	Member	1. 1. 2013	1. 1. 2013	_
Petr Hutla	Member	27. 2. 2008	28. 2. 2013[2)]	_
Jan Lamser	Member	26. 5. 1997	21. 5. 2014[2)]	12. 6. 2014
Petr Knapp	Member	20. 5. 1996	21. 5. 2014[2)]	_
Bartel Puelinckx	Member	8. 12. 2010	8. 12. 2010	30. 6. 2014
Jiří Vévoda	Member	8. 12. 2010	8. 12. 2010	_
Koen Wilmots	Member	8. 12. 2010	8. 12. 2010[3)]	_

1) The term in office of the members elected prior to 3 June 2011, lasts five years; in other cases it lasts four years.
2) Elected to a new term in office.
3) Member until 31 March 2015.

ČSOB's Top Management

In 2014, members of ČSOB's Top Management were identical with the members of the Board of Directors of ČSOB. ČSOB's Top Management ensures the daily performance of the activities of ČSOB and is governed by resolutions of the Board of Directors. The composition of the Board of Directors and ČSOB's Top Management is identical.

ČSOB's Organisation Chart and areas of responsibility managed by ČSOB's Top Management were rearranged accordingly in connection with update of ČSOB's business model in 2014.

ČSOB's Top Management as at 31 December 2014

First Name and Surname	Position and Area of Responsibility
John Arthur Hollows	Chief Executive Officer
Marek Ditz	Senior Executive Officer, Insurance, Markets & Investments
Petr Hutla	Senior Executive Officer, Convenient Retail Services
Petr Knapp	Senior Executive Officer, Relationship Services
Jiří Vévoda	Senior Executive Officer, Finance Management
Koen Wilmots	Senior Executive Officer, Operations & Technologies
Petr Hutla and Koen Wilmots	Change Zone

For a description of **areas of responsibility** managed by ČSOB's Board of Directors (Top Management) **as at 31 December 2014** please refer to **ČSOB's Organisation Chart**, page 54 of this Annual Report.

ČSOB's Supervisory Board

ČSOB's Supervisory Board supervises the exercising of the powers of the Board of Directors, the business of the Company and the manner in which it is conducted. The composition of the Board of Directors and ČSOB's Top Management is identical.

ČSOB's Supervisory Board in 2014

First Name and Surname	Position	Membership since	The Beginning of Current Term in Office [1]	Removed from
Jan Švejnar	Chairman (since 3. 6. 2009)	9. 10. 2003 [2]	20. 5. 2009	20. 5. 2014
Pavel Kavánek	Chairman (since 30. 6. 2014)	1. 5. 2014	1. 5. 2014	_
Hendrik George Adolphe Gerard Soete	Member	24. 2. 2007 [2]	20. 6. 2012 [4]	_
Jan Gysels	Member	14. 2. 2013	14. 2. 2013 [5]	_
Franky Depickere	Member	1. 6. 2014	1. 6. 2014	_
Christine Van Rijsseghem	Member	1. 6. 2014	1. 6. 2014	_
Marko Voljč	Member	29. 6. 2010	29. 6. 2010 [6]	_
Patrick Roland Georges Zeno Vanden Avenne	Member	22. 4. 2006	15. 6. 2011	31. 5. 2014
František Hupka	Member [3]	23. 6. 2005	23. 6. 2010	31. 5. 2014
Martina Kantová	Member [3]	23. 6. 2010	23. 6. 2010	31. 5. 2014
Ladislava Spielbergerová	Member [3]	23. 6. 2010	23. 6. 2010	31. 5. 2014

1) The term in office of the members elected prior to 3 June 2011, lasts five years; in other cases it lasts four years.
2) Co-opted.
3) Elected by employees.
4) Elected to a new term in office.
5) Member until 15 April 2015.
6) Member until 1 January 2015.

ČSOB's Audit Committee

ČSOB's Audit Committee acts as an independent body of ČSOB. Members of the Audit Committee shall be elected and removed by the General Meeting.

ČSOB's Audit Committee in 2014

First Name and Surname	Position		Membership since	Removed from
Jan Švejnar	Member	Chairman of ČSOB's Supervisory Board (until 20. 5. 2014)	1. 1. 2010 [1]	20. 5. 2014
Jan Gysels	Member	Member of ČSOB's Supervisory Board (from 14. 2. 2013 to 15. 4. 2015)	5. 4. 2013 [4]	_
Martin Jarolím	Member [3]	Not a member of any ČSOB body in 2014 [2]	1. 6. 2014	_
Pavel Kavánek	Member	Chairman of ČSOB's Supervisory Board (since 30. 6. 2014; member since 1. 5. 2014)	1. 6. 2014	_
Petr Šobotník	Independent member	Not a member of any ČSOB body	1. 2. 2011	_

1) From 23 February 2007 to 31 December 2009, he was a member of the Audit Committee, a body of the ČSOB's Supervisory Board.
2) Member of ČSOB's Supervisory Board since 1 January 2015.
3) Chairman since 9 April 2015.
4) Member until 15 April 2015.

Changes in ČSOB's Managing and Supervisory Bodies in 2014 and 2015

KBC Bank as the sole shareholder of ČSOB in exercising the powers of the General Meeting decided as follows

On 28 April 2014
- Pavel Kavánek was removed from ČSOB's Board of Directors with effect from 30 April 2014.
- John Arthur Hollows was elected a member of ČSOB's Board of Directors with effect from 1 May 2014.
- Pavel Kavánek was elected a member of ČSOB's Supervisory Board with effect from 1 May 2014.

On 14 May 2014
- Petr Knapp was re-elected a member of ČSOB's Board of Directors with effect from 21 May 2014.
- Jan Lamser was re-elected a member of ČSOB's Board of Directors with effect from 21 May 2014.

On 20 May 2014
- Jan Švejnar was removed from ČSOB's Audit Committee with effect from 20 May 2014.

On 27 May 2014
- Patrick Roland Georges Zeno Vanden Avenne was removed from ČSOB's Supervisory Board with effect from 31 May 2014.
- František Hupka was removed from ČSOB's Supervisory Board with effect from 31 May 2014.
- Martina Kantová was removed from ČSOB's Supervisory Board with effect from 31 May 2014.
- Ladislava Spilelbergerová was removed from ČSOB's Supervisory Board with effect from 31 May 2014.
- Franky Depickere was elected a member of ČSOB's Supervisory Board with effect from 1 June 2014.
- Christine Van Rijsseghem was elected a member of ČSOB's Supervisory Board with effect from 1 June 2014.
- Pavel Kavánek was elected a member of ČSOB's Audit Committee with effect from 1 June 2014.
- Martin Jarolím was elected a member of ČSOB's Audit Committee with effect from 1 June 2014.

On 12 June 2014
- Jan Lamser was removed from ČSOB's Board of Directors with effect from 12 June 2014.

On 19 June 2014
- Bartel Puelinckx was removed from ČSOB's Board of Directors with effect from 30 June 2014.

On 30 December 2014
- Tomáš Kořínek was elected a member of ČSOB's Board of Directors with effect from 1 January 2015. (Area of responsibility: Group Risk Management)
- Marko Voljč was removed from ČSOB's Supervisory Board with effect from 1 January 2015.
- Martin Jarolím was elected a member of ČSOB's Supervisory Board with effect from 1 January 2015.

On 3 March 2015
- Koen Wilmots was removed from ČSOB's Board of Directors with effect from 31 March 2015.
- Jan Gysels was removed from ČSOB's Supervisory Board with effect from 15 April 2015.
- Jan Gysels was removed from ČSOB's Audit Committee with effect from 15 April 2015.

In addition, Mr Jan Švejnar ended his term in office (after more than 10 years) as Chairman of the Supervisory Board of ČSOB; his term in office ended **on 20 May 2014**.

The composition of ČSOB's Board of Directors since 1 January 2015:

John Arthur Hollows (Chairman), Marek Ditz, Petr Hutla, Petr Knapp, Jiří Vévoda, Koen Wilmots (until 31 March 2015) and Tomáš Kořínek.

For a description of **areas of responsibility** managed by ČSOB's Board of Directors (Top Management) **since 10 March 2015** please refer to **ČSOB's Organisation Chart**, page 55 of this Annual Report.

The composition of ČSOB's Supervisory Board since 1 January 2015:

Pavel Kavánek (Chairman), Hendrik Soete, Jan Gysels (until 15 April 2015), Franky Depickere, Christine Van Rijsseghem and Martin Jarolím.

Conflict of Interests

under Commission Regulation (EC) No 809/2004

ČSOB hereby declares that it is not aware of any potential conflict of interests between any of the duties of any member of the Board of Directors, ČSOB's Top Management and the Supervisory Board to ČSOB and their private interests and / or other duties.

ČSOB, pursuant to the applicable Czech legal principles, doesn't regard entering into banking transactions by the members of the Board of Directors of ČSOB, the members of ČSOB's Top Management and the members of the Supervisory Board of ČSOB under standard terms as a conflict of interests between the duties of these persons to ČSOB and their private interests and / or other duties.

The Business Address

of members of the Board of Directors, ČSOB's Top Management and the Supervisory Board is:

Československá obchodní banka, a. s.
Radlická 333/150
150 57 Praha 5
Czech Republic

Emoluments and Benefits of Persons Discharging Managerial Responsibilities

Information in accordance with Section 118 (4) (f), (g), (h) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

Persons discharging managerial responsibilities within an issuer* in ČSOB are:
(i) The Chairman of the Board of Directors, who is also the Chief Executive Officer, and other Members of the Board of Directors, who also act as Senior Executive Officers, constitute the ČSOB's Top Management (for details refer to Managing and Supervisory Bodies) and (ii) Members of the Supervisory Board.

In 2014, members of ČSOB´s Top Management were:
Pavel Kavánek (until 30 April 2014), John Arthur Hollows (since 1 May 2014), Marek Ditz, Petr Hutla, Petr Knapp, Jiří Vévoda, Koen Wilmots, Jan Lamser (until12 June 2014) and Bartel Puelinckx (until 30 June 2014).

In 2014, ČSOB did not have any persons discharging managerial responsibilities as defined in the Act No. 256/2004 Coll., Capital Market Undertakings Act, Section 2, paragraph 1, provision b) 4.

For description of areas of responsibility managed by ČSOB's Top Management please refer to ČSOB's Organisation Chart on page 54 of this Annual Report. Descriptions of work and decision-making processes are given in "Corporate Governance" on pages 49-53 of this Annual Report.

In 2014, members of ČSOB´s Supervisory Board were:
Jan Švejnar (until 20 May 2014; Chairman), Pavel Kavánek (from 1 May 2014; Chairman since 30 June 2014), Hendrik Soete, Jan Gysels, Marko Voljč, Patrick Vanden Avenne (until 31 May 2014), František Hupka (until 31 May 2014), Martina Kantová (until 31 May 2014), Ladislava Spielbergerová (until 31 May 2014), Franky Depickere (since 1 June 2014) and Christine Van Rijsseghem (since 1 June 2014).

* *Persons discharging managerial responsibilities within an issuer (in Czech "osoby s řídící pravomocí") as defined in the act above.*

Monetary and Non-monetary Income

In 2014, persons discharging managerial responsibilities received the following income from both ČSOB and persons controlled by ČSOB:

	Monetary Income		Non-monetary Income	
	Received from		Received from	
(CZKths)	ČSOB	Persons Controlled by ČSOB	ČSOB	Persons Controlled by ČSOB
Members of the Board of Directors	111,650	0	8,679	0
Members of the Supervisory Board	5,386	0	317	0
Other members of the Top Management	No such persons in 2014			

In 2014, the income of the Chairman and members of the Board of Directors included remuneration under the Contracts on the Performance of the Function of the Chairman of the Board of Directors / member of the Board of Directors under the Act No. 513/1991 Coll. and remuneration under the Contracts of the Chief Executive Officer / Senior Executive Officer function under the Act No. 262/2006 Coll. for the period from 1 January 2014 to 30 June 2014, and remuneration under the Contracts on the Performance of the Chairman / member of the Board of Directors for the period from 1 July 2014 to 31 December 2014 under the Act No. 91/2014 Coll., Section 59 (change of the contract with ČSOB under the Act on Commercial Companies and Cooperatives).

The income of the Chairman and members of the Board of Directors in 2014 included: CZK 33,415 ths under the Contract on the Performance of the Function of the Chairman / Member of the Board of Directors and CZK 78,235 ths under the Contract of the Managerial Function.

The income of the Members of the Supervisory Board consisted of CZK 5,022 ths under the Contract on the Performance of the Function of the Chairman / Member of the Supervisory Board, and the income under employment contracts of CZK 364 ths.

Non-monetary income includes e.g. a company car, fuels, costs of training, and also contributions to pension plans and life insurance.

Shares Issued by ČSOB

As at 31 December 2014, the Members of the Board of Directors and their next of kin, the members of the Supervisory Board and their next of kin did not own any shares issued by ČSOB and were not holders of any purchase option on ČSOB shares.

Principles of Remuneration

Members of the Board of Directors

ČSOB's Supervisory Board established for remuneration, nomination and personal issues the Nomination and Remuneration Committee. The Remuneration Rules are approved by this Committee of Supervisory Board as well as fulfilment of upfront performance targets (Key Performance Indicators; "KPIs") based on their evaluation by the Chairman of the Board of Directors. Members of the Nomination and Remuneration Committee in 2014 were: Jan Švejnar (until 20 May 2014), Marko Voljč (until 29 June 2014; Chairman), Pavel Kavánek (since 21 May 2014) and Christine Van Rijsseghem (since 30 June 2014; Chairman).

Members of the Board of Directors also serve as Senior Executive Officers with specific agendas. From 1 January 2014 to 30 June 2014, their income comprised a fixed remuneration for performing the function of a member of the Board of Directors and a fixed salary for performing the management function of a Senior Executive Officer. From 1 July 2014 to 31 December 2014, their income included a fixed remuneration for performing the function of a member of the Board of Directors. The variable part of remuneration in both types of contracts is derived from the fixed part and depends on meeting upfront performance targets (KPIs), including financial (e.g. net profit, operating expenses), risk (e.g. credit costs) and other (e.g. number of clients) parameters. The variable part of remuneration is approximately one third of all income. KPIs are assessed on an annual basis at the end of ČSOB's fiscal year. Results achieved as at 31 December of the assessed year are taken into consideration.

Following the change of the legislation, new bonus scheme for persons discharging managerial responsibilities within an issuer was launched in 2011. A half of the bonus is provided in non-cash instrument. Payment of a half of the bonus (both cash and non-cash portion) is deferred up to the next three years following the initial assignment of the benefit and is linked to fulfilling all conditions according to internal rule of Remuneration Policy.

Members of the Supervisory Board

Only the Chairman of ČSOB's Supervisory Board is remunerated for his membership of the Supervisory Board. The Chairman of the Supervisory Board is contracted for fixed remuneration per year that is set by the Nomination and Remuneration Committee and approved by the Sole Shareholder in competence of the General Meeting. Other members receive no remuneration from ČSOB or KBC for their Supervisory Board membership. Supervisory Board members – KBC employees receive neither income from ČSOB for their Supervisory Board membership, nor any extra remuneration from KBC.

Introducing Members of Managing and Supervisory Bodies

ČSOB's Board of Directors and ČSOB's Top Management

John Arthur Hollows
Born on 12 April 1956

Chairman
of the Board of Directors

He graduated from the Sidney Sussex College at the University in Cambridge with a degree in economics and law.

Upon graduation Mr. Hollows has followed a career in banking. He gained experience in the area of financial services at Barclays Bank in London and Taipei and at KBC in Hong Kong, Shanghai and Singapore. He held senior managerial positions in credit departments and in areas such as export finance, corporate and investment banking and treasury. He also focused on cost management. From August 2003 to April 2006, he was the Chief Executive Officer of K&H Bank (KBC Group) in Hungary. Between 2006 and 2009, Mr. Hollows served as the Senior General Manager of the Central and Eastern Europe Business Unit of KBC Group. From September 2009 to April 2010, he was the CEO of the KBC Group's Central and Eastern Europe and Russia Business Unit. Since September 2009 he has been a member of the Executive Committee of the KBC Group. From May 2010 to April 2014, he served as the Chief Risk Officer of the KBC Group. Between April 2006 and June 2009, Mr. Hollows was a member of ČSOB's Supervisory Board and the Chairman of its Audit Committee. Since 1 May 2014, he has been a member of the Board of Directors of ČSOB (and its Chairman since 2 May 2014).

Since 1 May 2014, Mr. Hollows has been the member of the Executive Committee of KBC Group responsible for the Business Unit Czech Republic.

Membership in bodies of other companies:
Member of the Executive Committee of KBC Group (Belgium); member of the Board of Directors and member of the Executive Committee of KBC Bank (Belgium) and KBC Insurance (Belgium).

Marek Ditz
Born on 16 September 1972

Member
of the Board of Directors

Insurance,
Markets & Investments
(until 9 March 2015)

Specialised Banking
and Insurance
(since 10 March 2015)

He graduated from the University of Economics, Prague and Swiss Banking School, Zurich.

Mr. Ditz has been working for ČSOB since 1994. He was appointed the Manager of the Specialised and Institutional Banking unit in 2005. He was appointed the Executive director of Corporate and Institutional Banking in 2010, where he was in charge of the distribution network of 10 regional branches providing service to corporate clients as well as for specialised financing, foreign trade and institutional banking which also caters to non-banking financial institutions, banks and selected public sector entities. Since 1 January 2013, Mr. Ditz has been a member of the Board of Directors. Between January 2013 and April 2014, he served as a member of ČSOB's Top Management as the Senior Executive Officer, Customer Relationships, and then as the Senior Executive Officer responsible for Investments & Markets (until 30 June 2014). From 1 July 2014 to 9 March 2015, he was a member of ČSOB's Top Management responsible for Insurance, Markets & Investments. Since 10 March 2015, Mr. Ditz has been responsible for Specialised Banking and Insurance.

Membership in bodies of other companies:
Chairman of the Supervisory Board of ČSOB Advisory (CZ); Deputy Chairman of the Supervisory Board of ČMSS (CZ; since 4 November 2014); member of the Supervisory Board in: ČSOB Asset Management (CZ), Patria Online (CZ) and Patria Finance (CZ); member of the Audit Committee in: ČMSS (CZ; since 4 November 2014) and ČSOB Pojišťovna (CZ).

Petr Hutla
Born on 24 August 1959

Member
of the Board of Directors

Convenient Retail Services
and Change Zone
(until 9 March 2015)

Retail
(since 10 March 2015)

He graduated from the Czech Technical University, Faculty of Electrical Engineering.

Mr. Hutla worked for Tesla Pardubice between 1983 and 1993, as the Economic Associate Director of Tesla Pardubice – RSD from 1991. He has been working for ČSOB since 1993: first as the branch manager in Pardubice and the main branch manager in Hradec Králové, then as the main branch manager in Prague 1. Mr. Hutla then served as Senior Director, Corporate and Institutional Banking (between 2000 and 2005). He has worked as Senior Executive Officer since 2005: Personnel and Strategic Management (between 2005 and 2006), Human Resources and Transformation (between 2006 and 15 November 2009), Distribution (between 16 November 2009 and 31 December 2012). Since 27 February 2008, Mr. Hutla has been a member of the Board of Directors. From 14 January 2009 to 31 December 2011, he was also the head of KBC Global Services Czech Branch, organizational unit. Between January 2013 and June 2014, Mr. Hutla was a member of ČSOB's Top Management as the Senior Executive Officer, Specialized Banking and Insurance. From 1 July 2014 to 9 March 2015, he was a member of ČSOB's Top Management responsible for Convenient Retail Services and from 1 October 2014 to 9 March 2015, also responsible for Change Zone; since 10 March 2015 Mr. Hutla has been responsible for Retail (after the merger of these two management areas).

Membership in bodies of other companies:
Chairman of the Supervisory Board of Hypoteční banka (CZ); Chairman of the Supervisory Board of ČSOB Pojišťovna (CZ); Deputy Chairman of the Supervisory Board of ČMSS (CZ; until 3 November 2014); member of the Audit Committee of ČMSS (CZ; until 3 November 2014); member of the Board of Trustees of Czech Technical University in Prague and member of the Board of Directors of the Czech Transplant Foundation and of the Nadační fond Moderní léčba arytmií (CZ; endowment fund).

Petr Knapp
Born on 7 May 1956

Member
of the Board of Directors

Relationship Services

He graduated from the University of Economics, Prague.

Mr. Knapp originally joined ČSOB in 1979. He worked in Teplotechna Praha as Deputy Managing Director from 1984 and later as Director of Foreign Operations. He returned to ČSOB in 1991 and was appointed Director of ČSOB Corporate Finance Department and later Director of the Credits Section. He has been a member of the Board of Directors and Senior Executive Officer of ČSOB since 1996. Between January 2013 and April 2014, Mr. Knapp served as a member of ČSOB's Top Management as the Senior Executive Officer, Corporate Banking and Financial Markets. Since 1 May 2014, he has been a member of ČSOB's Top Management responsible for Relationship Services.

Membership in bodies of other companies:
Chairman of the Supervisory Board in: ČSOB Factoring (CZ) and ČSOB Leasing (CZ); member of the Supervisory Board in: Patria Online (CZ) and Patria Finance (CZ); member of the Board of Directors of the Prague Economic Chamber (CZ).

Jiří Vévoda
Born on 4 February 1977

Member
of the Board of Directors

Finance Management

He graduated from the Joint European Studies Programme at the Staffordshire University and the University of Economics, Prague.

From 2000 to 2004, Mr. Vévoda worked for GE Capital in the Czech Republic, Ireland, Finland and Sweden. From 2004 to 2010, he worked for McKinsey & Company. Since 1 May 2010, he has been a member of ČSOB's Top Management. First Mr. Vévoda has acted as the Senior Executive Officer responsible for HR and Trasformation and then as the Senior Executive Officer responsible for Products and Staff Functions. He has become a member of the Board of Directors since 8 December 2010. Between January 2013 and June 2014, Mr. Vévoda was a member of ČSOB's Top Management as the Senior Executive Officer, Risk Management (CRO). Since 1 July 2014, he has been a member of ČSOB's Top Management responsible for Finance Management (CFO).

Membership in bodies of other companies:
Member of the Supervisory Board in: Hypoteční banka (CZ), ČSOB Leasing (CZ) and ČMSS (CZ).

Koen Wilmots *Born on 24 July 1964* Member of the Board of Directors *(until 31 March 2015)* Operations & Technologies and Change Zone *(until 9 March 2015)*	He studied law at the Catholic University of Leuven (Belgium), followed by a post-graduate course at the Robert Schuman University in Strasbourg. Mr. Wilmots has worked in the banking sector since 1992 when he joined Kredietbank. He has been working for ČSOB since 1999. Between 1999 and 2005, he was responsible for Corporate Management and Distribution Segment. He was the Executive Director, Credits between 2005 and 30 April 2010. Mr. Wilmots was a member of ČSOB's Top Management as the Senior Executive Officer responsible for Risk Management between 1 May 2010 and 31 December 2012. Between January 2013 and April 2014, he served as a member of ČSOB's Top Management as the Senior Executive Officer, Operations Management. From 1 May 2014 to 9 March 2015, he was responsible for Operations & Technologies (COO) and from 1 October 2014 to 9 March 2015, also for Change Zone. From 8 December 2010 to 31 March 2015, Mr. Wilmots was a member of ČSOB's Board of Directors. *Membership in bodies of other companies:* None
Tomáš Kořínek *Born on 10 June 1967* Member of the Board of Directors *(since 1 January 2015)* Group Risk Management	He graduated from the Czech Technical University Prague, Faculty of Electrical Engineering (Economy and Management). Upon his graduation Tomáš Kořínek held senior management positions at several financial institutions in the Czech Republic. Before joining ČSOB, he worked as a member of Volksbank CZ Board of Directors responsible for risk management, finance and operations. He has been working for ČSOB since April 2009; between May 2010 and October 2013, as a Director of Risk Management Department and from November 2013 to 31 December 2014, as a Executive Director responsible for Group Risk Management. Since 1 January 2015, he has been a member of ČSOB's Board of Directors responsible for Group Risk Management (CRO). *Membership in bodies of other companies:* Member of the Audit Committee of Hypoteční banka (CZ).

Dozorčí rada ČSOB

Pavel Kavánek *Born on 8 December 1948* Chairman of the Supervisory Board	He graduated from the University of Economics, Prague and The Pew Economic Freedom Fellowship at Georgetown University. Between 1972 and April 2014, Mr. Kavánek worked for ČSOB. From 1990 to April 2014, he was a member of the Board of Directors of ČSOB. Between 1993 and 30 April 2014, he served as the Chairman of the Board of Directors of ČSOB and the CEO. From 1 January 2013 to 30 April 2014, Mr. Kavánek was a member of the Executive Committee of KBC Group responsible for the Business Unit Czech Republic. Since 1 May 2014, he has been a member of ČSOB's Supervisory Board (and its Chairman since 30 June 2014). Since 1 June 2014, he has been a member of ČSOB's Audit Committee. *Membership in bodies of other companies:* President of the Executive Board of the Czech Banking Association (CZ); member of the Board of Trustees of the Aspen Institute Prague (CZ).

Hendrik Soete
Born on 9 November 1950

Member
of the Supervisory Board

He holds M.Sc. and Ph.D. degrees in Agricultural Sciences from the Catholic University in Leuven (Belgium).

Mr. Soete originally worked in production management at Procter & Gamble and at Lacsoons Dairy in Belgium. Between 1983 and 1994, he held several management positions, as well as that of managing director, with Borden Inc., in the U.K. and in Germany. After his return to Belgium, he headed two food companies before joining the AVEVE Group in 1999. He was the Chairman of the Board of Directors of the AVEVE Group. He also served as a member of the Board of Directors of the MRBB, the Financial Holding of Boerenbond (Belgium), the CEO of the Agri Investment Fund of Boerenbond (Belgium) and the President of Intercoop Europe (Switzerland). At present, he is the CEO of the AVEVE Group.

Membership in bodies of other companies:
Chairman of Covalis Meat Group (Belgium); member of the Board of Directors of Intercoop Europe (Switzerland).

Jan Gysels
Born on 28 September 1960

Member
of the Supervisory Board
(until 15 April 2015)

He graduated from the Catholic University in Leuven (Belgium) with a degree in law in 1983 and he obtained post–graduate diploma in Business Management and in Maritime Studies in 1984.

Mr. Gysels has been working for KBC since 1985. Between 1987 and 2009, he held various positions in the KBC group in Belgium and Hungary. From 2009 to 2012, he worked as the General Manager of KBC Communication Division in Belgium. Since January 2013, he has worked in the position of the General Manager, Banking Communities Support in the KBC Group. From 14 February 2013 to 15 April 2015, Mr. Gysels was a member of ČSOB's Supervisory Board.

From 5 April 2013 to 15 April 2015, he was a member of ČSOB's Audit Committee.

Membership in bodies of other companies:
Member of the Board of Directors (a non-executive director) of KBC Bank Ireland (Ireland); member of the Supervisory Board in: ČSOB (SK), CIBANK (Bulgaria) and K&H Bank (Hungary).

Franky Depickere
Born on 26 January 1959

Member
of the Supervisory Board

Franky Depickere studied commercial and financial sciences at the University of Antwerp (UFSIA; Belgium), and obtained a Master's degree in company financial management from the VLEKHO Business School (Belgium).

Following a short period at Gemeentekrediet bank, in 1982 Franky Depickere joined the CERA group, where he spent more than 17 years. Among other things he was an internal audit inspector at CERA Bank, financial director of CERA Lease Factors Autolease, chairman of the board of Nédée België-Luxemburg, a subsidiary of CERA Bank, a member of the Management Committee of CERA Investment Bank, and finally a Managing Director at KBC Securities. In 1999 he became managing director and chairman of the Management Committee of F. van Lanschot Bankiers België, as well as group director of F. van Lanschot Bankiers Nederland. From 2005 he was also a member of the Strategic Committee of F. van Lanschot Bankiers Nederland. Since 15 September 2006, he has been a member of Cera's Day-to-Day Management Committee and Managing Director of Cera Société de gestion and Almancora Société de gestion. Franky Depickere is a member of the Board of Directors of the KBC Group (a non-executive director). Since 1 June 2014, he has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
Member of the Board of Directors (a non-executive director) in: KBC Group (Belgium), KBC Bank (Belgium), KBC Assurances (Belgium) a CBC Banque (Belgium); Chairman of the Risk and Compliance Committees in: KBC Group, KBC Bank and KBC Assurances (Belgium); member of the Nomination Committee of KBC Group (Belgium); member of the Remuneration Committee of CBC Banque (Belgium); member of the Board of Directors (independent member) and Chairman of the Audit Committee of Miko (Belgium); member of the Supervisory Board and Chairman of the Audit Committee of Euro Pool System International (the Netherlands); Chairman of the Board of Directors in: the Flanders Business School (Belgium) and the International Raiffeisen Union (Germany).

Christine Van Rijsseghem
Born on 24 October 1962

Member
of the Supervisory Board

She graduated in 1985 from the Faculty of Law at the University of Ghent (Belgium). Subsequently she completed an MBA in Financial Sciences at Vlerick Management School in Ghent (Belgium).

Ms. Van Rijsseghem started her career at KBC (formerly Kredietbank) in 1987 at the Central Foreign Entities Department. Initially she was responsible for risk management and controlling and international acquisition strategy, and later on became head of that department. In 1994, she was appointed Head of the Credit Department of KBC's Irish subsidiary, Irish Intercontinental Bank. In 1996, she became CEO of KBC France and in 1999 of KBC's London branch. From 2000 to 2003, she was Senior General Manager of the Securities & Derivatives Processing Directorate of KBC Group. From 2003 to 30 April 2014, she was Senior General Manager of KBC Group Finance. Since 1 May 2014, Christine Van Rijsseghem has been a member of the KBC Group Executive Committee and KBC Group Chief Risk Officer. Since 1 June 2014, she has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
Member of the KBC Group Executive Committee (Belgium); Chairman of the Risk and Compliance Committee and member of the Audit Committee of ČSOB (SK); member of the Board of Directors and Chairman of the Risk Committee of K&H Bank (Hungary); member of the Supervisory Board, Chairman of the Risk and Compliance Committee and member of the Audit Committee of CIBANK (Bulgaria); member of the Board of Directors, Chairman of the Risk Committee and member of the Remuneration and Nomination Committee of Bank Ireland (Ireland).

Marko Voljč
Born on 5 December 1949

Member
of the Supervisory Board
(until 1 January 2015)

He graduated from the University of Ljubljana and Belgrade, with a degree in economics.

Between 1973 and 1976, Mr. Voljč worked as analyst / senior analyst in National Bank of Slovenia. Between 1976 and 1979, he was head of the analytical department of the National Bank of Slovenia. From 1979 through 1992, he worked for the World Bank in Washington D.C. and Mexico City. In 1992, he joined Nova Ljubljanska Banka in Slovenia as its President and the Chief Executive Officer (CEO). In 2004, he became General Manager of the Central Europe Directorate at KBC headquarters in Brussels. In that capacity, he served on the supervisory boards of KBC's banking subsidiaries in Poland, Hungary and the Czech Republic. From May 2006 to April 2010, he was CEO of K&H Bank (KBC Group) in Budapest and also became Country Manager of the Hungarian operations. Between April 2010 and December 2012, he served as the CEO of the KBC Group's Central & Eastern Europe and Russia Business Unit. From May 2010 to April 2014, he was a member of the Executive Committee of the KBC Group; between 1 January 2013 and 30 April 2014, he was the Chief Change Officer of the Corporate Change & Support Business Unit. Since January 2015, Mr. Voljč has been a Director of Dr. Pendl & Dr. Piswanger (Slovenia).

From 29 June 2010 to 1 January 2015, Marko Voljč was a member of ČSOB's Supervisory Board.

Membership in bodies of other companies (as of 31 December 2014):
Member of the Board of Directors and member of the Risk Committee of K&H Bank (Hungary); Chairman of the Supervisory Board and member of the Audit, Risk and Compliance Committee of ČSOB Pojišťovna (CZ); member of the Supervisory Board of ČSOB (SK); Chairman of the Supervisory Board and member of the Audit, Risk and Compliance Committee of DZI Insurance (Life and Non-Life; Bulgaria); Chairman of the Supervisory Board of Gorenje (Slovenia).

Martin Jarolím
Born on 16 March 1972

Member
of the Supervisory Board
(since 1 January 2015)

He graduated from Charles University in Prague, Mathematics and Physics Department, where he studied from 1990 to 1995 specializing in Optimisation and Mathematical Economics, and then from 1995 to 2000 studied at Charles University in Prague, Centre for Economic Research and Graduate Education (CERGE–EI), – Ph.D. with the thesis Foreign Direct Investment and Foreign Trade. He has also attended various specialist and managerial courses.

Martin Jarolím has worked at ČSOB since 2000 in various specialized and management positions mainly in retail; from 2011 as Executive Director of ČSOB Retail Branch Network. Since February 2014, he has been the Senior General Manager, Business Unit Core Communities Banking & International Markets in KBC Group. Since 1 January 2015, he has been a member of ČSOB's Supervisory Board.

Since 1 June 2014, he has been a member of ČSOB's Audit Committee (and its Chairman since 9 April 2015).

Membership in bodies of other companies:
Member of the Board of Directors (a non-executive director) of K&H Bank (Hungary); member of the Supervisory Board in: ČSOB (SK) and CIBank (Bulgaria).

ČSOB's Audit Committee

Petr Šobotník
Born on 16 May 1954

Independent member
of the Audit Committee

He graduated from the University of Economics, Prague.

Between 1983 and 1991, Mr. Šobotník acted as a chief accountant in corporations as well as government bodies. In 1991, he joined the audit firm Coopers & Lybrand; he became a partner for audit in 1995. After the merger of the audit firms, he served as the Lead Audit Partner in PricewaterhouseCoopers from 1998 to 2002. He then worked in various top management positions in PwC until June 2010. At present, he is an independent consultant (Šobotník & Partners).

Since 1 February 2011, he has been an independent member of the ČSOB's Audit Committee.

Membership in bodies of other companies:
President of the Czech Chamber of Auditors (from 2007 to November 2014); member of the Supervisory Committee of the Czech Chamber of Auditors (since November 2014); representative of the Czech Republic in FEE – Ethics Working Party (since 2004); member of the Audit Committee in Skanska (CZ; since 2010); Chairman of the Audit Committee in Český Aeroholding (CZ; since February 2014); member of the Supervisory Board of the Nadační fond Českého rozhlasu (Czech Radio Endowment Fund).

Termination of Membership in ČSOB's Managing and Supervisory Bodies in 2014

Jan Lamser
Born on 8 December 1966

He graduated from the Faculty of Mathematics and Physics and the Protestant Theological Faculty of the Charles University of Prague; the University of Economics, Prague and École des Hautes Études Commerciales, Paris.

Mr. Lamser worked in ČSOB since 1995. He was a member of ČSOB's Board of Directors since 1997. He worked in various managerial positions in ČSOB. Until 31 December 2012, he was responsible for services provided to mass retail clientele. From January 2013 to June 2014, Mr. Lamser was a member of ČSOB's Top Management as the Senior Executive Officer, Convenience Services.

From 26 May 1997 to 12 June 2014, Mr. Lamser was a member of ČSOB's Board of Directors.

Membership in bodies of other companies:
Chairman of the control commission of the Unijazz Association (CZ); President of the Czech Chess Union.

Bartel Puelinckx
Born on 16 December 1965

He studied economics at the University of Leuven (Belgium) and law at the University of Brussels.

Mr. Puelinckx has worked in the KBC Group since 1992, in various positions within KBC Bank. In addition, he worked in Hungary's K&H Bank from 2006 to 2010, most recently as Senior Managing Director, Head of HR & Credit Management Division. From 1 May 2010 to 30 June 2014, Mr. Puelinckx was a member of ČSOB's Top Management as the Senior Executive Officer, Finance Management (CFO).

From 8 December 2010 to 30 June 2014, Mr. Puelinckx was a member of ČSOB's Board of Directors.

Membership in bodies of other companies:
Member of the Supervisory Board of ČMSS (CZ; from 15 April 2014 to 20 July 2014).

Jan Švejnar
Born on 2 October 1952

He graduated from Cornell University (USA) with a degree in Industrial and Work Relations, and obtained a Ph.D. in Economics from Princeton University.

Mr. Švejnar is an independent economist living abroad since 1970. Since 1992, he has divided his work capacity between activities in Prague and the USA. He has primarily devoted his academic career to economies in transition and, generally, to economic development. He was a professor at the University of Michigan Business School and since the beginning of 2012 he serves at Columbia University in New York as the founding director of the Center for Global Economic Governance.

From 9 October 2003 to 20 May 2014, Mr. Švejnar was a member of ČSOB's Supervisory Board (Chairman since 3 June 2009). From 1 January 2010 to 20 May 2014, he was a member of ČSOB's Audit Committee.

Membership in bodies of other companies:
Chairman of the Board of the Center for Economic Research and Graduate Education (CERGE) of the Charles University; member of the Academic Council of Faculty of Social Sciences of the Charles University.

Patrick Roland Georges Zeno Vanden Avenne
Born on 15 February 1954

He graduated from the Catholic University in Leuven (Belgium) with a degree in economics and law, and Stanford University (USA) with a degree in business administration.

Mr. Avenne owns and manages a number of companies in the food processing industries and in logistics. As a significant shareholder of KBC, he has participated in the corporate governance of KBC Group since 1993. He had also been in managerial positions in Almanij (a former parent company of the KBC Group), Gevaert NV and, later, in KBC Bank and KBC Insurance. He was a member of the Audit Committee of KBC Bank.

From 22 April 2006 to 31 May 2014, Mr. Avenne was a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
Member of the Supervisory Boards at the Catholic Universities in Leuven and Kortrijk, member of the managing committees of the Flemish Employers Union (VOKA) and the Belgian Federation of Food Industry (Bemefa).

František Hupka
Born on 13 April 1971

He obtained a bachelor degree in Economics and Management from the University of Western Bohemia in Pilsen.

In 1991, Mr. Hupka joined ČSOB as an IT support specialist. Since 2002, he has served as the Chairman of the Bank's Trade Union Committee.

From 23 June 2005 to 31 May 2014, Mr. Hupka was a member of ČSOB's Supervisory Board elected by employees.

Membership in bodies of other companies:
Member of the Management Board of the Occupational Health Insurance Company (OZP; until February 2015).

Martina Kantová *Born on 31 March 1974*	She graduated from the Secondary school of economics in Hradec Králové. Ms. Kantová has been working for ČSOB (formerly IPB) at a branch in Hradec Králové since 1996. From 2005 to August 2012, she worked as a Retail Credits Advisor. Since September 2012, Ms. Kantová has been on a maternity leave. She has been a member of KBC's European Worker Council since 2008. She has been a member of the Bank's Trade Union Committee since 2007. Between 2009 and 2012, Ms. Kantová was the chairperson of a local trade union organization in Hradec Králové. In 2013, after the merger two local trade union organizations in Hradec Králové and in Prague, she was a member of the board of the new local trade union organization. Since 2014, she has been a member of local trade union organization in Pilsen. From 23 June 2010 to 31 May 2014, Ms. Kantová was a member of ČSOB's Supervisory Board elected by employees. *Membership in bodies of other companies:* None.
Ladislava Spielbergerová *Born on 6 November 1974*	She obtained a bachelor degree from the Banking Institute/College of Banking in Prague. Ms. Spielbergerová has been working for ČSOB since 1995. From 2010 to April 2013, she worked as a Personal Banker at the branch in Dvůr Králové nad Labem. At present, Ms. Spielbergerová is on a maternity leave. She has been a member of KBC's European Worker Council since 2005 and the Deputy Chairman of the Bank's Trade Union Committee since 2008. From 23 June 2010 to 31 May 2014, Ms. Spielbergerová was a member of ČSOB's Supervisory Board elected by employees. *Membership in bodies of other companies:* None.

Corporate Governance Policy

Československá obchodní banka, a. s., voluntarily meets and complies with the corporate governance guidelines set out in the Corporate Governance Code based on the OECD Principles.

The Corporate Governance Code of ČSOB, adopted by ČSOB's Board of Directors in 2012, defines the role of key bodies and lay out basic rules of the Bank's governance in compliance with the Czech law and in line with the internationally accepted practice. ČSOB's Corporate Governance Code is available in the department of the CEO.

Effective as from October 2012, **the Anti-Corruption Programme Policy of ČSOB** includes the principle of zero tolerance for bribery and corrupt practices. By issuing and introducing this programme, ČSOB formalized its principles and attitudes nurtured by ČSOB on a continuous and long-term basis. Compliant with the Code of Ethics, this regulation was issued to show to both the public and our employees that corrupt practices or other unethical conduct is and will not be tolerated in ČSOB.

Československá obchodní banka, a. s. has the following bodies:
General Meeting, Board of Directors, Supervisory Board, and Audit Committee.

The powers and activities of ČSOB's bodies are determined in the Articles of Association of ČSOB as approved by the General Meeting.

General Meeting

The General Meeting of shareholders is the supreme body of ČSOB. The General Meeting is equipped with a standard scope of powers as set out in the applicable laws. Among other things, the General meeting takes decisions on matters such as changes in the composition of the ČSOB's bodies, or amendments to the Articles of Association, or changes in the registered capital. The General Meeting also approves financial statements.

The sole shareholder (KBC Bank NV) exercises the powers of ČSOB's General Meeting. Resolutions are always in writing; a notarial deed is required in cases stipulated by the applicable laws. Where an approval is required by the law, draft resolutions are submitted to the sole shareholder by the Board of Directors. ČSOB's Board of Directors and ČSOB's Supervisory Board are notified of resolutions adopted by the sole shareholder in writing by the delivery of a written notice.

Board of Directors

The Board of Directors of Československá obchodní banka, a. s. performs its tasks within the framework of competencies defined for the statutory body by legal regulations, the Articles of Association and relevant basic management documents of the company.

The members of the Board of Directors are elected by the company's General Meeting provided they comply with other requirements stipulated by the Banking Act. In compliance therewith, ČSOB's Board of Directors has a full-scale executive composition. ČSOB's shareholder and clients receive regular reports containing the required range of relevant data on the members of the Board of Directors and their professional and personal qualifications enabling them to duly execute their duties.

At the end of 2014, ČSOB's Board of Directors had six members and worked in the following composition: John Arthur Hollows (Chairman), Petr Hutla, Petr Knapp, Koen Wilmots, Jiří Vévoda and Marek Ditz.

Personnel changes in the Board of Directors during the year 2014 are described in the chapter Managing and Supervisory Bodies.

The Board of Directors meets regularly, usually once a week, and follows a fixed agenda based on the strategic schedule of main topics and other documents of more operational nature submitted for discussion individually by the Board members. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. Discussions of the statutory body are attended by the Corporate Secretary of the Board of Directors who is responsible for preparing the meetings and taking their minutes. The Board of Directors has quorum if more than half of its members are present at the meeting. Any decision shall receive the votes of a majority of all members of the Board of Directors to be adopted.

The Board of Directors establishes expert committees to discuss specific agendas. Considering the importance of topics covered by the committees with company-wide scope of authority, a member of the Board of Directors primarily responsible for its activities usually presides over each committee. Should the responsible member of the Board of Directors be unable to take part in a committee meeting, such responsible member is substituted by a formally appointed deputy (usually another member of the Board of Directors). This approach makes it possible to achieve continuity of the consistent follow-up process focused on the committee's decision-making and to keep the Board of Directors directly informed. Depending on their roles and responsibilities, all ČSOB's units covering the subject matter are made involved in discussions and take part in committee meetings. This is why the head of such involved unit is authorized to take part and represent his/her unit in committee meetings. In his or her absence, committee meetings are attended by his or her deputy or another appointed employee unless forbidden by the applicable rule of procedure. Committee meetings are governed by the committee's rules of procedure.

Board of Directors Committees in 2014

Risk and Capital Oversight Committee (RCOC)

The Committee aims to support ČSOB's Board of Directors in the field of risk and capital management of the ČSOB group.

Credit Sanctioning Committee (CSC)

The Committee decides approvals/non-approvals of credit exposure in cases within the ČSOB decision-making powers.

Enterprise Architecture Board (EAB)

The Committee manages and monitors the transformation in the field of business and information technology governance (Business IT Governance) and provides evaluation and methodological management of the processes within the area.

Public Affairs Committee (PAC)

The Committee intends to promote the establishment and implementation of business and strategic initiatives and projects reflecting own needs or external influences and aims to achieve the business and strategic objectives of the Bank or the companies associated in the ČSOB group.

ČSOB Corporate Social Responsibility Committee (CSRC)

The Committee defines the strategy of corporate social responsibility (CSR) and how it interlinks with the strategy of ČSOB, sets the direction in various areas of CSR and addresses inputs suggested and escalated from the Philanthropy Committee.

Crisis Committee (CRC)

The goal is to be efficient in solving crisis situations that, if unaddressed, would adversely affect the operations of the whole Bank, or the ČSOB group, as the case may be.

Other Bodies

EXCO – Executive Committee Relationship Services

The purpose of the Committee is to ensure implementation of business and strategic initiatives and customer value proposition for corporate banking, SME and private banking in accordance with the powers delegated by ČSOB's Board of Directors and the ČSOB group's strategic plan.

Retail EXCO – Executive Committee Convenience Retail Services

The aim of the committee is to review financial and business performance of the Retail division in line with plan, adherence to risk and compliance controls, and delivery of strategic and business initiatives in accordance with the powers delegated by ČSOB's Board of Directors, the ČSOB group strategic plan and Retail transformation roadmap.

EXCO – Investments and Financial Markets

The Committee works as a joint platform composed of representatives of Financial Markets, ČSOB Asset Management, ČSOB Penzijní společnost, Patria and ČSOB Advisory. The main objective of the body is to coordinate the actions of these business units, especially in the areas of intersection of their activities, looking for new joint business opportunities and exchange of experiences.

Supervisory Board

The Supervisory Board of Československá obchodní banka, a. s. supervises performance of tasks by the Board of Directors and discharge of the Bank's business activities.

At the end of 2014, ČSOB's Supervisory Board had six members and worked in the following composition: Pavel Kavánek (Chairman), Marko Voljč, Hendrick Soete, Jan Gysels, Christine Van Rijsseghem and Franky Depickere.

Personnel changes in the Supervisory Board during the year 2014 are described in the chapter Managing and Supervisory Bodies.

In compliance with its plan of work, **the Supervisory Board held four meetings in 2014** where it discussed issues falling under its responsibility according to the Articles of Association of ČSOB. Reading materials for meetings of the Supervisory Board were prepared and delivered well in advance for the members of the Supervisory Board to have enough time to study them. Meetings of the Supervisory Board are also regularly attended by the members of the Board of Directors who personally present materials to be discussed. In compliance with its powers, the Supervisory Board selected an external auditor. The auditor attends all meetings of the Audit Committee, thus providing an independent, comprehensive and qualified opinion of whether ČSOB's financial statements reflect ČSOB's situation and performance correctly in all material respects. Pursuant to the Rules of Procedure of the Supervisory Board, administrative and organizational support is provided by the Corporate Secretary, who is responsible for taking the minutes of the meetings. Constitution of a quorum and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

Supervisory Board Committees

The Supervisory Board, like as the Board of Directors, may establish advisory committees and other initiative committees to ensure its activities, either on the basis of legal regulations or in accordance with the Articles of Association.

The Remuneration and Nomination Committee is an advisory and nomination body of the Supervisory Board. The Remuneration and Nomination Committee sets, assesses and evaluates the remuneration of ČSOB's top managers; the Committee meets as necessary but no less than once a year.

In 2014, the Remuneration and Nomination Committee was composed of the following members (all of whom were members of ČSOB's Supervisory Board): Jan Švejnar (until 20 May 2014), Marko Voljč (until 29 June 2014), Pavel Kavánek (since 21 May 2014) and Christine Van Rijsseghem (since 30 June 2014).

The Risk and Compliance Committee is another advisory body of the Supervisory Board. The committee was established in 2014 by separation from the Audit Committee in compliance with the regulatory requirements. Its authority and responsibilities are determined by the Articles of Association of ČSOB and by the statutes of Risk and Compliance Committee. In particular, the Risk and Compliance Committee advises the Supervisory Body on the institution's overall current and future risk profile, appetite and risk strategy (including compliance risks). Risk and Compliance Committee reviews whether prices of liabilities and assets offered to clients take fully into account the company's business model and risk strategy. Assists in the establishment of sound remuneration policies and practices, the risk committee shall, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings. The Committee supervise the proper functioning of Risk and Compliance departments.

The Risk and Compliance Committee has five members elected from among the members of the Supervisory Board or third parties.

In 2014, the Risk and Compliance Committee worked in the following composition:
Christine Van Rijsseghem, Martin Jarolím, Pavel Kavánek, Jan Gysels and Petr Šobotník (independent member).

The Risk and Compliance Committee members are elected by the Supervisory Board based on their expertise that is required to perform their duties in a professional manner. The Chairman and members of ČSOB's Board of Directors, the External Auditor and heads of ČSOB's departments – Compliance, Internal Audit and Legal participate as permanent guests in all meetings. Furthermore, some line managers or other employees who can provide the Risk and Compliance Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. **Risk and Compliance Committee held three meetings in 2014** where issues falling within the Risk and Compliance Committee's competence were addressed. Constitution of a quorum of the Risk and Compliance Committee and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

Audit Committee

The Audit Committee is an official body of ČSOB. Its authority and responsibilities are determined by ČSOB's Articles of Association and the Audit Committee's Rules of Procedure. In particular, the Audit Committee monitors the compilation of the financial statements and the process of mandatory audit, supervises and monitors the quality of internal control, the work of internal audit, financial reporting and the system of risk management. The Audit Committee recommends a statutory auditor and examines the adequacy of the auditor's independence.

The Audit Committee has four members elected from among the members of the Supervisory Board or third parties.

At the end of 2014, the Audit Committee worked in the following composition:
Martin Jarolím, Pavel Kavánek, Jan Gysels and Petr Šobotník (independent member).

Personnel changes in the audit Committee during the year 2014 are described in the chapter Managing and Supervisory Bodies.

The Audit Committee members are elected by the General Meeting based on their expertise that is required to perform their control tasks in a professional manner. The Chairman and members of ČSOB's Board of Directors, the External Auditor, heads of ČSOB's departments – Compliance, Internal Audit and Legal and head of KBC Internal Audit participate as permanent guests in all meetings. Furthermore, some line managers or other employees who can provide the Audit Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. In compliance with its plan of work, **the Audit Committee held four meetings in 2014** where issues falling within the Audit Committee's competence were addressed. Constitution of a quorum of the Audit Committee and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

Internal Control Mechanisms to Minimize Financial Reporting Process Risks

A number of tools in several areas are used to ensure true and fair representation of transaction in the company's accounting records and correct financial statements presentation. There are both automated and manual checks incorporated in the entire process starting with the transaction registration in the company systems up to financial statements preparation.

Balances of all General Ledger accounts are subject to regular, at least monthly internal checks. The appointed person in charge, so-called Account Manager, performs logical and specific checks related to the General Ledger account balance consisting e.g. of reconciliation of data in support systems or non-accounting registers with the balances in the General Ledger, monitoring the development of the account balance, monitoring the occurrence of unusual transactions or manual entries in accounts with automatic accounting etc. Control procedures are set up to minimize the risk of accounting errors. Findings of accounting errors are listed centrally and relevant corrections are monitored. The adequacy and effectiveness of the accounting examinations are assessed on a regular basis. Findings are reported to the Internal Audit and Operational Risk Management on a semi-annual basis.

The internal control system also includes internal regulations determining authorities assumed by each staff member making entries in the accounting books in order to duly segregate responsibilities within the document flow. Control procedures are integrated to accounting systems including the “four eye” check and access right authentication. The risk of unauthorised entry is minimized by defining the persons who can make a predefined scope of transactions and persons authorised to give approvals.

Accounting procedures and valuation rules for assets and liabilities including rules for provisions and allowances are defined within internal regulations prepared in accordance with the legal requirements and international financial reporting standards. Monitoring of compliance with the requirements and incorporation of changes is provided by Accounting Methodology in cooperation with the units concerned. Applicable accounting policies, e.g. rules for measuring the assets or principles of creation of allowances and provisions, are described in Note 2 to the Separate Financial Statement for the year 2014 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the year 2014 prepared in accordance with EU IFRS.

Control mechanisms are extended based on recommendations from Internal Audit, or based on outcomes of the risk assessment reviews organized as part of the operational risk management, please refer to Note 38.5 to the Separate Financial Statement for the year 2014 prepared in accordance with EU IFRS and to Note 40.5 to the Consolidated Financial Statement for the year 2014 prepared in accordance with EU IFRS.

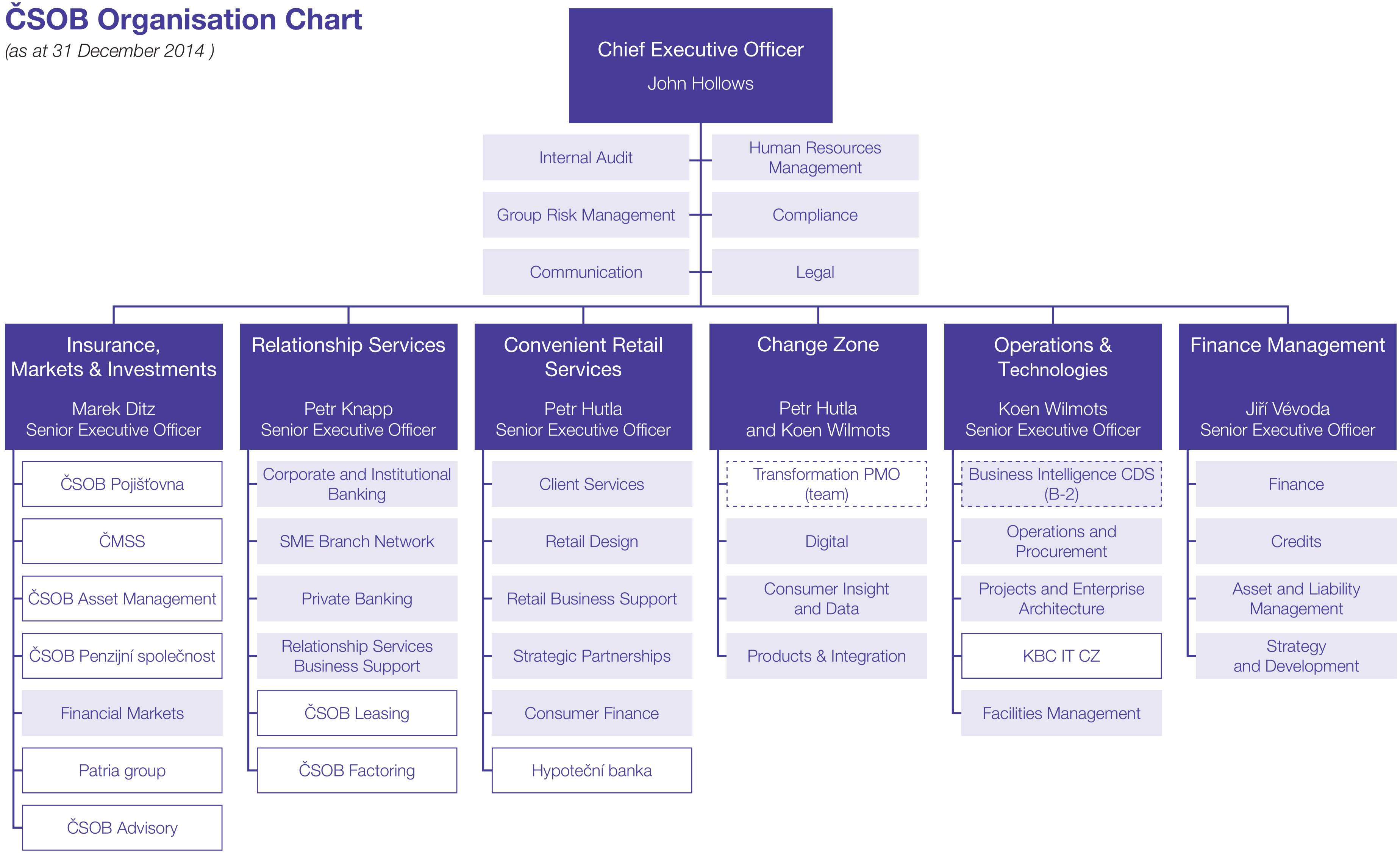
An automated system is used to prepare majority of financial statements using the data from the central data warehouse, which are reconciled to the General Ledger balances.

Consolidated financial statements are regularly submitted to the company’s Supervisory Board and both consolidated and separate financial statements are subject to external audit.

The effectiveness and efficiency of internal controls is evaluated by internal auditors. Financial reporting review is submitted to the Audit Committee on a half year basis.

ČSOB Organisation Chart

(as at 31 December 2014)



ČSOB Organisation Chart

(from 10 March 2015)

Chief Executive Officer
John Hollows

- Internal Audit
- Projects and Enterprise Architecture
- Human Resources Management
- Communication
- KBC IT CZ

Specialised Banking and Insurance
Marek Ditz
Senior Executive Officer

- ČSOB Pojišťovna
- ČMSS
- ČSOB Asset Management
- ČSOB Penzijní společnost
- Financial Markets
- Patria group
- ČSOB Advisory
- Consumer Finance
- Hypoteční banka

Relationship Services
Petr Knapp
Senior Executive Officer

- Corporate and Institutional Banking
- SME Branch Network
- Private Banking
- Relationship Services Business Support
- ČSOB Leasing
- ČSOB Factoring
- Facilities Management

Retail
Petr Hutla
Senior Executive Officer

- Transformation PMO (team)
- Client Services
- Design
- Retail Business Support
- Strategic Partnerships
- Digital Service and Channels
- Customer Insight and Data
- Products & Integration

Finance Management
Jiří Vévoda
Senior Executive Officer

- Business Intelligence – CDS (B-2)
- Finance
- Credits
- Asset and Liability Management
- Strategy and Development
- Operations and Procurement

Group Risk Management
Tomáš Kořínek
Senior Executive Officer

- Market and Liquidity Risk Management (B-2)
- Non-financial Risk Management (B-2)
- Credit Risk Management (B-2)
- Data Management (B-2)
- Legal
- Compliance

FINANCIAL PART

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Československá obchodní banka, a. s.:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Building a better working world

Opinion

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

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

Jan Zedník, Auditor
License No. 2201

Douglas Burnham
Partner

20 March 2015
Prague, Czech Republic

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Note	2014	Restated 2013
Interest income	5	26,841	27,102
Interest expense	6	(3,969)	(4,451)
Net interest income		**22,872**	**22,651**
Fee and commission income		9,106	8,594
Fee and commission expense		(3,127)	(2,986)
Net fee and commission income	7	**5,979**	**5,608**
Dividend income		8	10
Net gains from financial instruments at fair value through profit or loss and foreign exchange	8	1,700	2,048
Net realised gains on available-for-sale financial assets		214	408
Other net income	9	670	477
Operating income		**31,443**	**31,202**
Staff expenses	10	(6,880)	(6,731)
General administrative expenses	11	(7,416)	(7,328)
Depreciation and amortisation	22, 23	(685)	(749)
Operating expenses		**(14,981)**	**(14,808)**
Impairment losses	12	(975)	(1,294)
Share of profit of associates and joint ventures	19	691	800
Profit before tax		**16,178**	**15,900**
Income tax expense	13	(2,557)	(2,249)
Profit for the year		**13,621**	**13,651**
Attributable to:			
Owners of the parent		13,604	13,658
Non-controlling interests		17	(7)

The accompanying notes are an integral part of these consolidated financial statements.

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

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Note	2014	Restated 2013
Profit for the year		**13,621**	**13,651**
Exchange differences on translating foreign operation		(2)	2
Net gain / (loss) on cash flow hedges		782	(1,261)
Net loss on available-for-sale financial assets		(1,303)	(1,059)
Share of other comprehensive income of associates and joint ventures		211	(98)
Income tax (expense) / benefit relating to components of other comprehensive income		(26)	397
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	31	**(338)**	**(2,019)**
Total comprehensive income for the year, net of tax		**13,283**	**11,632**
Attributable to:			
Owners of the parent		13,279	11,639
Non-controlling interests		4	(7)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2014	Restated 2013	Restated 2012
ASSETS				
Cash and balances with central banks	15	72,076	20,728	19,605
Financial assets held for trading	16	50,626	204,729	162,265
Financial assets designated at fair value through profit or loss	16	3,327	7,467	7,352
Available-for-sale financial assets	17	56,121	75,843	85,016
Held-to-maturity investments	17	144,074	150,944	138,437
Loans and receivables	18	506,635	475,543	418,990
Fair value adjustments of the hedged items in portfolio hedge		1,654	927	1,030
Derivatives used for hedging	20	13,967	9,285	14,453
Current tax assets		69	13	17
Deferred tax assets	13	100	96	88
Investment in associates and joint ventures	19	4,992	4,913	5,274
Investment property	21	284	289	430
Property and equipment	22	6,796	7,557	7,799
Goodwill and other intangible assets	23	2,913	2,885	2,928
Non-current assets held-for-sale	24	515	194	85
Other assets	25	1,490	1,541	1,296
Total assets		**865,639**	**962,954**	**865,065**
LIABILITIES AND EQUITY				
Financial liabilities held for trading	26	69,624	186,920	133,587
Financial liabilities at amortised cost	27	686,136	677,232	637,304
Fair value adjustments of the hedged items in portfolio hedge		5,145	(57)	1,741
Derivatives used for hedging	20	11,987	9,507	9,166
Current tax liabilities		196	913	752
Deferred tax liabilities	13	2,280	1,913	2,387
Other liabilities	28	3,955	5,197	5,066
Provisions	29	736	876	921
Total liabilities		**780,059**	**882,501**	**790,924**
Share capital	30	5,855	5,855	5,855
Share premium		15,509	15,509	7,509
Statutory reserve		18,687	18,687	18,687
Retained earnings		38,397	32,949	32,611
Available-for-sale reserve	30	3,732	4,699	5,701
Cash flow hedge reserve	30	3,192	2,548	3,567
Foreign currency translation reserve	30	-	2	-
Shareholders' equity		85,372	80,249	73,930
Non-controlling interests, presented within equity		208	204	211
Total equity		**85,580**	**80,453**	**74,141**
Total liabilities and equity		**865,639**	**962,954**	**865,065**

The accompanying notes are an integral part of these consolidated financial statements.

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

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Attributable to equity holders of the parent: Share capital (Note: 30)	Share premium	Statutory reserve[1)	Retained earnings	Other reserves (Note: 30)	Non-controlling interest	Total Equity
At 1 January 2013	**5,855**	**7,509**	**18,687**	**32,611**	**9,268**	**211**	**74,141**
Profit for the year	-	-	-	13,658	-	(7)	13,651
Other comprehensive income for the year	-	-	-	-	(2,019)	-	(2,019)
Total comprehensive income for the year	-	-	-	13,658	(2,019)	(7)	11,632
Increase of Share capital and Share premium	-	8,000	-	-	-	-	8,000
Dividends paid (Note: 14)	-	-	-	(13,320)	-	-	(13,320)
At 31 December 2013	**5,855**	**15,509**	**18,687**	**32,949**	**7,249**	**204**	**80,453**
At 1 January 2014	**5,855**	**15,509**	**18,687**	**32,949**	**7,249**	**204**	**80,453**
Profit for the year	-	-	-	13,604	-	17	13,621
Other comprehensive income for the year	-	-	-	-	(325)	(13)	(338)
Total comprehensive income for the year	-	-	-	13,604	(325)	4	13,283
Dividends paid (Note: 14)	-	-	-	(8,109)	-	-	(8,109)
Changes in consolidation scope	-	-	-	(47)	-	-	(47)
At 31 December 2014	**5,855**	**15,509**	**18,687**	**38,397**	**6,924**	**208**	**85,580**

(1) The statutory reserve represents accumulated transfers from retained earnings in compliance with the Statutes of the Bank. This reserve is distributable based on the decision of the Board of Directors.

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved for issue by the Board of Directors and signed on its behalf on 20 March 2015 by:

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

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

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2014	Restated 2013
OPERATING ACTIVITIES			
Profit before tax		16,178	15,900
Adjustments for:			
Change in operating assets	33	108,762	(74,803)
Change in operating liabilities	33	(84,544)	76,848
Non-cash items included in profit before tax	33	5,804	(1,448)
Net gains from investing activities		(271)	(43)
Income tax paid		(3,086)	(2,435)
Net cash flows from operating activities		**42,843**	**14,019**
INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		(6,753)	(3,260)
Maturity / disposal of investment securities		7,326	7,111
Purchase of property, equipment and intangible assets		(1,129)	(1,858)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		870	777
Purchase of investment property		(20)	(7)
Dividends from associates and joint ventures		822	1,063
Proceeds from disposal of subsidiary, associate and joint venture companies		92	-
Net cash flows from investing activities		**1,208**	**3,826**
FINANCING ACTIVITIES			
Repayment of bonds		(309)	-
Repayment of subordinated debt		-	(8,000)
Issue of bonds		4,853	2,559
Increase of share capital and share premium		-	8,000
Dividends paid	14	(8,109)	(13,320)
Net cash flows used in financing activities		**(3,565)**	**(10,761)**
Net increase in cash and cash equivalents		**40,486**	**7,084**
Cash and cash equivalents at the beginning of the year	33	15,434	8,348
Net increase in cash and cash equivalents		40,486	7,084
Cash and cash equivalents at the end of the year	33	**55,920**	**15,432**
Additional information			
Interest paid		(4,715)	(6,739)
Interest received		28,033	31,410
Dividends received (other than from associates and joint ventures)		8	10

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic; the corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

The main activities of the Bank include accepting deposits from the public, providing loans, investing in securities on the Bank's own account, financial leasing, payments and clearance, the issuance and administration of payment instruments, the provision of guarantees, the issuance of letters of credit, the provision of collection services, the provision of all investment service according to a special law, the issuance of mortgage bonds, financial brokerage, the provision of depository services, exchange office services (purchase of foreign exchange), the provision of banking information, trading in foreign exchange values and gold on the Bank's own account or on a client's account, the rental of safe-deposit boxes. In addition, the Bank performs activities directly related to the activities described above and activities carried out for other parties if they relate to the running of the Bank and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the Bank.

Furthermore, the ČSOB group (Group) (Note: 3) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investments, pension insurance, leasing, factoring and the distribution of life and non-life insurance products.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e. cost less accumulated depreciation and impairment losses).

The consolidated financial statements are presented in millions of Czech Crowns (CZKm), which is the presentation currency of the Group.

Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Basis of consolidation

The consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates). The accounting policies of subsidiaries and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and gains and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group 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. The Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity.

Joint ventures and associates included in the Group consolidation are accounted for using the equity method.

2.2 Significant accounting judgements and estimates

While applying the Group accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit, liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments

The Group reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, management judgement is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances, the Group also makes a collective impairment allowance against exposures which, although not individually identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Goodwill impairment

Goodwill is tested annually for impairment. For this purpose, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Classification of leases

The classification of leases into either finance leases or operating leases is based on the extent to which the risks and rewards from the asset ownership have been transferred from a lessor to a lessee. If a substantial number of all the risks and rewards incidental to ownership have been transferred to the lessee the lease is classified as a finance lease. Management judgement is needed to assess the extent to which the risks and rewards have been transferred.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine 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.

Provisions

Provisions are recognised when a current obligation exists as a result of past events it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount will be made. Judgements are applied to evaluate whether the current obligation exists taking into account all available evidence and whether the event is more likely to occur than not. Estimates of the amount of the obligation also require management judgement.

Assessment of the nature of interest in Group entities

The Group considers all relevant facts and circumstances in assessing whether it has a control, joint control (and its type) or significant influence over an investee. The assessment is based on the conclusions made by taking into account the contractual arrangements with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

2.3 Changes in accounting policies

Effective from 1 January 2014

The accounting policies adopted are consistent with those used in the previous financial year except for the adoption of the following standards, amendments and interpretations. The adoption of them did not have any effect on the financial performance or position of the Group, unless otherwise described below.

IFRS 10 Consolidated Financial Statements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces the part relating to the consolidated portion of IAS 27 Consolidated and Separate Financial Statements. A new definition of control is included and a single control model that applies to all entities is introduced. The model has been applied to the Group.

IFRS 11 Joint Arrangements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. The standard has an impact on the consolidated financial statements of the Group. The proportionate method of consolidation is disallowed. The joint venture, Českomoravská stavební spořitelna, a.s. (ČMSS), is presented in the consolidated financial statements in the following way: Each line of financial statements is reduced by amounts contributed by ČMSS and the resulting interest in the joint venture is presented in one line in the caption Investment in associates and joint ventures in the statement of financial position. In the statement of income, (respectively statement of other comprehensive income), one line item is presented in the caption Share of profit of associates and joint ventures, and Share of other comprehensive income of associates and joint ventures, respectively.

IFRS 12 Disclosure of Interest in Other Entities is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard includes all of the disclosure requirements that were included in IAS 27, IAS 28 and IAS 31. The entity is required to disclose judgements made to determine whether it controls an entity.

IFRS 10, 11, 12 Transition Guidance (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The amendments change the transition guidance to provide further relief from full retrospective application. The amendments clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC-12 and when applying IFRS 10.

Investment Entities (Amendments to IFRS 10, 12 and IAS 27) is effective for periods beginning on or after 1 January 2014. The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

IAS 27 Separate Financial Statements (Amendment) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (Amendment) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments) is effective for periods beginning on or after 1 January 2014. These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) is effective for periods beginning on or after 1 January 2014. The amendments provide relief from discontinuing hedge accounting when the novation of a derivative designated as a hedging instrument meets certain criteria.

Recoverable Amount Disclosures for Non-financial Assets (Amendments to IAS 36) is effective for periods beginning on or after 1 January 2014. The amendment clarifies the disclosure requirements of IAS 36 in relation to the standard IFRS 13 *Fair value measurement*.

IFRIC 21 Levies is effective for periods beginning on or after 1 January 2014. IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

Annual Improvements to IFRSs (2009 - 2011 Cycle), issued in May 2012 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. None of these have a significant impact on the accounting policies, financial position or performance of the Group.

Effective after 1 January 2014

The following standards, amendments and interpretations have been issued and are effective after 1 January 2014. The Group has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group financial statements.

IFRS 9 Financial Instruments (2014) is effective for periods beginning on or after 1 January 2018. The standard has not been endorsed by the European Commission to date.

Classification and measurement of financial instruments

Financial assets are measured at amortised cost if both conditions are fulfilled:

- The financial asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets are measured at fair value through other comprehensive income if both conditions are fulfilled:

- The financial asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows and to sell; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Other financial assets are measured at fair value through profit or loss. IFRS 9 retains a fair value option. Reclassifications between the three asset categories are required when the entity changes its business model.

All equity instruments are measured at fair value either through other comprehensive income or profit or loss.

IFRS 9 removes the separation of embedded derivatives requirements for financial assets and the instrument is assessed in its entirety as to whether it fulfils the above two conditions.

Financial liabilities are classified and measured either at amortised cost or at fair value through profit or loss. A financial liability can be designated as measured at fair value through profit or loss if doing so results in more relevant information, because either:

- It eliminates or reduces a measurement or recognition inconsistency;
- A group of financial liabilities is managed and its performance is evaluated on a fair value basis.

IFRS 9 requires that changes in the fair value of an entity's own debt caused by changes in its own credit quality are recognised in other comprehensive income. The original requirements related to the derecognition of financial assets and financial liabilities are carried forward unchanged from IAS 39 to IFRS 9.

Impairment of financial assets

IFRS 9 introduces a three-stage model based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition, or have low credit risk at the reporting date. 12-month expected credit losses are recognised for these assets. Interest income is based on the gross carrying amount of the assets.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment. Lifetime expected credit losses are recognised for these assets. Interest income is still calculated on the gross carrying amount of the assets.

Stage 3 includes financial instruments that have objective evidence of impairment at the reporting date. Lifetime expected credit losses are recognised for these assets. Interest income is calculated on the net carrying amount of the assets.

The new model is applied to debt instruments measured at amortised cost or fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit or loss and lease/trade receivables. There are simplifications available for trade, lease receivables and contract assets that do not contain a significant financing component. The 12-month expected credit losses do not have to be calculated and lifetime expected credit losses are used instead. For the assets with a significant financing component there is a policy choice to apply either the simplified or general model.

The accounting for impairment of financial assets will have a significant impact on the Group. The assessment is in progress.

Hedge accounting

The third phase, general hedge accounting, aligns more closely the hedge accounting and risk management. In practice, more hedging strategies used for risk management will qualify for hedge accounting. The three types of hedge accounting (cash flow, fair value and net investment hedges) have been carried forward from IAS 39. The hedging relationship has to be effective at inception and on an ongoing basis and will be subject to a qualitative or quantitative forward-looking effectiveness assessment. The hedge effectiveness range of 80-125% is replaced by an objective-based test. If the hedging relationship meets risk management objectives it cannot be voluntarily terminated, rather, the quantities of a hedged item or a hedging instrument have to be adjusted and the hedged ratio rebalanced to comply with the hedge effectiveness requirement.

Non-derivative financial assets and liabilities with fair value through profit or loss can be designated as hedging instruments in hedging relationships of any risk, not just foreign currency risk. They have to be designated in their entirety or as a proportion of their nominal amount.

The hedge accounting model extends the eligibility of risk components to include non-financial items, provided the component is separately identifiable and can be reliably measured.

The new general hedge accounting will have only marginal, if any, effect on the existing hedging constructions.

The new standard will have a significant impact on the financial statements of the Group. The assessment of the impact is in progress.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) is effective for periods beginning on or after 1 January 2016. The amendment requires an acquirer of an interest in a joint operation to apply all of the principles on business combinations (IFRS 3) except for those that conflict with the guidance in this amendment.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and 28) is effective for periods beginning on or after 1 January 2016. The amendments clarify the accounting for transactions where a parent loses control of a subsidiary that does not constitute a business as defined in IFRS 3. The gain or loss resulting from the sale or contribution to an associate or a joint venture of assets is recognised in the parent’s profit or loss only to the extent of the unrelated investors interests in the associate or joint venture.

Equity Method in Separate Financial Statements (Amendments to IAS 27) is effective for periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity’s separate financial statements.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, 12 and IAS 28) is effective for periods beginning on or after 1 January 2016. The amendments further clarify the exception in consolidating investment entities.

IFRS 14 Regulatory Deferral Accounts is effective for periods beginning on or after 1 January 2016. The standard is limited to first-time adopters that recognise regulatory deferral account balances in accordance with their previous GAAP.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2017. The key concept of the new standard is identifying separate Performance Obligations. Entities will follow a five-step model for revenue recognition:

1. Identify the contract with the customer (a contract exists only when it is ‘probable’ that the entity will collect the consideration)

2. Identify separate Performance Obligations in the contract (a promise to transfer good or service)

3. Determine the transaction price (only an amount not subject to subsequent future reversals)

4. Allocate the transaction price to each Performance Obligation

5. Recognise revenue when or as each Performance Obligation is satisfied

As the standard is not applicable to insurance contracts, financial instruments or lease contracts, the impact on the Group will be limited. The assessment of the impact is in progress.

Disclosure Initiative (Amendments to IAS 1) is effective for periods beginning on or after 1 January 2016. The amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments state that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) is effective for periods beginning on or after 1 January 2016. The amendment clarifies the use of a revenue-based method for depreciating an asset.

Defined Benefit Plans: Employees Contributions (Amendments to IAS 19) is effective for periods beginning on or after 1 July 2014. The amendment brings clarification of the accounting requirements for contributions from employees or third parties to a defined benefit plan. It specifies conditions under which the contributions can be accounted for as a reduction of service costs.

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) is effective for periods beginning on or after 1 January 2016. The amendments define a bearer plant and include bearer plants within the scope of IAS 16.

Annual Improvements to IFRSs (2010 - 2012 Cycle, 2011 - 2013 Cycle, 2012 - 2014 Cycle), issued in December 2013 and September 2014 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, all of which are applicable on or after 1 July 2014 or on or after 1 January 2016.

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of each of the Group's entities are initially measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the end of the reporting period. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange (Net gains/losses from financial instruments at fair value through profit or loss onwards) in the statement of income with the exception of differences in foreign currency borrowing or derivatives that provide an effective hedge in the cash flow hedge of currency risk which are taken through OCI directly to equity until the hedged cash flow influences the statement of income, at which time they are recognised in the statement of income as well.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the end of the reporting period. Exchange differences from non-monetary available-for-sale financial assets are included in the fair value revaluation recognised in equity until the assets are derecognised or impaired.

The results and financial position of all the Group entities, which have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities at the year-end exchange rates;
- income and expenses at the average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised through OCI as a separate component of equity in the Foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken through OCI to the Foreign currency translation reserve. When a foreign entity is sold, such exchange differences are recognised in the statement of income as part of the gain or loss on sale.

(2) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Group recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the statement of financial position on the day it is physically transferred to or from the Group ("settlement date"). The date on which the Group becomes a party to the contractual provisions of a financial asset purchase or the Group loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between the "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains/losses from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(3) Financial instruments - initial recognition and subsequent measurement

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

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

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading consist of derivatives held for trading and financial instruments other than derivatives held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Group Asset Liability Management department uses for decreasing the interest rate risk of the Group, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Group occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative.
To the extent that the Group cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value in the statement of financial position with changes in fair value reflected in the statement of income.

- *Financial instruments held for trading other than derivatives*

Financial assets or financial liabilities held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income using the effective interest rate method. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

- *Financial instruments designated at fair value through profit or loss*

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income using the effective interest rate method.

(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's management has the positive intention and ability to hold to maturity. Were the Group to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(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 and the Group has no intention of trading the financial asset.

After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any allowance for impairment, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve on an after-tax basis, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reclassified to Net realised gains/losses on available-for-sale financial assets. Interest income arising from available-for-sale assets, calculated using the effective interest rate method, is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(v) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, those financial liabilities are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(vi) 'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or the fair value based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain in the statement of financial position. The corresponding cash received is recognised in the statement of financial position in Financial liabilities held for trading or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The corresponding cash paid is recognised in the statement of financial position in Financial assets held for trading or Loans and receivables or Cash and balances with central banks. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(5) Determination of fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active market their fair values are estimated using pricing models utilising quoted prices of instruments with similar characteristics, discounted cash flows methods or other models. Those fair value estimation techniques are significantly affected by assumptions used by the Group including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(6) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

The Group assesses objective evidence of impairment individually or collectively for financial assets at amortised cost. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the statement of income.

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures for collecting the loan have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded in the statement of income in Impairment losses.

(ii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Assets carried at fair value

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of a debt instrument classified as available-for-sale, the assessment of impairment is based on the same criteria as financial assets carried at amortised cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A significant decline is considered to be a 30% decline in the fair value. A prolonged decline is considered to be a decline of one year or longer. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of income - is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale 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 through the statement of income.

(7) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

(8) Hedge accounting

The Group uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Group's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in the fair value of asset or liability, which could affect the statement of income. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Group's criteria for the application of hedge accounting include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. The hedge is considered to be highly effective if the Group achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Group has complied with the amended standard, taking into account the ‘carved out’ parts as approved by the European Commission.

(i) Cash flow hedges

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into the statement of income in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognised immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income. Related interest income/expense from the hedging instrument is recorded in Net interest income, revaluation of the hedging instrument is recognised in Net gains/losses from financial instruments at fair value through profit or loss. Meanwhile, the change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. If the hedging instrument expires, is sold, terminated or exercised or if the hedge is not assessed as effective any more, then the hedge accounting is discontinued.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of income.

(9) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(10) Reclassification of financial assets

The Group does not reclassify any financial assets into or out of the Financial assets designated at fair value through profit or loss after initial recognition.

If a non-derivative financial asset at fair value through profit or loss is no longer held for selling or repurchasing it can only be reclassified in rare circumstances.

The Group can also reclassify, under certain circumstances, financial assets out of Available-for-sale. A financial asset classified as Available-for-sale that would have met the definition of loans and receivables may be reclassified out of the Available-for-sale category to the loans and receivables category if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. A financial asset classified as Available-for-sale that would have met the definition of held-to-maturity investment may be reclassified out of the Available-for-sale category to the held-to-maturity investment category if the Group has the intention and ability to hold the financial asset until maturity.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the Available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised in the statement of income 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.

Sales and reclassifications from the Held-to-maturity portfolio without the risk of triggering tainting rules are possible only in limited circumstances, such as when it concerns an insignificant amount of instruments or instruments that are so close to maturity that the changes in the market interest rates would not significantly change their fair value. Further, no tainting rules are applied if the sales or reclassifications are attributable to an isolated event that is beyond the Group's control (i.e. significant deterioration in the issuer's creditworthiness or changes in tax, statutory or regulatory requirements) or if the sales occur after collecting a substantial amount of the instrument's principal.

However, if sales or reclassifications from the Held-to-maturity portfolio do not fulfil the above limits, any remaining investments have to be reclassified as available-for-sale. Furthermore, no financial assets can be classified as Held-to-maturity for the following two years.

(11) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group company as a lessee

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Group company as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are reflected as finance lease receivables in the statement of financial position in Loans and receivables. A receivable is recognised over the leasing period at an amount equaling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in Interest income in the statement of income.

Leases, in which the Group does not transfer substantially, all the risks and benefits of ownership of the asset, are classified as operating leases. The Group leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Rental income and depreciation relating to operating lease assets is included as a net amount in Other net income.

(12) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and expense of interest-bearing non-derivative financial instruments in the held-for-trading portfolio designated at fair value through profit or loss portfolio, derivatives used as economic hedges and hedging derivatives are also recognised in the caption using the effective interest rate method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

Fees and commissions that are not an integral part of the effective interest rate are generally recognised on an accrual basis when the service has been provided. Origination fees for loans that are probable of being drawn down, are deferred and recognised as an integral part of the effective interest on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on the completion of the underlying transaction. Recognition of portfolio and other management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided.

(iii) Dividend income

Revenue is recognised when the Group's right to receive a payment is established.

(iv) Net gains / losses from financial instruments at fair value through profit or loss

Net gains / losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the clean fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss except for trading derivatives that are not used as economic hedges, where the interest income/expense is also included. This caption also includes net gains from fair value hedging constructions (revaluation of hedging and hedged items) and any ineffectiveness recorded in cash flow hedging transactions.

(13) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks, loans and advances (measured at amortised cost) to credit institutions and central banks and financial liabilities at amortised cost to credit institutions and central banks. Only highly liquid transactions contracted with general government bodies (reverse repo / repo operations) are assessed by the Group as cash equivalents. According to the implementation of new rules and principles of the Unified Framework of the Consolidated Financial Reporting (FINREP), a definition of the counterparties reported as credit institutions changed.

(14) Investment property

The Group holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life. The accounting policy outlined for property and equipment also applies to investment property.

(15) Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of associates and joint ventures' in the statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(16) Property and equipment

Property and equipment includes Group occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

Property and equipment is reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, the asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(17) Business combinations and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the total of the fair values of assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Non-controlling interests in the acquirees are measured at the proportionate share of the acquiree's recognised net identifiable assets. Any acquisition-related costs are recognised in the statement of income when they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill as of the acquisition date is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in the statement of income at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment losses relating to goodwill cannot be reversed in future periods.

(18) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets.

Intangible assets are carried at cost less accumulated amortisation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Amortisation of the software and other intangible assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Software	4 years
Other intangible assets	5 years

Amortisation of the customer relationship is calculated using the diminishing balance method over its economic useful life. The economic useful life is the period over which the Group receives significant cash flows from the intangible assets.

Gains and losses on disposals are determined by comparing proceeds received in the transaction with the carrying amount of the assets. The resulting gains and losses are included as a net amount in Other net income.

(19) Financial guarantees

In the ordinary course of business, the Group provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. Fees are recognised in the statement of income in Fee and commission income. Any increase or decrease in the provision relating to financial guarantees is included in Impairment losses.

(20) Employee benefits

Retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

Certain Group companies contribute to a defined contribution retirement benefit scheme for participating employees, in addition to the employer social security contributions required by the law in the Czech Republic. Contributions are charged to the statement of income as they are made.

Termination benefits

Employees dismissed by their employer are entitled to termination benefits equal to or less than three times the employees's month's average salary in accordance with the Czech employment law. Employees employed over ten years are entitled to additional termination benefits, which are scaled in accordance of the years of service. Termination benefits are recognised in the statement of income based on the approval of the restructuring programme implementation.

(21) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(22) Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period.

Deferred tax assets and liabilities are recognised due to differences between the tax bases of assets and liabilities and their respective carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and available-for-sale securities, which are charged or credited to OCI, is also credited or charged to OCI and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Group records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities for each separate consolidated entity.

(23) Share capital and reserves

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

The statutory reserve fund is accumulated in compliance with the Statutes of the Bank and its use is limited by the Articles of association or Statutes. The fund is distributable based on the decision of the Board of Directors.

Dividends are recognised after they have been ratified by the resolution of the sole shareholder.

(24) Fiduciary activities

The Group commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

(25) Operating segments

Operating segments are components of the Group that engage in business activities from which they earn revenues and incur expenses and whose operating results are regularly reviewed on the Group level to assess their performance. Discrete information is available for each operating segment.

2.5 Comparative balances

Restatement

A new standard IFRS 11 is effective for use from 1 January 2014 with retrospective application. According to the standard, the proportional method of consolidation is disallowed and joint ventures are to be included into the consolidated financial statements using the equity method of consolidation from 2014 onwards. Accordingly, the financial statements of the Group for the year ended 31 December 2012 and 2013, including notes, were revised to reflect the change of the consolidation of Českomoravská stavební spořitelna, a.s. (ČMSS). Each line of the financial statements has been reduced by amounts contributed by ČMSS and the resulting interest in the joint venture is presented in one line in the caption Investment in associates and joint ventures in the statement of financial position. In the statement of income, (respectively statement of other comprehensive income), one line item is presented in the caption Share of profit of associates and joint ventures, and Share of other comprehensive income of associates and joint ventures, respectively.

Reclassifications

In September 2014, new rules of the Unified Framework of the Consolidated Financial Reporting (FINREP) issued by the Committee of European Banking Supervision became effective. The ČSOB group and the KBC Group have decided to use the same presentation of some items within the structure of the consolidated financial statements to be consistent with the requirements of FINREP, since such a presentation provides more reliable and more relevant information about the nature of the assets and liabilities including an increase of comparability among different reporters on the market. Therefore certain items are presented differently in the financial statements as at 31 December 2014 from the presentation applied in the financial statements as at 31 December 2013 and 2012. To conform to the changes in presentation in the current year, certain items in the comparative balances have been reclassified.

The tables below show the impact of the reclassifications and restatement on the financial statements level. Relevant balances in the notes were restated accordingly.

A reconciliation of the consolidated statement of income for the year ended 31 December 2013 is provided below:

(CZKm)	2013 As reported	Restatement due to IFRS 11	2013 Restated
Interest income	30,229	(3,127)	27,102
Interest expense	(6,164)	1,713	(4,451)
Net interest income	**24,065**	**(1,414)**	**22,651**
Fee and commission income	9,121	(527)	8,594
Fee and commission expense	(3,138)	152	(2,986)
Net fee and commission income	**5,983**	**(375)**	**5,608**
Dividend income	10	-	10
Net gains from financial instruments at fair value through profit or loss and foreign exchange	2,046	2	2,048
Net realised gains on available-for-sale financial assets	408	-	408
Other net income	485	(8)	477
Operating income	**32,997**	**(1,795)**	**31,202**
Staff expenses	(7,030)	299	(6,731)
General administrative expenses	(7,669)	341	(7,328)
Depreciation and amortisation	(832)	83	(749)
Operating expenses	**(15,531)**	**723**	**(14,808)**
Impairment losses	(1,447)	153	(1,294)
Share of profit of associates and joint ventures	52	748	800
Profit before tax	**16,071**	**(171)**	**15,900**
Income tax expense	(2,420)	171	(2,249)
Profit for the year	**13,651**	**-**	**13,651**
Attributable to:			
Owners of the parent	13,658	-	13,658
Non-controlling interests	(7)	-	(7)

A reconciliation of the selected items of the consolidated statement of financial position as at 31 December 2013 is provided below:

(CZKm)	2013 As reported	Restatement and reclassifications A	B	C	2013 Restated
ASSETS					
Cash and balances with central banks	55,036	(2,308)	(32,000)		20,728
Financial assets held for trading	204,729	-			204,729
Financial assets designated at fair value through profit or loss	7,467	-			7,467
Available-for-sale financial assets	83,340	(7,497)			75,843
Held-to-maturity investments	150,944	-			150,944
Loans and receivables	509,256	(66,087)	32,000	374	475,543
Fair value adjustments of the hedged items in portfolio hedge	927	-			927
Derivatives used for hedging	9,285	-			9,285
Current tax assets	99	(86)			13
Deferred tax assets	96	-			96
Investment in associates and joint ventures	124	4,789			4,913
Investment property	289	-			289
Property and equipment	7,787	(230)			7,557
Goodwill and other intangible assets	3,234	(349)			2,885
Non-current assets held-for-sale	194	-			194
Other assets	2,023	(108)		(374)	1,541
Total assets	**1,034,830**	**(71,876)**	**-**	**-**	**962,954**
LIABILITIES AND EQUITY					
Financial liabilities held for trading	186,920	-			186,920
Financial liabilities at amortised cost	743,165	(70,564)		4,631	677,232
Fair value adjustments of the hedged items in portfolio hedge	(57)	-			(57)
Derivatives used for hedging	9,507	-			9,507
Current tax liabilities	913	-			913
Deferred tax liabilities	2,057	(144)			1,913
Other liabilities	10,985	(1,157)		(4,631)	5,197
Provisions	887	(11)			876
Total liabilities	**954,377**	**(71,876)**	**-**	**-**	**882,501**
Share capital	5,855	-			5,855
Share premium	15,509	-			15,509
Statutory reserve	18,687	-			18,687
Retained earnings	32,949	-			32,949
Available-for-sale reserve	4,699	-			4,699
Cash flow hedge reserve	2,548	-			2,548
Foreign currency translation reserve	2	-			2
Shareholders' equity	80,249	-	-	-	80,249
Non-controlling interests, presented within equity	204	-	-		204
Total equity	**80,453**	**-**	**-**	**-**	**80,453**
Total liabilities and equity	**1,034,830**	**(71,876)**	**-**	**-**	**962,954**

A reconciliation of the selected items of the consolidated statement of financial position as at 31 December 2012 is provided below:

(CZKm)	2012 As reported	Restatement and reclassifications A	B	C	2012 Restated
ASSETS					
Cash and balances with central banks	28,293	(1,188)	(7,500)		19,605
Financial assets held for trading	162,265	-			162,265
Financial assets designated at fair value through profit or loss	7,352	-			7,352
Available-for-sale financial assets	91,904	(6,888)			85,016
Held-to-maturity investments	138,437	-			138,437
Loans and receivables	479,516	(68,637)	7,500	611	418,990
Fair value adjustments of the hedged items in portfolio hedge	1,030	-			1,030
Derivatives used for hedging	14,453	-			14,453
Current tax assets	17	-			17
Deferred tax assets	88	-			88
Investment in associates and joint ventures	126	5,148			5,274
Investment property	430	-			430
Property and equipment	8,045	(246)			7,799
Goodwill and other intangible assets	3,093	(165)			2,928
Non-current assets held-for-sale	85	-			85
Other assets	2,040	(133)		(611)	1,296
Total assets	**937,174**	**(72,109)**	**-**	**-**	**865,065**
LIABILITIES AND EQUITY					
Financial liabilities held for trading	133,587	-			133,587
Financial liabilities at amortised cost	703,792	(70,837)		4,349	637,304
Fair value adjustments of the hedged items in portfolio hedge	1,741	-			1,741
Derivatives used for hedging	9,166	-			9,166
Current tax liabilities	772	(20)			752
Deferred tax liabilities	2,532	(145)			2,387
Other liabilities	10,508	(1,093)		(4,349)	5,066
Provisions	935	(14)			921
Total liabilities	**863,033**	**(72,109)**	**-**	**-**	**790,924**
Share capital	5,855	-			5,855
Share premium	7,509	-			7,509
Statutory reserve	18,687	-			18,687
Retained earnings	32,611	-			32,611
Available-for-sale reserve	5,701	-			5,701
Cash flow hedge reserve	3,567	-			3,567
Shareholders' equity	73,930	-	-	-	73,930
Non-controlling interests, presented within equity	211	-	-		211
Total equity	**74,141**	**-**	**-**	**-**	**74,141**
Total liabilities and equity	**937,174**	**(72,109)**	**-**	**-**	**865,065**

The explanation for the restating and reclassifying adjustments is as follows:

A/ **Impact of IFRS 11**

Following the change of the consolidation method of joint venture according the IFRS 11, each line of the consolidated statement of financial position (except of equity) has been reduced by amounts contributed by ČMSS and the total net assets value of ČMSS has been recorded in Investment in associates and joint ventures.

B/ **Reverse repo operations**

Loans provided to the Czech National Bank under the reverse repo operations which are not classified as held for trading and therefore measured at amortised cost have been reclassified from Cash balances with central banks to the Loans and receivables. Reverse repo transactions are interest bearing term loans and their presentation in the consolidated statement of financial position as a part of the Loans and receivables portfolio provides more reliable and more relevant information about the nature of the transactions.

C/ **Other receivables from / Other liabilities to customers**

Receivables and liabilities of the Group originated from unsettled transactions with customers have been reclassified from Other assets to the Loans and receivables and from Other liabilities to the Financial liabilities at amortised cost, respectively, since these items relate to core business of the Group and therefore such presentation in the consolidated statement of financial position provides more reliable and more relevant information about the nature of the transactions.

In 2014, the Group revised the definition of cash equivalents to be consistent with KBC Bank and to be aligned with the requirements of FINREP. Therefore, cash equivalents are presented differently in the financial statements at 31 December 2014 from the presentation applied in the financial statements at 31 December 2013 and 2012. Cash equivalents, as well as other items included in the statement of financial position of the Group, have been affected by the new standard IFRS 11. Accordingly, comparative balances of cash equivalents have been reduced by amounts contributed by ČMSS.

A reconciliation of the consolidated statement of cash flows for the year ended 31 December 2013 is as follows:

(CZKm)	2013 As reported	Adjustments A	B	C	D	E	F	2013 Restated
OPERATING ACTIVITIES								
Profit before tax	16,071	(171)	-	-	-	-	-	15,900
Adjustments for:								
Change in operating assets	(74,300)	(1,009)	(320)	1,306	-	(94)	(386)	(74,803)
Change in operating liabilities	80,661	-	-	-	(10,533)	6,720	-	76,848
Non-cash items included in profit before tax	(975)	(859)	-	-	-	-	386	(1,448)
Net gains from investing activities	(43)	-	-	-	-	-	-	(43)
Income tax paid	(2,435)	-	-	-	-	-	-	(2,435)
Net cash flows from operating activities	**18,979**	**(2,039)**	**(320)**	**1,306**	**(10,533)**	6,626	**-**	**14,019**
INVESTING ACTIVITIES								
Purchase of held-to-maturity investments	(3,260)	-	-	-	-	-	-	(3,260)
Maturity / disposal of investment securities	7,111	-	-	-	-	-	-	7,111
Purchase of property, equipment and intangible assets	(1,858)	-	-	-	-	-	-	(1,858)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale	777	-	-	-	-	-	-	777
Purchase of investment property	(7)	-	-	-	-	-	-	(7)
Dividends from associates and joint ventures	54	1,009	-	-	-	-	-	1,063
Net cash flows from investing activities	**2,817**	**1,009**	**-**	**-**	**-**	**-**	**-**	**3,826**
FINANCING ACTIVITIES								
Repayment of subordinated debt	(8,000)	-	-	-	-	-	-	(8,000)
Issue of bonds	2,559	-	-	-	-	-	-	2,559
Increase of share capital and share premium	8,000	-	-	-	-	-	-	8,000
Dividends paid	(13,320)	-	-	-	-	-	-	(13,320)
Net cash flows used in financing activities	**(10,761)**	-	-	-	-	-	-	**(10,761)**
Net increase in cash and cash equivalents	**11,035**	**(1,030)**	**(320)**	**1,306**	**(10,533)**	**6,626**	**-**	**7,084**
Cash and cash equivalents at the beginning of the year	10,680	(1,052)	8,784	(10,339)	-	275	-	8,348
Net increase in cash and cash equivalents	11,035	(1,030)	(320)	1,306	(10,533)	6,626	-	7,084
Cash and cash equivalents at the end of the year	21,715	(2,082)	8,464	(9,033)	(10,533)	6,901	-	15,432

The explanation for the restating adjustments is as follows:

A/ Change of the consolidation method of joint venture

B/ Inclusion of Mandatory minimum reserves (Note: 15)

C/ Exclusion of trading assets and trading liabilities

D/ Inclusion of repo transactions with the Czech Ministry of Finance

E/ Exclusion of net balance of advances to / deposits from counterparties not meeting the new definition of credit institutions of FINREP principles

F/ Amortisation of discounts and premiums of investment securities

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 24 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 2014	% 2013
Subsidiaries				
Bankovní informační technologie, s.r.o.	BANIT	Czech Republic	100.00	100.00
Centrum Radlická a.s.	Centrum Radlická	Czech Republic	100.00	100.00
ČSOB Advisory, a.s.	ČSOB Advisory	Czech Republic	100.00	100.00
ČSOB Factoring, a.s.	ČSOB Factoring	Czech Republic	100.00	100.00
ČSOB Leasing, a.s.	ČSOB Leasing	Czech Republic	100.00	100.00
ČSOB Leasing pojišťovací makléř, s.r.o.	ČSOB Leasing pojišťovací makléř	Czech Republic	100.00	100.00
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	Czech Republic	100.00	100.00
Transformovaný fond Stabilita ČSOB Penzijní společnosti, a.s., a member of the ČSOB Group	Transformed fund	Czech Republic	-	-
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	ČSOB Property fund	Czech Republic	61.61	61.61
Hypoteční banka, a.s.	Hypoteční banka	Czech Republic	100.00	100.00
Merrion Properties s.r.o.	Merrion Properties	Czech Republic	61.61	61.61
Property LM, s.r.o.	Property LM	Slovak Republic	61.61	61.61
Property Skalica, s.r.o.	Property Skalica	Slovak Republic	-	61.61
Radlice Rozvojová, a.s.	Radlice Rozvojová	Czech Republic	100.00	-
Joint venture				
Českomoravská stavební spořitelna, a.s.	ČMSS	Czech Republic	55.00	55.00
Associates				
ČSOB Asset Management, a.s., investment company	ČSOB AM	Czech Republic	40.08	40.08
ČSOB Pojišťovna, a.s., a member of the ČSOB holding	ČSOB Pojišťovna	Czech Republic	0.24	0.24

In 2014, a new company Radlice Rozvojová was included into the consolidation scope of the Group. The entity was established by ČSOB for the construction of a new ČSOB headquarters building and has no other activities.

In November 2012, ČSOB sold 24.76% of its ownership in ČSOB Pojišťovna to KBC Insurance NV. The sale did not affect the significant influence of the Bank over ČSOB Pojišťovna as based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 40% of the voting rights in ČSOB Pojišťovna. Thus, ČSOB Pojišťovna is still assessed to be an associated company of the Bank (Note: 19).

Based on the Agreement on the exercise of voting rights, the Group is entitled to exercise 50.82% of the voting rights in ČSOB Leasing, since the remaining 49.18% of the voting rights were transferred to the KBC Lease Holding NV.

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 95.67% of the voting rights in ČSOB Property fund, Merrion Properties, Property LM and Property Skalica. In 2013, the Group decided to sell its participation in Property Skalica and thus terminate real estate activity in the Slovak Republic. Following the decision, Property Skalica was sold out of the Group in October 2014. The net gain on the sale was CZK 34 m (Notes: 9, 24). Cash consideration received by the Group amounted to CZK 154 m.

Based on the company statutes, the Group controls ČMSS jointly with the owner of the remaining 45% share. Therefore, the entity is classified as a joint venture.

Ownership in other companies corresponds with the share of voting rights.

On 1 January 2013, new legislation introducing reforms to the pension fund system within the Czech Republic became effective. Accordingly, the net assets of the ČSOB Penzijní fond Stabilita were split to the group of net assets of pension fund shareholders forming the pension fund management company ČSOB Penzijní společnost, a. s., a member of the ČSOB group and to the group of net assets of pension scheme participants forming the Transformed fund (as a part of Pillar III), which is closed to new participants. ČSOB PS is responsible for management of the Transformed fund. This company is entitled to up to 15% of the profits of the Transformed fund in addition to a regular assets management fee and needs to guarantee the positive results and equity position of the Transformed fund. To reflect its conservative investment policy and investment limits the Transformed fund modified its Statutes in June 2014. Recently, activities and decision making powers of the Transformed fund are strictly limited by law and by new Statute. The management fees received by ČSOB PS are in line with market norms when compared to other funds and taking into account the guarantee provided. The exposure of the ČSOB PS to variability of expected returns is low and consistent with the market terms for remuneration of the asset managers. With regard to these characteristics, a position of the ČSOB PS changed from a principal to an agent. Based on this change, ČSOB ceases to control the Transformed fund and therefore the entity was excluded from the consolidation scope from 1 July 2014. ČSOB PS continues to be responsible for the management of the fund.

Set out below is an analysis of income, expenses and cash flows as reported in the Group's consolidated financial statements, attributable to the contribution of the Transformed fund.

Contribution of the Transformed fund to the consolidated statement of income of the Group:

(CZKm)	2014	2013
Interest income	406	769
Interest expense	45	89
Net interest income	**451**	**858**
Fee and commission income	(150)	(288)
Fee and commission expense	-	-
Net fee and commission income	**(150)**	**(288)**
Dividend income	2	4
Net gains from financial instruments at fair value through profit or loss and foreign exchange	(93)	(127)
Net realised gains on available-for-sale financial assets	-	56
Other net income	(227)	(511)
Operating income	**(17)**	**(8)**
Operating expenses	**-**	**-**
Impairment losses	-	-
Profit before tax	**(17)**	**(8)**
Income tax expense	33	31
Profit for the year	**16**	**23**

Contribution of the Transformed fund to the consolidated statement of financial position of the Group as at 30 June 2014:

(CZKm)	30.6.2014
ASSETS	
Financial assets designated at fair value through profit or loss	2,688
Available-for-sale financial assets	24,701
Held-to-maturity investments	6,076
Loans and receivables	591
Total assets	**34,056**
LIABILITIES AND EQUITY	
Financial liabilities at amortised cost	31,795
Current tax liabilities	6
Other liabilities	478
Total liabilities	**32,279**
Retained earnings	432
Available-for-sale reserve	1,345
Total equity	**1,777**
Total liabilities and equity	**34,056**

Contribution of the Transformed fund to the consolidated statement of cash flows of the Group:

(CZKm)	2014	2013
Cash and cash equivalents at the beginning of the year	**359**	**479**
Net cash flows from operating activities	(359)	(430)
Net cash flows from investing activities	-	310
Net cash flows from financing activities	-	-
Cash and cash equivalents at the end of the year	**-**	**359**

4. SEGMENT INFORMATION

The Group's primary segment reporting is by customer segment.

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting (controlling) structure. For each of the strategic business units, the Group's management reviews internal management reports on a quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the separate financial statements. Income tax is allocated to operating segments, but is managed on a Group basis.

Definitions of customer operating segments:

Retail: Private individuals and entrepreneurs. This segment contains customers' deposits, consumer loans, building savings, pension funds, overdrafts, credit cards facilities, mortgages, building savings loans, leasing, funds transfer facilities and other transactions and balances with retail customers, mutual funds, asset management. Margin income from operations with retail clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

SME / Corporate: Corporate companies with a turnover greater than CZK 300 m, SME companies with a turnover of less than CZK 300 m and financial institutions. This segment contains customers' deposits, loans, overdrafts, credit cards facilities, funds transfer facilities and other transactions and balances with corporate and SME customers. Margin income from the operations with corporate and SME clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services. In 2014, the Group changed its investment policy and process of concluding deals with CNB and Ministry of Finance. The deals are concluded to the banking book and are included in Group Centre segment (Note: 16), while as at 31 December 2013 they were recognized as positions of the segment Financial markets.

Group Centre: The Group Centre segment consists of the Group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the Corporate, Retail and SME segment, the results of the reinvestment of free equity of ČSOB, Asset Liability Management (ALM), income and expenses not directly attributable to other segments and eliminations.

In 2014, the Group's segment reporting was modified following the change of the organisational structure of the Group. Thus, SME customers are managed in the same way as corporate clients. As a result, companies with a turnover of less than CZK 300 m were included into a strategic business unit SME / Corporate in 2014. Comparative balances were restated accordingly.

Segment reporting information by customer segments for 2014

(CZKm)	Retail	SME / Corporate	Financial markets	Group Centre	**Total**
Statement of income					
Net interest income	13,676	6,784	404	2,008	**22,872**
Net fee and commission income	3,518	2,060	238	163	**5,979**
Dividend income	2	-	-	6	**8**
Net gains / (losses) from financial instruments at fair value through profit or loss	494	1,366	287	(447)	**1,700**
Net realised gains on available-for-sale financial assets	-	-	-	214	**214**
Other net income	170	18	-	482	**670**
Operating income	**17,860**	**10,228**	**929**	**2,426**	**31,443**
of which:					
External operating income	*13,687*	*8,770*	*929*	*8,057*	*31,443*
Internal operating income	*4,173*	*1,458*	*-*	*(5,631)*	*-*
Depreciation and amortisation	(208)	(5)	-	(472)	**(685)**
Other operating expenses	(9,543)	(3,995)	(360)	(398)	**(14,296)**
Operating expenses	**(9,751)**	**(4,000)**	**(360)**	**(870)**	**(14,981)**
Impairment losses - additions	(1,534)	(1,297)	-	(50)	**(2,881)**
Impairment losses - reversals	885	773	-	248	**1,906**
Impairment losses	**(649)**	**(524)**	**-**	**198**	**(975)**
Share of profit of associates and joint ventures	-	-	-	691	**691**
Profit before tax	**7,460**	**5,704**	**569**	**2,445**	**16,178**
Income tax (expense) / benefit	(1,438)	(1,102)	(108)	91	**(2,557)**
Segment profit	**6,022**	**4,602**	**461**	**2,536**	**13,621**
Attributable to:					
Owners of the parent	6,022	4,602	461	2,519	**13,604**
Non-controlling interest	-	-	-	17	**17**
Assets and liabilities					
Segment assets	260,468	218,713	51,659	329,292	**860,132**
Investment in associates and joint ventures	-	-	-	4,992	**4,992**
Non-current assets held-for-sale	24	-	-	491	**515**
Total assets	**260,492**	**218,713**	**51,659**	**334,775**	**865,639**
Total liabilities	**377,380**	**243,946**	**69,379**	**89,354**	**780,059**
Capital expenditure	**718**	**38**	**-**	**329**	**1,085**

Segment reporting information by customer segments for 2013

(CZKm)	Retail	SME / Corporate	Financial markets	Group Centre	**Total**
Statement of income					
Net interest income	13,278	6,278	627	2,468	**22,651**
Net fee and commission income	3,275	1,992	388	(47)	**5,608**
Dividend income	4	-	-	6	**10**
Net gains from financial instruments at fair value through profit or loss	485	1,411	15	137	**2,048**
Net realised gains on available-for-sale financial assets	56	-	-	352	**408**
Other net income	(38)	29	-	486	**477**
Operating income	**17,060**	**9,710**	**1,030**	**3,402**	**31,202**
of which:					
External operating income	*13,426*	*8,308*	*1,030*	*8,438*	*31,202*
Internal operating income	*3,634*	*1,402*	*-*	*(5,036)*	*-*
Depreciation and amortisation	(217)	(3)	-	(529)	**(749)**
Other operating expenses	(9,492)	(3,838)	(326)	(403)	**(14,059)**
Operating expenses	**(9,709)**	**(3,841)**	**(326)**	**(932)**	**(14,808)**
Impairment losses - additions	(1,773)	(1,334)	-	(172)	**(3,279)**
Impairment losses - reversals	571	994	-	420	**1,985**
Impairment losses	**(1,202)**	**(340)**	**-**	**248**	**(1,294)**
Share of profit of associates and joint ventures	-	-	-	800	**800**
Profit before tax	**6,149**	**5,529**	**704**	**3,518**	**15,900**
Income tax (expense) / benefit	(1,204)	(1,071)	(134)	160	**(2,249)**
Segment profit	**4,945**	**4,458**	**570**	**3,678**	**13,651**
Attributable to:					
Owners of the parent	4,945	4,458	570	3,685	**13,658**
Non-controlling interest	-	-	-	(7)	**(7)**
Assets and liabilities					
Segment assets	272,824	199,790	238,850	246,383	**957,847**
Investment in associates and joint ventures	-	-	-	4,913	**4,913**
Non-current assets held-for-sale	52	122	-	20	**194**
Total assets	**272,876**	**199,912**	**238,850**	**251,316**	**962,954**
Total liabilities	**378,232**	**232,609**	**192,331**	**79,329**	**882,501**
Capital expenditure	**1,233**	**14**	**-**	**199**	**1,446**

Interest income and interest expense are not presented separately since the Group assesses the performance of the segments primarily on the basis of the net interest income.

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Group operates predominantly in the Czech Republic.

5. INTEREST INCOME

(CZKm)	2014	2013
Cash balances with central banks	6	6
Loans and receivables		
Credit institutions	440	440
Other than credit institutions	16,546	16,622
Available-for-sale financial assets	2,056	2,360
Held-to-maturity investments	5,922	5,918
Financial assets held for trading (Note: 8)	599	770
Financial assets designated at fair value through profit or loss (Note: 8)	173	262
Derivatives used as economic hedges (Note: 8)	93	92
Derivatives used for hedging (Note: 8)	1,006	632
	26,841	**27,102**

6. INTEREST EXPENSE

(CZKm)	2014	2013
Financial liabilities at amortised cost		
Central banks	-	3
Credit institutions	260	278
Other than credit institutions	1,952	2,381
Debt instruments in issue	375	417
Subordinated liabilities	-	76
Discount amortisation on other provisions (Note: 29)	3	3
Financial liabilities held for trading (Note: 8)	254	162
Derivatives used as economic hedges (Note: 8)	258	407
Derivatives used for hedging (Note: 8)	867	724
	3,969	**4,451**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2014	2013
Fee and commission income		
Payment services	5,409	5,217
Administration of credits	1,857	1,854
Collective investments	729	605
Asset management	52	61
Custody	160	144
Securities	184	145
Other	715	568
	9,106	**8,594**
Fee and commission expense		
Payment services	1,497	1,185
Retail service fees	953	1,101
Commissions to agents	109	141
Other	568	559
	3,127	**2,986**
Net fee and commission income	**5,979**	**5,608**

8. NET GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Group:

(CZKm)	2014	2013
Net gains from financial instruments at fair value through profit or loss and foreign exchange- as reported	**1,700**	**2,048**
Net interest income (Notes: 5, 6)	492	463
	2,192	**2,511**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	321	293
Foreign exchange	(738)	(6,060)
Equity contracts	-	-
Commodity contracts	19	14
	(398)	(5,753)
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	-	300
Foreign exchange differences	2,590	7,964
Financial instruments at fair value through profit or loss and foreign exchange	**2,192**	**2,511**

9. OTHER NET INCOME

(CZKm)	2014	2013
Net operating leasing and rental income	354	282
Services provided to the parent and to entities under common control	148	159
Other services provided by ČSOB Leasing	52	54
Net gain from the sale of Property Skalica (Note: 3)	34	-
Net gain on disposal of property and equipment	15	33
Net decrease / (increase) in provisions for legal issues and other losses	26	(44)
Net gain on disposal of Held-to-maturity investments	-	10
Net loss from the deconsolidation of Transformed fund (Note: 3)	(38)	-
Contributions to pension fund clients	(232)	(519)
Other	311	502
	670	**477**

10. STAFF EXPENSES

(CZKm)	2014	2013
Wages and salaries	4,921	4,801
Salaries and other short-term benefits of top management	112	91
Social security charges	1,557	1,553
Pension and similar expense	153	144
Additions and reversals of provisions for Restructuring programme (Note: 29)	-	(1)
Other	137	143
	6,880	**6,731**

Number of personnel of the Group

A number (in full-time equivalents) of personnel of the Group was 7,406 at 31 December 2014 (31 December 2013: 7,241).

Management bonus scheme

Included within Salaries and other short-term benefits of top management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

Only the Chairman of the Supervisory Board is remunerated for his membership of the Supervisory Board.

Following the change in legislation, a new bonus scheme for selective employees was launched in 2011. Half of the bonus is provided in a non-cash instrument Virtual investment certificate (VIC) as an equivalent of the 10-year government bond. Payment of half of the bonus (both cash and non-cash portion) is deferred for up to the next three years following the initial assignment of the benefit.

Retirement benefits

The Group provides its employees (including top management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries mainly to Transformed fund or to participation funds managed by ČSOB PS and by other pension companies approved by the Ministry of Finance of the Czech Republic (MF CZ), with an additional contribution of the Group of 2% or 3% of their salaries, respectively..

Termination benefits

Employees dismissed by their employer according to Czech employment law are entitled to termination benefits equal to or less than three times the employee’s month’s average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (2 times the month’s average salary), 15-20 years (2.5 times the month’s average salary), 20-25 years (3 times the month’s average salary), 25-30 years (4 times the month’s average salary), 30-35 years (5 times the month’s average salary) and over 35 years (6 times the month’s average salary).

In the case of contract termination, the members of the Board of Directors are entitled to receive an amount of 0 to 12 monthly salaries as termination benefits (according to conditions of individual contracts). In 2014, termination benefits paid represented CZK 13 m. In 2013, no such compensation was paid.

11. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2014	2013
Information technologies	1,543	1,240
Rental expenses on information technologies – minimum lease payments	1,540	1,638
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	885	822
Marketing	551	616
Rental expenses on land and buildings - minimum lease payments	531	510
Other building expenses	522	546
Professional fees	411	420
Communication	306	345
Retail service fees	185	174
Travel and transportation	144	130
Administration	124	136
Payment cards and electronic banking	88	111
Training	83	80
Insurance	41	39
Car expenses	32	36
Other	430	485
	7,416	**7,328**

12. IMPAIRMENT LOSSES

(CZKm)	2014	2013
Impairment of loans and receivables (Notes: 18, 33)	(981)	(1,225)
Provisions for loan commitments and guarantees (Notes: 29, 33)	54	19
Impairment of property, plant and equipment (Notes: 22, 33)	(1)	(41)
Impairment of investment property (Notes: 21, 33)	-	(9)
Impairment of intangible asets (Notes: 23, 33)	-	(33)
Impairment of non-current assets held-for-sale (Notes: 24, 33)	(45)	(5)
Impairment of other assets (Note: 33)	(2)	-
	(975)	**(1,294)**

13. TAXATION

The components of income tax expense for the years ended 31 December 2014 and 2013 are as follows:

(CZKm)	2014	2013
Current tax expense	2,275	2,376
Previous year under / (over) accrual of current tax	39	(42)
Deferred tax expense / (benefit) relating to the origination and reversal of temporary differences	243	(85)
	2,557	**2,249**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2014 and 2013 is as follows:

(CZKm)	2014	2013
Profit before taxation	16,178	15,900
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,074	3,021
Previous year under / (over) accrual of current tax	39	(42)
Tax effect of non-taxable income	(955)	(1,011)
Tax effect of non-deductible expenses	399	281
	2,557	**2,249**

The applicable tax rate for 2014 was 19% (2013: 19%).

Included in non-taxable income is interest income accrued on tax-free financial investments.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19%.

The movement on the deferred income tax account is as follows:

(CZKm)	2014	2013
At 1 January	**(1,817)**	**(2,299)**
Statement of income	(243)	85
Available-for-sale securities (Note: 31)		
Fair value remeasurement	35	59
Transfer to net profit	90	96
Cash-flow hedges (Note: 31)		
Fair value remeasurement	(257)	201
Transfer to net profit (Note: 20)	106	41
Other – changes in consolidation scope	(94)	-
At 31 December	**(2,180)**	**(1,817)**

Deferred tax asset and liability are attributable to the following items:

(CZKm)	2014	2013
Deferred tax asset		
Accelerated tax depreciation	56	50
Allowances for credit losses	40	42
Provisions	2	2
Available-for-sale securities	(3)	(3)
Other temporary differences	5	5
	100	**96**

(CZKm)	2014	2013
Deferred tax liability		
Available-for-sale securities	800	775
Cash-flow hedging derivatives	788	646
Accelerated tax depreciation	604	459
Amortisation of goodwill	406	369
Initial fee expense	90	70
Held-to-maturity investments - bonds reclassified from Available-for-sale securities (Note: 17)	159	208
Finance lease valuation	101	108
Impairment losses on financial investments	(26)	(26)
Revaluation of financial assets and liabilities at fair value through profit or loss	(9)	(59)
Legal claims	(78)	(72)
Provisions	(100)	(132)
Allowances for credit losses	(133)	(130)
Employee benefits	(284)	(279)
Other temporary differences	(38)	(24)
	2,280	**1,913**

The deferred tax benefit / (charge) in the statement of income comprises of the following temporary differences:

(CZKm)	2014	2013
Accelerated tax depreciation	(139)	144
Employee benefits	5	84
Initial fee income	(20)	67
Available-for-sale securities	2	28
Finance lease valuation	7	9
Provisions	(32)	(6)
Amortisation of goodwill	(37)	(31)
Revaluation of financial assets and liabilities at fair value through profit or loss	(50)	(34)
Allowances for credit losses	1	(46)
Legal claims	6	(59)
Unused tax losses applicable in the next periods	-	(81)
Other temporary differences	14	10
	(243)	**85**

The Group management believes it is probable that the Group will fully realise its gross deferred income tax assets based upon the Group's current and expected future level of taxable profits and the expected offset within each Group company from gross deferred income tax liabilities. The Group can carry forward tax loss for up to 5 years from its initial recognition.

14. DIVIDENDS PAID

Dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution. The decision of a profit allocation for 2014 has not been taken before the date of issue of the financial statements.

Based on a sole shareholder decision from 14 April 2014, a dividend of CZK 27.70 per share was paid for 2013, representing a total dividend of CZK 8,109 m.

Based on a sole shareholder decision from 28 June 2013, a dividend of CZK 45.50 per share was paid for 2012, representing a total dividend of CZK 13,320 m.

15. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2014	2013
Cash (Note: 33)	9,386	9,939
Mandatory minimum reserves (Notes: 34, 40.2)	7,617	8,464
Other balances with central banks (Notes: 33, 34, 40.2)	55,073	2,325
	72,076	**20,728**

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The Group is obliged to keep the balance of mandatory minimum reserve, however it is allowed to use the reserve for a liquidity management purposes during the month. Given that fact, mandatory minimum reserve is assessed to be a cash equivalent by the Group.

Other balances with central banks contain overnight loans provided to central banks in the amount of CZK 51,300 m at 31 December 2014 (31 December 2013: CZK Nil).

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2014	2013
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 36)	3,194	139,864
Money market placements	168	19,567
Debt instruments		
General government	24,894	27,886
Credit institutions	6,186	5,134
Corporate	957	385
Derivative contracts (Note: 20)		
Trading derivatives	14,935	11,508
Derivatives used as economic hedges	292	385
	50,626	**204,729**
Financial assets designated at fair value through profit or loss		
Debt instruments		
General government	-	1,821
Credit institutions	3,327	5,646
	3,327	**7,467**
Financial assets at fair value through profit or loss	**53,953**	**212,196**

Included within Financial assets at fair value through profit or loss are debt securities of CZK 1,121 m (2013: CZK 9,163 m) pledged as collateral in repo transactions.

Included in Financial assets designated at fair value through profit or loss are debt securities recorded at fair value to reduce the accounting mismatch that would otherwise arise from measuring these assets or recognising the gains and losses from them on a different basis.

Since April 2014, the Bank changed its investment policy and process of concluding deals with the CNB and Ministry of Finance. The deals are concluded to the banking book and are classified as Loans and receivables (Note: 18), while as at 31 December 2013 they were recognized as financial assets held for trading (31 December 2013: CZK 150,000 m).

A similar treatment is adopted for repo transactions with the Ministry of Finance, which are being booked as Financial liabilities at amortised cost (Note: 27) (Financial liabilities held for trading as at 31 December 2013 in the volume of CZK 90,927 m).

However, in December 2014, a majority of these transactions, concluded to the banking book according to the revised investment policy, matured.

17. FINANCIAL INVESTMENTS

(CZKm)	2014	2013
Available-for-sale financial assets		
Debt securities		
General government	35,002	50,828
Credit institutions	20,433	22,127
Corporate	242	2,179
Equity securities		
Corporate	444	709
	56,121	**75,843**
Held-to-maturity investments		
Debt securities		
General government	142,441	149,335
Credit institutions	1,437	1,417
Corporate	196	192
	144,074	**150,944**
Financial investments	**200,195**	**226,787**

Included within Financial investments are debt securities of CZK 17,491 m (2013: CZK 31,501 m) pledged as collateral in repo transactions and debt securities of CZK 8,483 m (2013: CZK 5,330 m) pledged as collateral of term deposits and financial guarantees.

In June 2013, a part of the portfolio of debt sovereign bonds was transferred from Available-for-sale financial assets to the portfolio of Held-to-maturity investments in the fair value of CZK 14,513 m, as a result of the change of the Bank's intention to hold the bonds to maturity. Unrealised gains from the bonds in the amount of CZK 1,224 m at the date of the transfer remained a part of the Available-for-sale reserve and are amortised in interest income over the remaining maturity of the bonds (2012: CZK 1,412 m).

Set out below is a set of information relating to the Group's financial instruments reclassified from the Available-for-sale financial assets to the Held-to-maturity investments:

(CZKm)	2014	2013
Carrying value	13,913	14,001
Fair value	14,966	14,675
Net gain (before tax) that would have been recognised in the Statement of comprehensive income after the date of reclassification if the Group had not reclassified the assets	380	674
Interest income (before tax) recorded on reclassified assets after date of reclassification	457	256
Expected undiscounted cash recoveries, as assessed at the date of reclassification	15,135	15,135
Anticipated average EIR over the remaining life of the assets	3.5%	3.5%

The following table shows a reconciliation of the cumulative impairment losses on financial investments for 2013 and 2014:

	Available-for-sale financial assets		Held-to maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2013	**-**	**178**	**-**	**178**
Utilisation	-	(37)	-	(37)
At 31 December 2013	**-**	**141**	**-**	**141**
Deconsolidation of Transformed fund	-	(62)	-	(62)
At 31 December 2014	**-**	**79**	**-**	**79**

18. LOANS AND RECEIVABLES

(CZKm)	2014	2013
Analysed by category of borrower		
Central banks	27,000	32,000
General government	8,018	8,058
Credit institutions	22,778	26,688
Other legal entities	192,815	169,761
Private individuals	267,222	250,180
Gross loans	517,833	486,687
Allowance for impairment losses	(11,198)	(11,144)
	506,635	**475,543**

Of which finance lease receivables may be analysed as follows:

(CZKm)	2014	2013
Gross investment in finance leases, receivable	**13,072**	**10,601**
At not more than one year	3,861	3,406
At more than one but not more than five years	7,722	6,404
At more than five years	1,489	791
Unearned future finance income on finance leases	(812)	(748)
Net investment in finance leases	**12,260**	**9,853**
At not more than one year	3,621	3,165
At more than one but not more than five years	7,243	5,952
At more than five years	1,396	736
Accumulated allowance for uncollectible minimum lease payments receivable	281	426

Finance lease receivables are collateralised by the leased items. Leasing companies maintain legal ownership of the respective collateral.

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2013 and 2014 by classes of financial instruments and by individual and collective impairment:

(CZKm)	General government	Credit Institutions	Other legal entities	Private Individuals	Total
At 1 January 2013	**2**	**206**	**5,946**	**5,297**	**11,451**
Net increase in allowances for credit losses (Note: 12)	-	(198)	309	1,114	1,225
Write-offs	-	-	(575)	(992)	(1,567)
Foreign currency translation	-	-	33	2	35
At 31 December 2013	**2**	**8**	**5,713**	**5,421**	**11,144**
Net increase in allowances for credit losses (Note: 12)	5	8	637	331	981
Write-offs	-	(3)	(366)	(575)	(944)
Foreign currency translation	-	-	28	(11)	17
At 31 December 2014	**7**	**13**	**6,012**	**5,166**	**11,198**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2013	**10,766**	**685**	**11,451**
Increase in allowances for credit losses (Note: 12)	2,635	334	2,969
Decrease in allowances for credit losses (Note: 12)	(1,468)	(276)	(1,744)
Write-offs	(1,565)	(2)	(1,567)
Transfers	(53)	53	-
Foreign currency translation	35	-	35
At 31 December 2013	**10,350**	**794**	**11,144**
Increase in allowances for credit losses (Note: 12)	2,406	304	2,710
Decrease in allowances for credit losses (Note: 12)	(1,395)	(334)	(1,729)
Write-offs	(944)	-	(944)
Transfers	6	(6)	-
Foreign currency translation	18	(1)	17
At 31 December 2014	**10,441**	**757**	**11,198**

As at 31 December 2014, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 25 m (2013: CZK 52 m), which the Group is in the process of selling (Note: 24).

19. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Based on IFRS 11, which is effective for use from 1 January 2014, joint ventures are included into the consolidated financial statements using the equity method of consolidation. Accordingly, the participation of the Bank in ČMSS is presented in one line in the caption Investment in associates and joint ventures.

The following table shows the Bank’s interest in ČMSS’s assets, liabilities, equity and contingent liabilities as at 31 December 2013 as included into the consolidated financial statements for the year 2013 and as reported in the restated financial statements for the year 2014:

(CZKm)	2013 restated	2013 as reported
Condensed assets, liabilities and equity		
Cash and balances with central banks	-	2,308
Available-for-sale financial assets	-	7,497
Loans and receivables	-	66,087
Current tax assets	-	86
Investment in associates and joint ventures	4,789	-
Property and equipment	-	230
Goodwill and other intangible assets	-	349
Other assets	-	108
Total assets	**4,789**	**76,665**
Financial liabilities at amortised cost	-	70,564
Deferred tax liabilities	-	144
Other liabilities	-	1,157
Provisions	-	11
Total liabilities	**-**	**71,876**
Equity	4,789	4,789
Total liabilities and equity	**4,789**	**76,665**
Condensed contingent liabilities		
Loan commitments	-	2,571
Condensed statement of income		
Net interest income	-	1,414
Net fee and commission income	-	375
Net gains from financial instruments at fair value through profit or loss and foreign exchange	-	(2)
Other operating income	-	8
Operating income	**-**	**1,795**
Operating expenses	-	(723)
Impairment losses	-	(153)
Share of profit of associates	748	-
Profit before tax	**748**	**919**
Income tax expense	-	(171)
Profit for the year	**748**	**748**

The investment in ČMSS is a strategic interest of the Bank involved in the business of providing building savings loans and accepting building savings deposits. With regard to the characteristics of its business, ČMSS is exposed to credit risk. The risk is managed on the level of ČMSS while adopting the same policies and processes of credit risk management as used by the Group. Except for loan commitments given in the amount of CZK 2,520 m (31 December 2013: CZK 2,571 m) ČMSS had no other contingent liabilities.

In November 2012, ČSOB sold a significant part of its participation in ČSOB Pojišťovna. As a result of the sale, the Group's ownership interest in ČSOB Pojišťovna decreased to 0.24% while an amount of voting rights of ČSOB remains at 40% (Note: 3).

Effective from January 2012, ČSOB lost control in ČSOB AM but retained significant influence and therefore ČSOB AM is considered to be an associated company (Note: 3). ČSOB AM is a strategic interest of the Bank specialised in providing its clients with investment services of asset management and collective investment services, including management of local mutual funds.

The following table illustrates the summarised financial information of the investment in the associates and joint ventures:

	ČMSS		ČSOB AM		ČSOB Pojišťovna	
(CZKm)	2014	2013	2014	2013	2014	2013
The associate's and joint venture's assets and liabilities						
Assets	164,008	164,923	753	842	40,670	42,341
of which cash and cash equivalents	7,539	6,319	645	594	149	1,617
Liabilities	155,162	156,216	460	556	36,630	38,591
Net assets	**8,846**	**8,707**	**293**	**286**	**4,040**	**3,750**
Carrying amount of the investment	**4,866**	**4,789**	**117**	**115**	**9**	**9**
The associate's and joint venture's results						
Interest income	5,670	6,053	-	1	949	983
Interest expense	(3,396)	(3,484)	-	-	(158)	(170)
Total revenues	2,945	3,281	345	348	9,868	10,408
Depreciation and amortisation	(164)	(151)	(10)	(10)	(45)	(45)
Income tax expense	(253)	(313)	(32)	(31)	(162)	(132)
Profit for the year	1,156	1,359	130	127	747	635
Profit for the year – share of the Group	637	748	52	51	2	1
Dividend – share of the Bank	770	1,009	23	25	1	1
Other comprehensive income	211	(98)	-	-	-	-
Total comprehensive income	848	650	52	51	2	1

20. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Group for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Group bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Group minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Group obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Group's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Group's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2014 and 2013 are set out in the table below.
The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

Trading positions

	2014			2013		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	452,092	11,128	13,721	433,624	7,292	9,213
Forwards	49,500	8	1	52,985	14	3
Options	41,615	136	181	31,922	198	250
	543,207	**11,272**	**13,903**	**518,531**	**7,504**	**9,466**
Foreign exchange contracts						
Swaps / Forwards	133,800	1,543	510	96,760	1,790	527
Cross currency interest rate swaps	57,529	1,641	385	92,062	1,918	2,829
Options	16,864	96	100	13,928	192	197
	208,193	**3,280**	**995**	**202,750**	**3,900**	**3,553**
Commodity contracts						
Swaps / Options	6,348	383	374	7,650	104	97
Total trading derivatives (Notes: 16, 26)	**757,748**	**14,935**	**15,272**	**728,931**	**11,508**	**13,116**

Positions of ALM – economic hedges

	2014			2013		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	42,376	78	280	40,474	45	443
Forwards	-	-	-	501	-	-
Foreign exchange contracts						
Cross currency interest rate swaps	8,144	214	94	16,578	340	845
Total derivatives used as economic hedges (Notes: 16, 26)	**50,520**	**292**	**374**	**57,553**	**385**	**1,288**

Hedging derivatives

The Group's ALM function utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading or ALM activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Group policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Group uses these instruments to hedge floating interest income from expected **reverse repo operations** with the Czech National Bank earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Group and the fixed interest rate the Group receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

The Group also uses single currency interest rate swaps

- to hedge the interest rate risk arising from changes in external interest rates on a group of **client term deposits** with contractual maturity varying from one week to six months and on a group of **non-standard client current accounts** (the variability in the interest paid on the client floating rate deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to hedge the interest rate risk arising from changes in external interest rates on a group of **non-retail client current accounts** (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert **floating-rate client loans / floating rate subordinated debt** to fixed rates. In August 2013, the Group redeemed its subordinated debt and terminated related interest rate swaps used to hedge interest rate risk arising from variability of interest paid on the subordinated debt (Note: 27).

Cross currency interest rate swaps (fix-to-fix or floating-to-fix) are used to hedge currency risk resulting from interest income accrued on **foreign currency investment debt securities**. These fixed and floating interest earning securities are included in Available-for-sale financial assets and in Held-to-maturity investments of the Group’s statement of financial position.

The contract or notional amounts and positive and negative fair values of the Group's outstanding cash flow hedging derivatives as at 31 December 2014 and 2013 are set out as follows:

	2014			2013		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	112,083	7,963	3,445	139,268	7,042	3,837
Cross currency interest rate swaps	16,163	373	1,318	23,427	1,158	1,196
Total hedging derivatives	**128,246**	**8,336**	**4,763**	**162,695**	**8,200**	**5,033**

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2014	2013
Interest income (Note: 31)	603	246
Net losses from financial instruments at fair value through profit or loss (Note: 31)	(25)	(32)
Taxation (Note: 13)	(106)	(41)
Net gains / (losses)	**472**	**173**

In 2014, a gain of CZK 21 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2013: a loss of CZK 20 m).

In 2014, the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in a reclassification of the associated cumulative losses of CZK 45 m from equity to the statement of income (2013: CZK 13 m). The losses were included in Net gains from financial instruments at fair value through profit or loss.

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Group uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same periods as the remaining maturity of cash flows from hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December 2014 and 2013:

(CZKm)	2014	2013
Less than 3 months	3,190	3,726
More than 3 months but not more than 6 months	3,353	16,667
More than 6 months but not more than 1 year	11,348	23,413
More than 1 year but not more than 2 years	15,542	15,462
More than 2 years but not more than 5 years	53,717	55,699
More than 5 years	41,096	47,728
	128,246	**162,695**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of **foreign currency fixed rate bonds classified as Available-for-sale** attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

Interest rate swaps are used by the Group to hedge the interest rate risk arising from the movement in the fair value of **bonds classified as Available-for-sale** attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be a highly effective hedge.

Fair value hedges for **portfolios of retail non-maturity deposits** have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current and savings accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

Fair value hedges for **portfolios of fixed rate loans** have been used to hedge interest rate risk arising from changes in the fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

Interest rate swaps are used by the Group to hedge the interest rate risk arising from the movement in the fair value of **bonds classified as Loans and receivables**, i.e. private issues without active secondary market, to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be a highly effective hedge.

The contract or notional amounts and positive and negative fair values of the Group's outstanding fair value hedging derivatives as at 31 December 2014 and 2013 are set out as follows:

	2014			2013		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	25,951	-	4,651	23,335	212	2,147
Fair value portfolio hedges	195,975	5,631	2,356	158,193	873	2,013
Cross currency interest rate swaps						
Fair value micro hedges	923	-	217	5,935	-	314
Total hedging derivatives	**222,849**	**5,631**	**7,224**	**187,463**	**1,085**	**4,474**

In 2014, the net losses in the amount of CZK 2,507 m (2013: net gains of CZK 874 m) realised on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

Net gains realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 2,363 m (2013: net losses of CZK 1,020 m).

21. INVESTMENT PROPERTY

(CZKm)	2014	2013
Cost at 1 January	886	1,021
Depreciation and impairment at 1 January	(597)	(591)
Net book value at 1 January	**289**	**430**
Additions	20	7
Transfers to assets held for sale (Note: 24)	-	(118)
Depreciation	(25)	(25)
Impairment charge (Note: 12)	-	(9)
Foreign exchange adjustments	-	4
Net book value at 31 December	**284**	**289**
of which		
Cost	904	886
Depreciation and impairment	(620)	(597)
Fair value at 31 December	**284**	**289**
Other disclosures		
Rental income	16	31
Direct operating expenses from investments generating rental income	12	12
Direct operating expenses from investments not generating rental income	2	1

On 31 December 2014 and 2013, management valued investment property based on a valuation performed by an independent expert, based primarily on the capitalisation of the estimated rental value and unit prices of similar real property, with account being taken of all significant market parameters available on the date of the assessment.

The fair value disclosed for the investment property is based on valuation techniques using significant unobservable inputs.

The impairment losses resulting from the decreased recoverable amount of the investment property in 2013 were caused by a decrease of expected future cash-flows.

22. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2013	8,550	265	598	4,342	69	13,824
Depreciation and impairment at 1 January 2013	(3,090)	(236)	(438)	(2,261)	-	(6,025)
Net book value at 1 January 2013	**5,460**	**29**	**160**	**2,081**	**69**	**7,799**
Transfers	48	10	25	1,115	(1,198)	-
Additions	-	-	-	-	1,259	1,259
Disposals	(128)	(2)	(2)	(399)	-	(531)
Transfers to assets held for sale (Note: 24)	(27)	-	-	-	-	(27)
Depreciation	(319)	(13)	(33)	(203)	-	(568)
Depreciation related to operating leased assets (Note: 33)	-	-	-	(334)	-	(334)
Impairment charge (Note: 12)	(50)	-	-	9	-	(41)
Net book value at 31 December 2013	**4,984**	**24**	**150**	**2,269**	**130**	**7,557**
of which						
Cost	8,392	259	597	4,710	130	14,088
Depreciation and impairment	(3,408)	(235)	(447)	(2,441)	-	(6,531)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2014	8,392	259	597	4,710	130	14,088
Depreciation and impairment at 1 January 2014	(3,408)	(235)	(447)	(2,441)	-	(6,531)
Net book value at 1 January 2014	**4,984**	**24**	**150**	**2,269**	**130**	**7,557**
Transfers	298	13	16	506	(833)	-
Additions	-	-	-	-	814	814
Additions through business combinations	228	-	-	-	-	228
Disposals	(83)	(4)	(7)	(369)	-	(463)
Transfers to assets held for sale (Note: 24)	(538)	-	-	-	-	(538)
Depreciation	(296)	(13)	(31)	(194)	-	(534)
Depreciation related to operating leased assets (Note: 33)	-	-	-	(267)	-	(267)
Impairment charge (Note: 12)	(8)	-	-	7	-	(1)
Net book value at 31 December 2014	**4,585**	**20**	**128**	**1,952**	**111**	**6,796**
of which						
Cost	7,791	252	573	4,397	111	13,124
Depreciation and impairment	(3,206)	(232)	(445)	(2,445)	-	(6,328)

The cost of fully depreciated property and equipment still used by the Group amounted to CZK 2,138 m as at 31 December 2014 (31 December 2013: CZK 1,981 m).

ČSOB Leasing owns assets leased out under operating leases, which represent 70% (2013: 72%) of the net book value of the Other class of property and equipment.

23. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2013	3,636	3,851	858	77	8,422
Amortisation and impairment at 1 January 2013	(1,029)	(3,703)	(762)	-	(5,494)
Net book value at 1 January 2013	**2,607**	**148**	**96**	**77**	**2,928**
Transfers	-	149	26	(175)	-
Additions	-	-	-	180	180
Disposals	-	-	(9)	-	(9)
Amortisation	-	(125)	(56)	-	(181)
Impairment (Note: 12)	-	-	(33)	-	(33)
Net book value at 31 December 2013	**2,607**	**172**	**24**	**82**	**2,885**
of which					
Cost	3,636	4,000	854	82	8,572
Amortisation and impairment	(1,029)	(3,828)	(830)	-	(5,687)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2014	3,636	4,000	854	82	8,572
Amortisation and impairment at 1 January 2014	(1,029)	(3,828)	(830)	-	(5,687)
Net book value at 1 January 2014	**2,607**	**172**	**24**	**82**	**2,885**
Transfers	-	209	72	(281)	-
Additions	-	-	-	251	251
Disposals	-	(14)	(58)	-	(72)
Amortisation	-	(139)	(12)	-	(151)
Impairment (Note: 12)	-	-	-	-	-
Net book value at 31 December 2014	**2,607**	**228**	**26**	**52**	**2,913**
of which					
Cost	3,636	3,385	835	52	7,908
Amortisation and impairment	(1,029)	(3,157)	(809)	-	(4,995)

The cost of fully amortised intangible assets still used by the Group amounted to CZK 3,186 m as at 31 December 2014 (31 December 2013: CZK 3,935 m).

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash generating units (CGUs) for the purposes of impairment testing. These CGUs are based upon how management monitors the business and represents the lowest level to which goodwill can be allocated on a reasonable basis. An allocation to CGUs of the Group's goodwill attributable to shareholders is shown below:

(CZKm)	2014	2013
Retail segment and SME clients – Bank	2,511	2,511
Retail segment and SME clients – subsidiaries		
Hypoteční banka	66	66
Other	30	30
	2,607	2,607

Retail segment and SME clients - Bank

The recoverable amount for the Retail segment and SME clients - Bank was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a five further years using the expected average growth rate of 3%; after that a terminal value is applied.

Cash flows in the Retail segment and SME clients - Bank are based on the net profit generated by the cash-generating unit above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 8.9% (2013: 9.0%) and no long term growth rates were used in 2014 and 2013.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Group has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail segment and SME clients - Bank has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail segment and SME clients - Bank a risk discount rate of 8.9% in 2014 (2013: 9.0%) has been applied. This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of the Retail segment and SME clients - Bank would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

Retail segment and SME clients - subsidiaries

Hypoteční banka

The recoverable amount of the Hypoteční banka CGU was determined based on the value-in-use methodology. That calculation uses cash-flow projections based on the financial budgets approved by the management covering a period 2015 - 2017. Cash flows beyond the three-year period have been extrapolated to ten years using the expected average growth rate of 2-3%; after that a terminal value is applied.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of Hypoteční banka would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

The value in use for Retail segment and SME clients – subsidiaries (Hypoteční banka) is particularly sensitive to a number of key assumptions as follows:

- The growth rate in forecasted cash flows beyond the terminal year of the budget.
  The Group has a conservative approach when calculating the terminal value, which implies that no growth rate on forecast cash flows beyond the terminal year.
- The risk discount rate. For Retail segment and SME clients – subsidiaries a risk discount rate of 8.9% in 2014 (2013: 9.0%) has been applied. This represents the risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk including market risk premium. A similar approach has been applied for the other businesses.

The key assumptions described above may change as economic and market conditions change.

24. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Participations	Land and buildings	Other (Note: 18)	Total
Net book value at 1 January 2013	**-**	**9**	**76**	**85**
Transfer from Investment property (Note: 21)	118	-	-	118
Transfer from Property and equipment (Note: 22)	-	27	-	27
Transfer from Other assets and liabilities	4	-	-	4
Additions	-	-	114	114
Disposals	-	(11)	(138)	(149)
Impairment charge (Note: 12)	-	(5)	-	(5)
Net book value at 31 December 2013	**122**	**20**	**52**	**194**
of which				
Cost	122	27	52	201
Impairment	-	(7)	-	(7)

(CZKm)	Participations	Land and buildings	Other (Note: 18)	Total
Net book value at 1 January 2014	**122**	**20**	**52**	**194**
Transfer from Property and equipment (Note: 22)	-	538	-	538
Additions	-	-	64	64
Disposals	-	(22)	(92)	(114)
Disposal of Property Skalica	(122)	-	-	(122)
Impairment charge (Note: 12)	-	(45)	-	(45)
Net book value at 31 December 2014	**-**	**491**	**24**	**515**
of which				
Cost	-	538	24	562
Impairment	-	(47)	-	(47)

In 2013, the Group decided to sell its participation in Property Skalica and thus terminate its real estate activity in the Slovak Republic. Movements disclosed in Participations in 2013 represent the transfer of assets and liabilities of Property Skalica to Non-current assets held for sale. In October 2014, Property Skalica was sold and derecognised from the Non-current assets held for sale (Note: 9).

Movements disclosed in Transfer from Property and equipment represent buildings which the Group decided to be sold. The buildings are measured at the lower of their carrying amount and fair value less costs to sell. The fair value of the buildings was calculated based on indicative market prices.

The impairment losses resulting from the decreased recoverable amount of the buildings were caused by a decrease of expected future cash-flows less costs to sell.

25. OTHER ASSETS

(CZKm)	2014	2013
Other debtors, net of provisions (Notes: 32, 34, 37, 40.2)	518	685
Prepaid charges	287	356
Accrued income (Notes: 32, 34, 37, 40.2)	282	299
VAT and other tax receivables	67	118
Other receivables from clients (Notes: 32, 34, 37, 40.2)	10	59
Other	326	24
	1,490	**1,541**

26. FINANCIAL LIABILITIES HELD FOR TRADING

(CZKm)	2014	2013
Short positions	4,358	5,546
Derivative contracts (Note: 20)		
Trading derivatives	15,272	13,116
Derivatives used as economic hedges	374	1,288
Overnight deposits	22,590	7,184
Term deposits	18,955	52,433
Repo transactions	1,018	102,297
Promissory notes	257	80
Bonds issued	6,800	4,976
Financial liabilities held for trading	**69,624**	**186,920**

The decrease of the balance of the repo transactions in 2014 is related to the revision of the transactions split between the banking and trading book of the Group (Note: 16).

27. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2014	2013
Deposits received from central banks		
Term deposits	**-**	**492**
Deposits received from credit institutions		
Current accounts and overnight deposits	19,543	12,094
Term deposits	23,349	21,477
Repo transactions	16,173	21,024
	59,065	**54,595**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	342,397	310,769
Term deposits	10,970	11,712
Savings deposits	222,484	217,681
Pension funds clients deposits	17	32,479
Repo transactions	14,141	10,533
Other deposits	9,134	7,953
	599,143	**591,127**
Debt securities in issue		
Bonds issued	23,010	18,466
Promissory notes	4,918	12,552
	27,928	**31,018**
Financial liabilities at amortised cost	**686,136**	**677,232**

In September 2006 and in February 2007, the Bank issued subordinated debt in the nominal amounts of CZK 5,000 m and CZK 7,000 m, respectively to KBC Bank. Both subordinated debts were issued with a ten-year maturity. Their coupon rate was set up at PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank was allowed to prepay the debt at any time following the first six year period. In September 2012, the Bank prepaid a majority of the first tranche in the amount of CZK 4,000 m. In August 2013, the Bank prepaid the whole remaining balance of the subordinated debt.

28. OTHER LIABILITIES

(CZKm)	2014	2013
Payables to employees including social security charges (Notes: 32, 34, 37, 40.3)	1,798	1,969
Accrued charges (Notes: 32, 34, 37, 40.3)	1,052	1,493
Other debts to clients (Notes: 32, 34, 37, 40.3)	130	616
Other creditors (Notes: 32, 34, 37, 40.3)	526	455
VAT and other tax payables	111	127
Income received in advance	209	225
Other (Notes: 32, 34, 37, 40.3)	129	312
	3,955	**5,197**

29. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loans commitments and Guarantees (Note: 35)	Total
At 1 January 2013	**320**	**191**	**85**	**325**	**921**
Additions	47	1	16	88	152
Amounts utilised	-	(93)	(18)	-	(111)
Unused amounts reversed	(1)	(1)	-	(107)	(109)
Discount amortisation (Note: 6)	-	-	3	-	3
Foreign currency translation	2	(1)	-	19	20
At 31 December 2013	**368**	**97**	**86**	**325**	**876**
Additions	46	-	3	106	155
Amounts utilised	(5)	(60)	(24)	-	(89)
Unused amounts reversed	(41)	-	(10)	(160)	(211)
Discount amortisation (Note: 6)	-	-	3	-	3
Foreign currency translation	-	-	-	2	2
At 31 December 2014	**368**	**37**	**58**	**273**	**736**

Restructuring

During 2012, the Group started a restructuring programme to reduce the total number of personnel, resulting in the creation of a provision of CZK 191 m. The Group expects to use the remaining provision of CZK 37 m to cover the costs related to further reductions of the number of personnel in 2015.

Pending legal issues and other losses

Provisions for legal issues and other losses represent an obligation to cover potential risks resulting from litigation, where the Group is the defendant.

The Group is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Group. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Group's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Group creates a provision in the full amount to cover the possible cost in the event of loss.

In 2014, the Group had a provision for Pending legal issues and other losses in the total amount of CZK 368 m. It is expected that the majority of the costs will be probably incurred in the next 3 years.

On a quarterly basis, the Group monitors the status of all cases and makes a decision whether to create, utilise or reverse any provision.

The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests.

Contractual engagements

The Bank assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) for which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise. It is expected that a majority of the costs will be incurred over the next 4 years.

At 31 December 2014, the Group had provisions for onerous rental contracts in the amount of CZK 6 m. The provisions were created in 2012, 2013 and 2014. It is expected that the costs will be incurred over the next 3 years.

30. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2014, the total authorised share capital was CZK 5,855 m (31 December 2013: CZK 5,855 m) and comprised of 292,750,001 ordinary shares with a nominal value of CZK 20 each (31 December 2013: 292,750,001 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

Based on the resolution of the sole shareholder dated 11 July 2013, ČSOB issued one ordinary share with a nominal value of CZK 20 and with a share premium of CZK 7,999,999,980 (evidenced by an entry in the Register of Companies dated 23 July 2013).

No Treasury shares were held by the Group at 31 December 2014 and 2013.

On 31 December 2014, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2013: 100%). On the same date, KBC Bank was controlled by the KBC Group and, therefore, KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The movement of Other reserves in 2014 and 2013 are as follows:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2013	**5,701**	**3,567**	**-**	**9,268**
Other comprehensive income (Note: 31)	(1,002)	(1,019)	2	(2,019)
At 31 December 2013	**4,699**	**2,548**	**2**	**7,249**
Other comprehensive income (Note: 31)	(967)	644	(2)	(325)
At 31 December 2014	**3,732**	**3,192**	**-**	**6,924**

Unrealised gains from Available-for-sale financial assets held by the Transformed fund recognised in equity in the amount of CZK 645 m as at 31 December 2013 were included within Available-for-sale reserve. In accordance with Czech law, when an available-for-sale asset is disposed of 85% of the net realised gains on available-for-sale financial assets will be distributed to pension plan holders.

31. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2014	2013
Exchange differences on translating foreign operation	(2)	2
Cash flow hedges		
Net unrealised gains / (losses) on cash flow hedges	1,373	(1,047)
Net gains on cash flow hedges reclassified to the statement of income (Note: 20)	(578)	(214)
Tax effect relating to cash flow hedges (Note: 13)	(151)	242
	644	(1,019)
Available-for-sale financial assets		
Net unrealised gains / (losses) on available-for-sale financial investments	513	(557)
Net unrealised gains on available-for-sale financial investments derecognised from the equity as a result of deconsolidation of Transformed fund	(1,344)	-
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	(214)	(352)
Net realised gains on available-for-sale financial investments amortised to the statement of income on reclassified assets (Note: 17)	(258)	(150)
Tax effect relating to available-for-sale financial investments (Note: 13)	125	155
	(1,178)	(904)
Share of other comprehensive income of associates	211	(98)
Other comprehensive income for the year, net of tax attributable to owners of the parent	**(325)**	**(2,019)**
Non-controlling interests	(13)	-
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**(338)**	**(2,019)**

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Group's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (3)).

Financial assets and liabilities at fair value (available-for-sale, held for trading, designated at fair value through profit or loss) are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained using prices of an identical asset or liability, which means that no model is involved in the process of a revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate and foreign exchange contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include unlisted shares, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to determine a fair value that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The Valuation policy is subject to approval of the ČSOB Risk and Capital Oversight Committee and KBC Group Valuation Committee. The process for the approval of any new product consist also of an assessment of the valuation of the product and the eventual new valuation model for the product has to be approved before the product is endorsed or approval of the model is a blocking condition for the product implementation. The New and Active Product Process also requires a regular review of all products and the assessment of valuation quality is an important part of the review. Any valuation model, which uses not directly observable inputs, is subject to the Parameter review policy. The policy requires quarterly assessment of all parameters correctness. The Group currently checks valuation of all bonds quarterly.

The Group also monitors the quality of bonds valuations on a daily basis. If an asset quote quality does not meet the required criteria for Level 1 or Level 2 the asset is transferred to Level 3 and vice versa. The monitoring process evaluates among others the frequency of quote updates.

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2014:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	3,362	-	3,362
Debt instruments	11,102	15,784	5,151	32,037
Derivative contracts	-	15,227	-	15,227
Financial assets designated at fair value through profit or loss				
Debt instruments	-	3,327	-	3,327
Available-for-sale financial assets				
Debt securities	31,847	20,673	3,158	55,677
Equity securities	-	-	444	444
Fair value adjustments of the hedged items in portfolio hedge	-	1,654	-	1,654
Derivatives used for hedging	-	13,967	-	13,967
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	4,358	-	-	4,358
Derivative contracts	-	15,646	-	15,646
Overnight deposits	-	22,590	-	22,590
Term deposits	-	18,955	-	18,955
Repo transactions	-	1,018	-	1,018
Promissory notes	-	257	-	257
Bonds issued	-	6,800	-	6,800
Fair value adjustments of the hedged items in portfolio hedge	-	5,145	-	5,145
Derivatives used for hedging	-	11,987	-	11,987

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2013:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	159,431	-	159,431
Debt instruments	21,513	5,587	6,306	33,405
Derivative contracts	-	11,893	-	11,893
Financial assets designated at fair value through profit or loss				
Debt instruments	2,258	3,626	1,583	7,467
Available-for-sale financial assets				
Debt securities	51,119	16,352	7,663	75,134
Equity securities	-	-	709	709
Fair value adjustments of the hedged items in portfolio hedge	-	927	-	927
Derivatives used for hedging	-	9,285	-	9,285
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	5,546	-	-	5,546
Derivative contracts	-	14,404	-	14,404
Overnight deposits	-	7,184	-	7,184
Term deposits	-	52,433	-	52,433
Repo transactions	-	102,297	-	102,297
Promissory notes	-	80	-	80
Bonds issued	-	4,976	-	4,976
Fair value adjustments of the hedged items in portfolio hedge	-	(57)	-	(57)
Derivatives used for hedging	-	9,507	-	9,507

Yield curves used in the mortgage bonds valuation model for discounting future cash flows are constructed from IRS rates and respective credit spreads. The credit spreads are derived from available market quotes of mortgage bonds, government bonds and IRS rates.

The spreads for the first five years of maturity are exclusively derived from market observable quotes of mortgage bonds. Therefore mortgage bonds with a maturity of up to five years are included in level 2. The spread for the rest of the curve is derived from observed mortgage bond spread at 5 and 10 years and the slope of the Czech government yield curve. The management considers this a significant market unobservable input and, as a consequence, the mortgage bonds with a maturity of longer than 5 years were transferred to Level 3.

The mortgage bond valuation model was regularly reviewed for its parameters in November 2014. The credit spreads used in the model were updated according observed mortgage bond quotes on the market and for the slope of Czech government bond curve. The model was tested also against observed market transactions. This test led to a modification of the approach to tax allowance on interest revenues of mortgage bonds issued up to 2007. The previous assumption that the market distinguish between bonds with tax allowance and bonds without the tax allowance was not confirmed. As a consequence, tax allowance factor was excluded from the model. All mortgage bonds are now treated equally and tax allowance is disregarded.

As a result of the credit spreads update, the Group has recorded unrealised losses of CZK 38 m into the Net gains from financial instruments at fair value through profit or loss and CZK 489 m into the Available-for-sale reserve.

The spread according to bond maturity was 65 bps (6-year) to 111 bps (above 25-year) in 2013 and 50 bps (6-year) to 145 bps (above 30-year) in 2014.

All transfers of financial instruments among the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Movements in Level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

	Financial assets held for trading	Financial assets designated at fair value	Available-for-sale financial assets		Total
(CZKm)	Debt securities	Debt securities	Debt securities	Equity securities	
At 1 January 2013	**6,810**	**1,530**	**7,580**	**437**	**16,357**
Total gains recorded in profit or loss	344	58	238	70	710
Total gains recorded in other comprehensive income	-	-	4	90	94
Transfers into level 3	210	-	-	-	210
Transfers out of level 3	(392)	-	-	-	(392)
Purchases	4,756	-	1,254	186	6,196
Settlement	(587)	-	(884)	-	(1,471)
Sales	(4,835)	(5)	(529)	(74)	(5,443)
At 31 December 2013	**6,306**	**1,583**	**7,663**	**709**	**16,261**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	286	58	-	-	**344**
At 1 January 2014	**6,306**	**1,583**	**7,663**	**709**	**16,261**
Total gains recorded in profit or loss	618	(3)	95	2	712
Total gains recorded in other comprehensive income	-	-	173	-	173
Transfers out of level 3	(851)	(545)	(3,689)	-	(5,085)
Purchases	58	14	1,666	-	1,738
Settlement	(448)	(430)	(804)	-	(1,682)
Sales	(532)	-	(1,406)	-	(1,938)
Deconsolidation of Transformed fund	-	(619)	(540)	(81)	(1,240)
Transfer to consolidated Group companies	-	-	-	(186)	(186)
At 31 December 2014	**5,151**	**-**	**3,158**	**444**	**8,753**
Total gains recorded in profit or loss related to assets held at the end of the reporting period	617	-	-	-	**617**

In 2014, the valuation of financial instruments in the amount of CZK 5,085 m was calculated based on valuation techniques using market observable inputs whereas valuation techniques based on unobservable inputs were used for the valuation in 2013. Accordingly, those financial instruments were transferred from level 3 to level 2 in 2014.

Total gains or (losses) recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss and foreign exchange, Net realised gains on available-for-sale financial assets and Impairment losses of the statement of income.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

Management considers the value of credit spread included in the discount factor applied on estimated future cash flows from the mortgage bonds in periods after the fifth year from the balance sheet date as a key assumption not derived from observable market inputs which is influencing the fair value of Level 3 financial instruments.

As at 31 December 2014, an increase / (decrease) of a credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds included in level 3 by CZK 7 m (2013: CZK 35 m). Such a change of the credit spread is based on the variability of mortgage bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other non-observable market inputs in the valuation models used would not have a material impact on the estimated fair values.

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

The following table shows transfers between a group of financial instruments with a market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs:

	Transfers from Level 1 to Level 2		Transfers from Level 2 to Level 1	
(CZKm)	2014	2013	2014	2013
Financial assets				
Financial assets held for trading				
Debt instruments	261	-	-	-
Financial assets designated at fair value through profit or loss				
Debt instruments	-	-	-	-
Available-for-sale financial assets				
Debt securities	758	-	-	-

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements:

	2014		2013	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	72,076	72,076	20,728	20,728
Loans and receivables	506,635	517,274	475,543	485,701
Held-to-maturity investments	144,074	168,369	150,944	167,769
Other assets (Note: 25)	810	810	1,043	1,043
Financial liabilities				
Financial liabilities at amortised cost	686,136	687,422	677,232	679,592
Other liabilities (Note: 28)	3,635	3,635	4,845	4,845

The following table shows an analysis of assets and liabilities for which fair values are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2014:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash and balances with central banks	-	72,076	-	72,076
Loans and receivables	-	30,625	486,649	517,274
Held-to-maturity investments	166,755	-	1,614	168,369
Other assets (Note: 23)	-	810	-	810
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	657,608	29,814	687,422
Other liabilities (Note: 26)	-	3,635	-	3,635

The following table shows an analysis of assets and liabilities for which fair values are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2013:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash and balances with central banks	-	20,728	-	20,728
Loans and receivables	-	32,953	452,748	485,701
Held-to-maturity investments	166,283	-	1,486	167,769
Other assets (Note: 23)	-	1,043	-	1,043
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	638,449	41,143	679,592
Other liabilities (Note: 26)	-	4,845	-	4,845

The following methods and assumptions were applied in estimating the fair values of the Group's financial assets and liabilities:

Held-to-maturity investments

Fair values for held-to-maturity securities are based on quoted market prices, where available. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments or using the valuation model based on discounted cash flows.

Loans and receivables to credit institutions and balances with central banks

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates, including the respective credit spread derived from the Group’s own experience of probability of default and loss given default. A majority of the loans reprice within relatively short time periods, therefore, it is assumed that their carrying values approximate their fair values.

Loans and receivables to other than credit institutions

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates including the respective credit spread derived from the Group's own experience of probability of default and loss given default. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the end of the accounting period.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spread.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spreads.

The fair values of building savings deposits are estimated by discounting their expected future cash flows using rates currently offered for building savings deposits.

Debt securities in issue

Bonds issued are publicly traded and their fair values are based on quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

33. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the statement of financial position

(CZKm)	2014	2013
Cash and balances with central banks (Note: 15)	72,076	20,728
Loans and advances to credit institutions and central banks	33,782	38,253
Financial liabilities at amortised cost to credit institutions and central banks	(35,797)	(33,016)
Financial liabilities at amortised cost - repo transactions with general government bodies	(14,141)	(10,533)
Cash and cash equivalents	**55,920**	**15,432**

Change in operating assets

(CZKm)	2014	2013
Net change in financial assets held for trading	154,103	(42,464)
Net change in financial assets designated at fair value through profit or loss	1,452	(115)
Net change in available-for-sale financial assets	(4,093)	(7,513)
Net change in loans and receivables	(36,258)	(27,405)
Net change in derivatives used for hedging	(3,887)	3,907
Net change in other assets	(2,555)	(1,213)
	108,762	**(74,803)**

Change in operating liabilities

(CZKm)	2014	2013
Net change in financial liabilities held for trading	(117,296)	53,333
Net change in financial liabilities at amortised cost	30,440	22,979
Net change in derivatives used for hedging	2,480	341
Net change in other liabilities	(168)	195
	(84,544)	**76,848**

Non-cash items included in profit before tax

(CZKm)	2014	2013
Net change in fair value adjustments of the hedged items in portfolio hedge	4,476	(1,695)
Allowances and provisions for credit losses (Note: 12)	927	1,206
Depreciation and amortisation (including investment property)	710	774
Amortisation of discounts and premiums of investment securities	447	552
Depreciation related to operating leases assets (Note: 22)	267	334
Impairment on non-current assets held-for-sale (Note: 12)	45	5
Impairment on other assets (Note: 12)	2	-
Impairment on property (Note: 12)	1	41
Impairment on other intangible assets (Note: 12)	-	33
Impairment on investment property (Note: 12)	-	9
Provisions	(91)	(52)
Foreign exchange differences in held-to-maturity investments	(322)	(2,068)
Share of profit of associates and joint ventures	(690)	(800)
Other	32	213
	5,804	**(1,448)**

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2014:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash and balances with Central banks (Note: 15)	62,690	-	-	-	**62,690**
Financial assets held for trading					
Financial derivatives	5,029	7,037	3,161	-	**15,227**
Other than financial derivatives	16,118	14,058	5,223	-	**35,399**
Financial assets designated at fair value through profit or loss	3,299	-	28	-	**3,327**
Available-for-sale financial assets	7,881	22,406	25,390	444	**56,121**
Loans and receivables	154,357	141,450	210,828	-	**506,635**
Fair value adjustments of the hedged items in portfolio hedge	508	1,146	-	-	**1,654**
Held-to-maturity investments	15,466	63,846	64,762	-	**144,074**
Derivatives used for hedging	2,585	7,790	3,592	-	**13,967**
Other assets (Note: 25)	810	-	-	-	**810**
Total carrying value	**268,743**	**257,733**	**312,984**	**444**	**839,904**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	4,324	7,861	3,461	-	**15,646**
Other than financial derivatives	50,715	1,606	1,657	-	**53,978**
Financial liabilities at amortised cost	156,937	252,642	276,557	-	**686,136**
Fair value adjustments of the hedged items in portfolio hedge	682	2,387	2,076	-	**5,145**
Derivatives used for hedging	2,728	6,426	2,833	-	**11,987**
Other liabilities (Note: 28)	3,635	-	-	-	**3,635**
Total carrying value	**219,021**	**270,922**	**286,584**	**-**	**776,527**

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2013:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash and balances with Central banks (Note: 15)	10,789	-	-	-	**10,789**
Financial assets held for trading					
Financial derivatives	5,384	5,233	1,276	-	**11,893**
Other than financial derivatives	171,336	16,484	5,016	-	**192,836**
Financial assets designated at fair value through profit or loss	3,427	4,040	-	-	**7,467**
Available-for-sale financial assets	9,278	32,388	33,468	709	**75,843**
Loans and receivables	155,306	135,363	184,874	-	**475,543**
Fair value adjustments of the hedged items in portfolio hedge	361	566	-	-	**927**
Held-to-maturity investments	7,468	52,999	90,477	-	**150,944**
Derivatives used for hedging	2,672	4,981	1,632	-	**9,285**
Other assets (Note: 25)	1,043	-	-	-	**1,043**
Total carrying value	**367,064**	**252,054**	**316,743**	**709**	**936,570**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	7,216	5,723	1,465	-	**14,404**
Other than financial derivatives	170,327	1,567	622	-	**172,516**
Financial liabilities at amortised cost	167,217	243,526	266,489	-	**677,232**
Fair value adjustments of the hedged items in portfolio hedge	13	20	(90)	-	**(57)**
Derivatives used for hedging	2,888	4,712	1,907	-	**9,507**
Other liabilities (Note: 28)	4,845	-	-	-	**4,845**
Total carrying value	**352,506**	**255,548**	**270,393**	**-**	**878,447**

35. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Group recovered a written-off loan amounting to CZK 485 m in 2007. Due to uncertainty regarding the continuing court proceedings following the appeal by the counterparty against the ruling, the Group will not recognise this amount in the statement of income until the final court ruling regarding the Group's claim is known. In 2011, the original court ruling was cancelled and the legal case was passed to the court in the first instance for new judicial proceedings. Based on that decision, the Group returned the expenses compensation of CZK 3 m from the total received amount from the original court case to the counterparty. Judicial proceeding is continuing at the appeal court.

In 2013, the Group successfully completed another case. Based on the final court decision, the Group recognised a recovery (received already in 2010) relating to a partially impaired loan in the amount of CZK 695 m as follows. An unimpaired part of the loan in the amount of CZK 319 m was redeemed and derecognised from the statement of the financial position. In the statement of income, penalty interest in the amount of CZK 178 m was recognised in Other net income, allowances in the amount of CZK 197 m were reversed in Impairment losses from loans and receivables and court expenses compensation income in the amount of CZK 1 m was recognised in General administrative expenses.

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2014 and 2013 are as follows:

(CZKm)	2014	2013
Loan commitments – irrevocable (Note: 40.2)	90,500	87,826
Loan commitments – revocable	36,276	31,119
Financial guarantees (Note: 40.2)	27,165	28,048
Other commitments (Note: 40.2)	2,022	2,418
	155,963	**149,411**
Provisions for loan commitments and guarantees (Notes: 29, 40.2)	273	325

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements (Note: 40.3).

The Group is obliged by law to guarantee the positive results and equity position of the Transformed fund. With regard to the conservative investment policy and investment limits of the Transformed fund the management of the Group is convinced it is not probable the guarantee will be used (Note: 3).

Litigation

Other than the litigations, for which provisions have already been made (Note: 29), the Group is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Group does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Group.

The Group is subject to a number of claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. The Group believes that such claims are unfounded. In addition, potential risk arising from such claims is covered by guarantee agreements issued by the institutions of the Czech state.

Further, the Group has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease commitments (Group is the lessee)

Future minimum lease payments under operating leases related to information technologies, land and buildings are as follows:

(CZKm)	2014	2013
Not later than 1 year	1,587	1,727
Later than 1 year and not later than 5 years	1,133	1,776
Later than 5 years	179	176
	2,899	**3,679**

Future minimum sublease payments amounted to CZK 63 m as at 31 December 2014 (31 December 2013: CZK 79 m).

Operating lease commitments related to information technologies to KBC Group are included in 'Not later than 1 year' in the amount of CZK 1,007 m (2013: CZK 949 m). They represent expected half-year lease payments according to the committed notice period.

The operating leases related to land and buildings can be technically cancelled under Czech law; however, the Group is commercially bound to continue with these leases for the periods set out above.

Operating lease receivables (Group is the lessor)

Future minimum lease payments (including sublease payments) under operating leases related to land and buildings and movables are as follows:

(CZKm)	2014	2013
Not later than 1 year	503	525
Later than 1 year and not later than 5 years	960	1,081
Later than 5 years	7	2
	1,470	**1,608**

These operating leases can be technically cancelled under the Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

36. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Group has made to counterparties in reverse repurchase agreements and loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, according to the lines of the statement of financial position in which they are included:

(CZKm)	2014	2013
Financial assets		
Financial assets held for trading	3,194	139,864
Loans and receivables	29,759	34,759
	32,953	**174,623**

Under reverse repurchase agreements, the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

Under loans, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral (collaterals of factoring loans), the Group obtains legal ownership of the respective collateral received and, thus, is permitted to use the same collateral. The Group has no obligations to return collateral to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral as at 31 December 2014 was CZK 40,999 m, of which CZK 19,131 m has been either sold or repledged (31 December 2013: CZK 179,097 m and CZK 100,588 m, respectively).

The following table shows an analysis of the loans the Group has received from counterparties in repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2014	2013
Financial liabilities		
Financial liabilities held for trading	1,018	102,297
Financial liabilities at amortised cost	30,314	31,558
	31,332	**133,855**

Amounts of financial assets pledged as collateral in repo transactions are described in Financial assets at fair value through profit or loss (Note: 16) and Financial investments (Note: 17).

The decrease of the balance of the repo transactions included in financial assets and liabilities held for trading in 2014 is related to the revision of the transactions split between banking and trading book of the Group and subsequent maturity of a majority of these transactions (Note: 16).

37. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows an analysis of the financial assets and liabilities of the Group that have been set-off or that are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2014:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set-off	Net amounts of financial instrument presented in the balance sheet
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	22,105	-	22,105
Derivatives not set-off that are not subject to an enforceable master netting arrangement	7,089	-	7,089
Total trading and hedging derivatives	**29,194**	**-**	**29,194**
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	32,953	-	32,953
Total repurchase agreements (Note: 36)	**32,953**	**-**	**32,953**
Other financial assets set-off in the balance sheet	221	221	-
Other financial assets not set-off that are not subject to an enforceable master netting arrangement	810	-	810
Total other financial assets (Note: 25)	**1,031**	**221**	**810**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	24,976	-	24,976
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,657	-	2,657
Total trading and hedging derivatives	**27,633**	**-**	**27,633**
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	11,169	-	11,169
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	20,163	-	20,163
Total repurchase agreements (Note: 36)	**31,332**	**-**	**31,332**
Other financial liabilities set-off in the balance sheet	221	221	-
Other financial liabilities not set-off that are not subject to an enforceable master netting arrangement	3,635	-	3,635
Total other financial liabilities (Note: 28)	**3,856**	**221**	**3,635**

The following table shows an analysis of the financial assets and liabilities of the Group that have been set-off or that are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2013:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set-off	Net amounts of financial instrument presented in the balance sheet
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	14,880	-	14,880
Derivatives not set-off that are not subject to an enforceable master netting arrangement	6,298	-	6,298
Total trading and hedging derivatives	**21,178**	**-**	**21,178**
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	174,623	-	174,623
Total repurchase agreements (Note: 36)	**174,623**	**-**	**174,623**
Other financial assets set-off in the balance sheet	263	263	-
Other financial assets not set-off that are not subject to an enforceable master netting arrangement	1,043	-	1,043
Total other financial assets (Note: 25)	**1,306**	**263**	**1,043**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,656	-	18,656
Derivatives not set-off that are not subject to an enforceable master netting arrangement	5,255	-	5,255
Total trading and hedging derivatives	**23,911**	**-**	**23,911**
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	13,099	-	13,099
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	120,756	-	120,756
Total repurchase agreements (Note: 36)	**133,855**	**-**	**133,855**
Other financial liabilities set-off in the balance sheet	263	263	-
Other financial liabilities not set-off that are not subject to an enforceable master netting arrangement	4,845	-	4,845
Total other financial liabilities (Note: 28)	**5,108**	**263**	**4,845**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2014:

(CZKm)	Net amounts of financial assets presented in the balance sheet	Amounts not set-off in the balance sheet			Total net amount
		Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	22,105	20,287	1,398	-	420
Total carrying value	**22,105**	**20,287**	**1,398**	**-**	**420**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	24,976	20,287	4,493	-	196
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	11,169	-	-	11,169	-
Total carrying value	**36,145**	**20,287**	**4,493**	**11,169**	**196**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2013:

(CZKm)	Net amounts of financial assets presented in the balance sheet	Amounts not set-off in the balance sheet			Total net amount
		Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	14,880	13,585	829	-	466
Total carrying value	**14,880**	**13,585**	**829**	**-**	**466**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,656	13,585	4,919	-	152
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	13,099	-	-	13,099	-
Total carrying value	**31,755**	**13,585**	**4,919**	**13,099**	**152**

The amounts in both tables are subject to master netting agreement in accordance with International Swaps and Derivatives Association (ISDA), however with no intention to settle them on a net basis.

38. RELATED PARTY DISCLOSURES

A number of transactions is executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2014 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-
KBC Bank	2,909	-	-	1,906	8,523	1
Entities under common control						
ČSOB SK	681	-	-	312	3	-
KBC Internationale Financieringsmij NV	287	-	-	2,312	-	-
Patria Finance, a.s. (in 2014 merged with Patria Direct, a.s.)	47	-	-	-	-	-
Other	124	-	-	152	-	-
Associates						
ČSOB AM	-	-	-	198	-	-
ČSOB Pojišťovna	331	-	-	-	-	46
Joint ventures						
ČMSS	-	-	-	1,769	-	47

The outstanding balances of liabilities from related party transactions as at 31 December 2014 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	70	-	60
KBC Bank	42,569	13,597	9,289	-
Entities under common control				
ČSOB SK	1	202	-	-
KBC Group	-	7	-	109
Patria Finance, a.s. (in 2014 merged with Patria Direct, a.s.)	1	2,000	-	-
Other	6	335	-	4
Associates				
ČSOB AM	-	645	-	3
ČSOB Pojišťovna	95	2,601	-	-
Joint ventures				
ČMSS	-	21,408	-	-

The outstanding balances of assets from related party transactions as at 31 December 2013 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-
KBC Bank	3,012	-	-	3,078	3,901	-
Entities under common control						
ČSOB SK	439	-	-	146	116	-
KBC Internationale Financieringsmij NV	310	673	704	6,333	-	-
Patria Direct, a.s.	1	-	-	-	-	-
Patria Finance, a.s.	34	-	-	-	-	-
Other	73	-	-	204	-	28
Associates						
ČSOB AM	-	-	-	-	-	146
ČSOB Pojišťovna	-	-	-	-	279	46
Joint ventures						
ČMSS	-	-	-	1,889	-	85

The outstanding balances of liabilities from related party transactions as at 31 December 2013 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	74	-	49
KBC Bank	47,855	13,358	5,899	2
Entities under common control				
ČSOB SK	13	49	-	-
KBC Group (in 2013 merged with KBC Global Services NV)	-	3	-	272
Patria Direct, a.s.	13	2,999	-	-
Patria Finance, a.s.	-	819	-	-
Other	13	178	-	3
Associates				
ČSOB AM	-	592	-	18
ČSOB Pojišťovna	74	3,854	-	-
Joint ventures				
ČMSS	-	23,644	-	-

The outstanding balances of assets and liabilities with KBC Bank NV and the entities under common control principally comprise the fair value of derivative financial instruments, debt instruments and repo transactions.

The Group provides banking services to its associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

	2014		2013	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Top management	-	-	-	-
KBC Bank	882	1,072	851	1,301
Entities under common control				
ČSOB SK	5	-	2	-
KBC Internationale Financieringsmij NV	74	-	161	-
Patria Direct, a.s.	-	-	-	4
Patria Finance, a.s. (in 2014 merged with Patria Direct, a.s.)	1	3	-	2
Other	5	-	4	-
Associates				
ČSOB AM	-	-	-	1
ČSOB Pojišťovna	-	44	-	34
Joint ventures				
ČMSS	56	281	58	309

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

	2014		2013	
(CZKm)	Fee and commission income	Fee and commission expense	Fee and commission income	Fee and commission expense
KBC Bank NV	44	11	57	8
Entities under common control				
KBC Global Services NV	-	-	-	20
KBC Group (in 2013 merged with KBC Global Services NV)	-	50	-	16
Other	11	1	12	1
Associates				
ČSOB AM	380	31	293	68
ČSOB Pojišťovna	236	1	223	-
Joint ventures				
ČMSS	-	46	5	54

In accordance with the Group strategy, the Group has been purchasing information and communication services from the related party KBC Global Services NV since 2009. In 2013, KBC Global Services NV merged with KBC Group; KBC Group being the successor company.

Effective from 1 July 2009, the Group concluded an office space rental agreement and a service level agreement on the provision of administration services, such as human resources and accounting services, with KBC Group (formerly KBC Global Services NV). In 2014, the Group received income of CZK 76 m (2013: CZK 75 m) from rental payments and related services, received CZK 45 m (2013: CZK 41 m) from the provision of administration services, received CZK 230 m from sale of intangible assets and paid expense of CZK 3,001 m (2013: CZK 2,761 m) for IT services, including rental expenses on information technologies.

In 2014, the Group received income of CZK 86 m (2013: CZK 102 m) from ČSOB SK arising from providing services and support in the following areas such as: electronic banking, cards, payment processing, financial management and risk management.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

	2014		2013	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank	5,898	217	7,269	213
Entities under common control				
ČSOB SK	1,593	204	-	210
Kereskedelmi és Hitelbank	277	23	-	23

The outstanding balances of guarantees received from KBC Bank and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

39. EVENTS AFTER THE REPORTING PERIOD

Acquisition of Patria

On 19 December 2014, a share purchase agreement was concluded between ČSOB and KBC Securities NV on the purchase of 100% shares and 100% voting rights of Patria Online, a.s. (member of KBC Group). The acquisition of Patria Online, a.s., which has a full control over Patria Finance, a.s. and Patria Corporate Finance, a.s. (hereinafter referred to as Patria Subgroup), enables the Group to offer private investment services and services of mergers and acquisitions advisory to the clients of the Group. The acquisition cost was CZK 1,180 m and was based on an independent expert appraisal. Control over Patria Online, a.s. was transferred to the Bank on 1 January 2015. Accordingly, the company started to be consolidated using the full method of consolidation from 1 January 2015.

Patria Subgroup was included into the consolidated financial statements of the Group using a pooling of interest method. According to that method, which is allowed to be used for the business combinations of entities under common control, the acquired assets and liabilities are included into the consolidated statement of financial position at their carrying amount. Any excess of the amount of acquisition cost over the net amount of acquired assets and liabilities do not constitute goodwill but has been included in retained earnings of the consolidated equity.

Set out below is an analysis of financial effect of the business combination of Patria Subgroup into the consolidated financial statements of the Group as at 1 January 2015:

Assets acquired and liabilities assumed

(CZKm)	1.1.2015
ASSETS	
Financial assets held for trading	27
Available-for-sale financial assets	50
Loans and receivables	5,847
Tax assets	26
Property and equipment	12
Other assets	356
Total assets	**6,318**
LIABILITIES	
Financial liabilities at amortised cost	4,785
Tax liabilities	9
Provisions	10
Other liabilities	404
Total liabilities	**5,208**
Total identifiable net assets	**1,110**
Decrease of consolidated Retained earnings	70
Cash consideration transferred	**1,180**

There is no contingent consideration resulting from the transaction.

Mainly cash deposited on current and short term accounts in credit institutions is included in Loans and receivables. Financial liabilities at amortised cost represent cash deposits received from customers to be used for settlement of transactions with securities.

Cash flow on acquisition

(CZKm)	1.1.2015
Net cash and cash equivalents acquired with the subsidiary	2,434
Cash paid	(1,180)
Net cash flow on acquisition	**1,254**

40. RISK MANAGEMENT

40.1 Introduction

Risk is an inherent part of the Group's activities, and risk and capital management is critical to the results of operations and financial condition of the Group.

The principal risks that the Group faces are credit risk, liquidity risk, operational and other non-financial risks, market risk subdivided into trading (trading portfolio) and non-trading (credit and investment portfolio) risks. The Group manages risk and capital through a system of ongoing identification, measurement and monitoring, subject to risk and capital limits and other controls. The Group primarily allocates capital to each subsidiary and business unit with the aim of achieving an acceptable balance between risk and return. The Group's risk and capital management system is based on a risk strategy determined by the Bank's Board of Directors and is intended to be consistent with the KBC Group's risk and business strategy, with a primary focus on the early identification and management of risks and trends. The Group maintains and develops its risk and capital management system to meet its ongoing internal risk and capital management needs and to comply with all legal and other regulatory (capital) requirements, including Basel III, and the regulations of the CNB and other relevant bodies.

Risk and Capital Management Organization

Main Principles of Risk and Capital Management Organization

The Group's risk and capital management organization is based on the principle of segregating risk origination and acceptance from risk monitoring and control. The risk and capital management and control functions are designed to be exercised independently of the front office functions. Nevertheless, the front office is engaged in risk and capital management and control functions and is responsible in the first instance for risk control in all risk and capital management areas. The aim of risk and capital management at the Group is to closely cooperate with the business in achieving an acceptable balance between return and risk, as opposed to focusing solely on minimizing risks.

Risk and capital management within the Group is centralized at the ČSOB level. Nevertheless, each subsidiary, associate and joint venture of ČSOB also has a risk control and management unit, the responsibilities and size of which are tailored to the requirements applicable to that subsidiary under the Group's risk and capital management strategy and policies. Any decisions taken by the Group are considered by the ČSOB subsidiaries, associates and joint ventures as recommendations and require final approval by the appropriate decision making bodies of these subsidiaries, associates and joint ventures, as applicable.

The risk and capital management governance model that was implemented within the Group in 2011 is based on the following general principles:

- the business, including both sales and credit departments, should be responsible in the first instance for risk and capital management, and must systematically take into account risk and capital management considerations into all its decisions;
- risk and capital management, and risk reporting, should be performed consistently within the entire KBC Group, including the Group, and management incentives should be linked to risk and capital adjusted measures, and aligned consistently within the entire KBC Group;

- the risk and capital management governance structure should be an independent and vertically integrated structure aimed at ensuring that risk and capital management considerations are properly reflected in the business decisions within the Group;
- risk and capital management should closely cooperate with the business with the aim of achieving an acceptable balance between return and risk, as opposed to focusing only on minimising risks;
- the Board of Directors should determine the risk appetite of the Group within which the business has the right to take risks and beyond which the CRO can intervene; and
- the risk reporting processes should be uniform and insightful to allow for the adoption of risk and capital management decisions at both strategic and implementation levels.

The described above principles establish a governance structure, within which:

(i) the Board of Directors is responsible for determining the risk appetite of the Group, and capital allocation within the Group, by establishing measurable risk and capital parameters, which must be followed in all business activities,

(ii) the RCOC is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

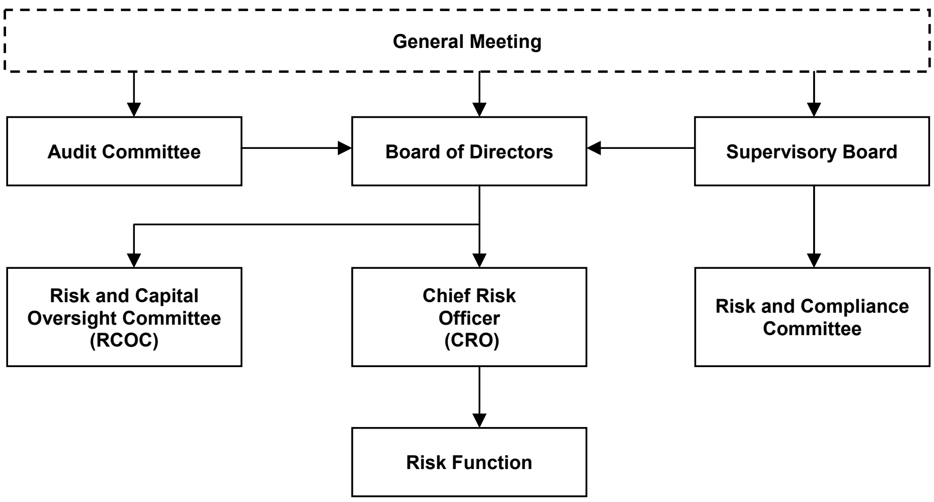
(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place, and

(iv) the business is responsible for taking risks within the risk and capital allocation.

Risk and Capital Management Governance

Risk and capital governance in the Group is fully embedded in the governance of the KBC Group. During the year of 2014, a few changes were put in place to take account of changes in the organisational structure of CSOB. Most importantly, the Risk and Compliance Committee was the established as a sub-committee of the Supervisory Board with specific focus on risk management and compliance matters.

The chart below depicts an overview of the principal bodies of the risk and capital governance model in the Group.



The Group operates a three-line of defense risk management model whereby front office functions, risk management oversight and assurance roles are played by functions independent of one another. The model is characterised primarily by:

- the Board of Directors, assisted by the Audit Committee, Supervisory Board and its Committees,
- the Risk and Capital Oversight Committee,
- an independent Chief Risk Officer, supported by the independent Risk Function, and
- risk-aware business people, who act as the first line of defence ensuring that a risk control environment is established as part of day-to-day operations.

Supervisory Board

In its main role, the Supervisory Board oversees whether the governance of the Group is efficient, comprehensive and adequate, and regularly evaluates the findings obtained from this activity. Its oversight role consists in providing constructive challenge when developing the strategy of the Group; monitoring of the performance of the management function and the realisation of agreed goals and objectives, business and risk strategies; and ensuring the integrity of the financial information, effective risk management and internal controls (including proper segregation of duties within the Group).

The Supervisory Board regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

Risk and Compliance Committee

The Supervisory Board established the Risk and Compliance Committee which is mainly responsible for advising the Supervisory Board on the Group's overall current and future risk appetite and strategy, and for overseeing the implementation of that strategy.

The Committee regularly discusses risk management related matters and communicates with the Group's risk control function and Chief Risk Officer. In addition, the Risk and Compliance Committee assists the Supervisory Board in the establishment of sound remuneration policies and practices, examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity likelihood and timing of earnings.

The Committee regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

Audit Committee

The Audit Committee, inter alia, monitors the effectiveness of the Group's internal control, internal audit, risk management systems, establishment of accounting policies by the institution and procedures in preparing the financial statements and consolidated financial statements of the Group.

With regards to external audit, the Committee oversees the Group's external auditors, monitors the process of mandatory audits of the financial statements and consolidated financial statements, assesses the independency of statutory auditors and the auditing firm(s), recommends for approval by the management body the appointment, compensation and dismissal of the external auditors; review and approves the audit scope and frequency; review audit reports.

In addition to that the Committee checks that the management body in its management function takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulations and policies, and other problems identified by the auditors.

Board of Directors

The Board of Directors has the overall responsibility for the Group, proposes its strategic direction within applicable legal and regulatory framework taking into account the institution's long-term financial interests and solvency; ensures the effective implementation of the strategy and is responsible for the day-to-day running of the Group.

The Board of Directors generally ensures and oversees that a comprehensive and adequate internal control and governance system is established well-functioning and efficient, in its entirety and in parts. Regarding the risk management matters, the Board of Directors is the sole integrated risk decision body responsible for establishing the risk appetite and capital allocation within the Group. This process involves, inter alia:

(i) the approval of the Group's risk appetite statement;

(ii) the approval of the Group's risk and capital (adequacy) strategy;

(iii) the approval of risk limits for the ČSOB group that are consistent with the Group's risk appetite and risk and capital management strategy;

(iv) the allocation of regulatory and economic capital to the subsidiaries and business units within the Group with the aim of achieving an acceptable balance between return and risk; and

(v) the approval of the Group's risk and capital management governance structure and ensuring that it conforms with both internal guidelines and regulatory requirements.

On the basis of monthly integrated risk management reports prepared by the Risk Function, the Board of Directors is also responsible for monitoring whether the Group's risk profile is in line with the Group's risk appetite, limits system and making decisions on risk and capital management issues that may be escalated to its attention by the CRO or the RCOC, as described below.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors in monitoring the Group's risk and capital management exposures against the limits set by the Board of Directors. The key responsibilities of the RCOC regarding risk and capital management matters are to:

(i) propose to the Board of Directors the risk appetite statement, risk and capital management strategy and risk limits for the Group;

(ii) review risk limits at regular intervals and propose changes to the same to the Board of Directors;

(iii) monitor risk exposure against risk limits;

(iv) take corrective actions, if needed, including bringing any material issues or concerns to the Board of Directors; and

(v) monitor capital adequacy and the usage of regulatory and economic capital.

The RCOC reviews regular risk reports prepared by the Risk Function, which are then submitted to the Board of Directors, the Audit Committee and the Supervisory Board. These reports form the basis for the risk monitoring process. Further ad hoc reports may be prepared and submitted, where relevant. The CRO is the chairman and the CFO is the vice-chairman of the Committee.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO), who is a member of the Board of Directors, is in general responsible for the identification, assessment and reporting of risks arising within operations across all business and all risk types, and has a direct management responsibility for the following risk management functions / departments:

(i) Credit Risk Management;

(ii) Market and Liquidity Risk Management;

(iii) Non-financial Risk Management;

(iv) Validations; and

(v) Data Management.

The CRO is responsible for ensuring that:

(i) the risk management process is effective, efficient, ensures its operation including the organisation of risk management function and committees and promotes a culture of ethical business conduct and prudent risk management;

(ii) ‘fit–for–purpose’ governance and frameworks are implemented, maintained and enhanced to manage risk and capital within agreed limits;

(iii) compliance with Group (KBC) and regulatory requirements in the field of risk management;

(iv) the Group’s risk and capital management strategy is properly implemented through risk management frameworks and policies.

The key strategic and governance responsibilities of the CRO are to:

(i) provide input to the Risk Appetite, local Strategy / strategic plans to ensure it is within the defined and approved risk playing field;

(ii) provide input to the Risk and Capital Management Strategy, local limits and delegation of authority setting within and below BoD delegation;

(iii) recommend and decide on changes to local Risk Function owned frameworks and to provide input on relevant elements of non-Risk Function owned risk & capital frameworks;

(iv) provide input on local capital and funding allocation and agree to final allocation to ensure within the risk playing field;

(v) decide on the structure of the local Risk Functions.

The CRO, in its role has following key execution activities:

(i) decides on risk and capital management matters in line with the BoD delegations / authorisation;

(ii) decides on validation of transactional models for risk management within the Group;

(iii) provides input on guidelines for portfolio and transactional model development;

(iv) provides input to day to day local business decisions as a trusted advisor and agree to risk taking decisions at local level outside of the risk playing field with the right to call “time out”;

(v) acts as the head of Risk Function who has direct access to the CSOB Supervisory Board and its committees, where necessary.

The CRO may suspend any decisions of any department or committee, or any business unit or sub-unit, affecting the risk or capital position of the Group by escalating it to the RCOC or the Board of Directors.

Risk Function

The Risk Function is represented by the following departments reporting to the CRO - Credit Risk Management, Market and Liquidity Risk Management, Non-financial Risk Management, Data Management and Validations. The departments have the following roles:

Credit Risk Management, Market and Liquidity Risk Management, Non-financial Risk Management

Particular risk management departments are responsible for managing credit risk, liquidity risk, operational risk and market risk. In particular, they are responsible for:

(i) ensuring that the risk frameworks specific to these types of risks are in place and properly implemented;

(ii) monitoring the risk limits and proposing changes to these risk limits or corrective actions to be taken in response to breaches of these risk limits;

(iii) information security frameworks for informational risk, including cyber risk, and the monitoring of these risks;

(iv) integrated risk reporting (see Risk Monitoring and Reporting below);

(v) the management of economic capital.

Within the Non-financial Risk Management department, the information security officer is responsible for determining the risk frameworks for informational risk, including cyber risk, and the monitoring of these risks.

Data Management

Data Management is responsible for supporting all the other departments forming the Risk Function in data management and reporting. In particular:

(i) maintaining all ICT applications needed for the performance of risk and capital management;

(ii) designing the technical ICT architecture in cooperation with the ICT; and

(iii) performing activities aimed at ensuring the correct flow of data needed for proper risk and capital monitoring.

Data Management is responsible for risk data governance and also forms the link between the requirements of the Risk Function and ICT.

Group Validation Department

The Validation Department is responsible for the validation of all risk measurement tools and methodologies used within the Group, which are used to calculate the value of credit, ALM, market and other instruments for risk and capital management purposes, including the risk measurement models developed at the KBC Group level.

Risk Integration

Furthermore, several teams within the Risk Function cover overarching aspects of risk management. Their mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance our risk management. Key objectives are to:

(i) drive key strategic cross-risk initiatives and establish greater cohesion between defining portfolio strategy and governing execution, including regulatory adherence and recovery planning;

(ii) provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Group (risk appetite, stress testing framework);

(iii) strengthen risk culture at the Group; and

(iv) foster the implementation of consistent risk management standards.

Risk Integration is responsible for managing the process of measuring and monitoring risk on an integrated basis within the Group. In particular, performs the ICAAP process (see ICAAP Process below), including the management of economic capital, and was responsible for integrated risk reporting (see Risk Monitoring and Reporting below). The Integration also regularly provided reports to the supervisory section of the CNB.

Delegation of responsibilities

The Board of Directors has delegated responsibilities to each of the RCOC and the CRO. Such delegated authority includes the following:

- the RCOC may authorize transactions and approve risk limit exceptions

  (i) where the decision impacts 5% or more of the Group's regulatory capital by risk type or a derivation thereof; and

  (ii) where, if the regulatory capital cannot be taken as a relevant measure, the decision impacts 2% of the Group's estimated underlying profit (calculated by Controlling Department for the purposes of management) for the current year.

In addition, in instances where amounts cannot be calculated or for which there is uncertainty over the exact risk exposure, the CRO may decide to submit the transaction to the RCOC.

- an authorization of the CRO is required for decisions on risk frameworks and policies

  (i) where the risk frameworks or policies impact 5% or more of the Group's regulatory capital by risk type or a derivation thereof; and

  (ii) where, if the regulatory capital cannot be taken as a relevant measure, the risk framework or policy impacts 2% of the Group's estimated underlying profit for the current year.

- to the CRO, the authority to decide on matters falling below the above-mentioned thresholds. The CRO may sub-delegate this authority further to one of the departments forming the Risk Function.

Moreover, the CRO may submit to the Board of Directors, the Supervisory Board, the Risk and Compliance Committee and/or the Audit Committee issues and concerns related to the entire Group which the CRO considers to have an actual or potential material impact on the Group's risk parameters.

In addition to the risk and capital management activities performed at the Group level, each subsidiary of ČSOB also has a risk control and management unit, the responsibilities of which are tailored to the requirements applicable to the subsidiary, under the Group's risk and capital management policies.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the Group level:

Credit Departments

The Credit Departments are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors. The Group has six Credit Departments, one for each of:

(i) corporates, SMEs and banks;

(ii) consumer finance;

(iii) ČSOB Leasing;

(iv) ČMSS;

(v) Hypoteční banka; and

(vi) ČSOB Factoring.

These departments report either to a Credit Risk Manager or the CFO. The key responsibilities of the Credits Departments are to:

(i) approve individual credit applications;

(ii) approve contractual documentation concerning individual credits;

(iii) monitor credit behaviour of individual credits during their lifetime; and

(iv) manage the work-out process in respect of individual credits.

Asset and Liability Management Department (ALMD)

The ALMD is responsible for managing the assets and liabilities of the Group's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALMD is also primarily responsible for managing the funding and liquidity position of the Group. The ALMD reports to the CFO.

Internal Audit Department

The Internal Audit Department regularly audits risk / assesses and capital management processes throughout the Group examining both the adequacy of its risk and capital management procedures and the Group's compliance with the same. The Internal Audit Department discusses the results of its assessments with management, and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

New and Active Product Processes (NAPPs)

NAPPs are responsible for the approval of new products and their distribution and marketing, as well as for the regular review of existing products. Cross functional membership in NAPPs including control functions (the Risk Function, Finance Department, Tax Department, Legal Department, Compliance Department and Internal Audit Department) seeks to ensure that no product may be offered to the Group's customers unless all significant risks have been analyzed and mitigated and residual risks have been accepted. The Group pays special attention to protecting the Group against claims arising from the mis-selling of products. As a general rule, all products as well as all distribution channels must be covered by a NAPP.

Credit Sanctioning Committee (CSC)

The CSC is a committee with group-wide responsibility and authority to take decisions on individual credit applications falling within the delegated decision powers of the CSC. As such, it acts as the highest decision-making committee for the Group with respect to credit risk. The members of the CSC are the CFO, who is the CSC's chairman, and the head of the ČSOB credit and bad debts department, corporate advice and underwriting department, corporate and bank credits department, corporate specialised finance department and corporate and institutional banking department. The CSC reports to the Board of Directors.

Business Risk Meetings (BRMs)

In order to facilitate the performance of day-to-day risk and capital management in close cooperation with the business, the business and the Risk Function conduct BRMs. The BRMs take place on a regular (usually monthly or quarterly) basis, and typically discuss issues concerning the monitoring of risk and implementation of risk frameworks. The BRMs are not decision bodies, but they are a useful platform where business proposals can be discussed from a risk point of view.

Internal Capital Adequacy Assessment Process

The New Basel Capital Accord, generally referred to as Basel II, was the first to present, a qualitatively new dimension of requirements for capital adequacy assessment at banks and other credit institutions known as the Second Pillar.

Pillar 2, inter alia, requires the institution to internally assess its capital adequacy taking into account all (material) risks it faces or may face (Internal Capital Adequacy Assessment Process – ICAAP). Basel III is currently changing the regulatory Pillar 2 practices mainly in the area of capital planning, stress testing and risk strategies.

The ICAAP is seen as an integral part of the overall management and control system of the Group, by which ČSOB also adopts and uses reliable, effective and comprehensive strategies and procedures to:

- continually set and assess the need for internal capital; and
- plan and maintain internal capital resources, of the amount, structure and allocation to sufficiently cover the risks that ČSOB is or may be exposed to (internally set and maintained capital adequacy).

As part of the KBC group, ČSOB has adopted a unified KBC group ICAAP approach, approved by the top managements of both KBC and ČSOB, taking into account requirements of the home regulator (the Czech National Bank) as well as the host regulator (the National Bank of Belgium).

Regularly, at least once a year, the Board of Directors evaluates the ICAAP, focusing on an overall assessment of whether the strategies and procedures used are reliable, effective, comprehensive and still proportionate to the nature, scale and complexity of the Group's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications.

Information about the ICAAP, including data on the state and anticipated development of internal capital adequacy, is also regularly presented to the top management, including the RCOC.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses a completely economic-value-based approach, while taking into account quantitative and qualitative inputs and methods, including its own expert analyses, forecasts and scenarios proportionate to the nature, scale and complexity of its activities and the risks associated with them.

ICAAP is forward-looking, i.e. it also takes into account the risks to which the Group will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP:

- the processes of planning, preparing and approving new activities, products or systems;
- other ongoing or anticipated material changes in its risk profile or in the external environment;
- effects of possible divergences from the anticipated developments, including the effects of possible extraordinary circumstances; and
- stress test results;

including the methods of reflecting them when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

The amount of capital need is determined using the economic capital method and addresses the following material risks to which the Group is or may be exposed:

- Credit risk, including concentration risk
- Market risk in the trading book
- Operational risk
- ALM risk
- Business risk

A relevant amount of economic capital is allocated directly to these types of risk. Other risks, such as liquidity risk, strategic risk and reputation risk, are covered, under ICAAP processes, by qualitative measures in risk management, organisation of processes, control mechanisms, etc.

The amount of capital need is calculated for the Group as a separate entity within the KBC group at a probability level of 99.9% for a one year period, taking into account relevant diversification effects. The internally defined capital resources must fully cover the total capital need and, if compliance with this condition was at risk, ČSOB, in cooperation with the KBC group, would take relevant remedial measures (increasing capital resources, reducing risk, etc.).

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the RCOC, and the CRO. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Group.

A daily report is provided to top management and all other relevant members of the Group on the use of market limits and analysis of VaR in the trading book. A weekly report is provided to top management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the Middle Office. The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. To prevent and manage excessive risk concentration at both a relationship and industry level, the Group, for selected cases, uses credit risk transfer instruments (e.g. risk sharing participation, risk transfer guarantees, etc).

40.2 Credit risk

Credit risk is the risk of a potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Group monitors exposures in relation to these limits. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes also regular collateral revisions.

Since September 2012, the Group is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default).

For the retail exposures, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so-called pools).

The counterparty risk (i.e. default risk) is still managed based on statistical default prediction models that establish not only rating (PD / Probability of Default) but also LGD (Loss Given Default) and EAD (Exposure at Default). Risk factors are still determined in Retail based on risk-homogenous sets of exposure (so called pools).

The model results are used for capital calculation and for credit decision purposes too.

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without the Group seeking to collect its outstanding receivable through credit protection;

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards the Group is more than 90 days past the due date.

Non-retail exposure

Rating system: PD (Probability of Default)

The Group manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Advanced compliant statistical rating models that take into account financial and non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

PD 1 to PD 9 represent the performing exposures.

PD 10 contains (i) customers where the relevant Group credit decision authority has judged the exposure to be ‘unlikely to pay’ and none of the obligations are more than 90 days overdue; and (ii) restructured loans irrespective of whether or not they are overdue. After at least twelve months of performance, the restructured loan may be reclassified to the performing status; and (iii) previously restructured loans already classified as performing less than two years ago which become more than 30 days overdue.

PD 11 and 12 represent customers, who have been overdue for 90 days or more, subject to bankruptcy proceeding or Group credit decision authority has judged the exposure to be ‘partly or fully lost’ without recourse to credit protection.

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, amongst other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Group’s risk categories, including internal and external ratings, for non-retail exposure, and their comparison to the CNB’s risk categories:

	ČSOB risk categories for Non-retail exposure				ČSOB and CNB risk categories	CNB risk categories
PD Scale	PD Rating	S&P’s Rating	Performance	Impairment		
Normal	1-7	AAA - B	Performing customers	Collectively assessed	Non-defaulted	Standard
Asset Quality review (AQR)	8-9	(B-) - C	Performing customers	Collectively assessed	Non-defaulted	Watched
Uncertain	10	D	Non-performing customers	Individually impaired	Defaulted	Substandard
Uncertain	11	D	Non-performing customers	Individually impaired	Defaulted	Doubtful
Irrecoverable	12	D	Non-performing customers	Individually impaired	Defaulted	Loss

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the Group Risk Management (GRM) and/or the CRO but developed, maintained and implemented by the Credit Departments in the Group. These Credit Departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credit Department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC), the highest local decision taking body, or one of its sub-committees consisting of business line employees and employees in the Credit Department. The Committee adopts its decisions by consensus based on a draft decision formulated by the Chairman or Vice - Chairman.

Within the delegation framework set by the RCOC, the Credit Department can delegate the credit decision to the regional manager or senior relationship manager of a branch. Delegations are granted *ad personam*. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the “four eye principle”, i.e. at least 2 persons need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to all non-retail exposures. Credit exposures with a rating between PD 1 – 8 are reviewed by the business function with the support of monitoring applications. Credit exposures with a rating between PD 9 – 12 are reviewed by the Bad Debt Department, which is a sub-department of the Credit Departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority for a review at least once a year in accordance with the same application process as for the new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as the breach of financial or non-financial covenants or the non-payment of fees, interest or principal), but also events that do not constitute a breach of contract such as a sudden unexpected change in management that could lead to a deterioration of the customer’s financial situation.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subjected to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports and financial statements. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process as described above.

Bad Debts Treatment

For both corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt Department. The credit customer relationship is transferred to the Bad Debt Department when an exposure reaches a PD rating of 9 in the case of non-retail SME and PD rating of 10, in the case of corporate customers.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Group’s risk categories for retail exposure and their comparison to the CNB’s risk categories:

ČSOB risk categories for Retail exposure				ČSOB and CNB risk categories	CNB risk categories
PD Scale	Days overdue	Performance	Impairment		
Normal	0 - 30	Performing	Collectively assessed	Non-defaulted	Standard
Asset Quality review (AQR)	31 - 90	Performing	Collectively assessed	Non-defaulted	Watched
Uncertain	91 - 180	Non-performing	Individually impaired	Defaulted	Substandard
Uncertain	181 - 360	Non-performing	Individually impaired	Defaulted	Doubtful
Irrecoverable	360 and more	Non-performing	Individually impaired	Defaulted	Loss

In addition, all restructured exposures fall initially within the non-performing category irrespective of whether or not they are overdue. After at least twelve months of performance the restructured exposures may be reclassified to the performing status. Previously restructured exposures already classified as performing less than two years ago, can fall again into non-performing category when becoming more than 30 days overdue.

Application Process

The application process in the retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are in the vast majority of cases fully automated based on scorecards. Mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external credit bureau databases that include both positive and negative information.

Monitoring Process

The monitoring process in the retail segment is performed regularly by the relevant Credit Departments and the GRM. It is based on aggregated data. It does not involve individual reviews and looks at the development of defaults and probability of default within different sub-portfolios and development of Credit Cost Ratios within the different sub-portfolios. The development of the mortgage portfolio is monitored also on the basis of pool migration (i.e. migration between different risk pools).

Collection Process

The collection process in retail consumer finance consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is three days overdue and may involve the restructuring of the loan. Late collection is focused on legal proceedings and the recovery of collateral. Mortgage collection uses also field collection for customers which payments are less than 180 days overdue and which precedes late collection. All collection units within the Group are managed by the relevant Credit Departments and monitored by the Risk Function.

Derivative financial instruments

Positive fair values arising from financial derivative instruments entered into by the Group, such as foreign exchange derivatives and interest rate swaps, give rise to potential future claims resulting from counterparty default and are therefore treated for credit risk purposes in the same way as credit exposures.

Credit-related commitments risk

The Group provides guarantees and letters of credit on behalf of its customers, as a result of which the Group may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Group to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Group:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Group has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. This type of exposure comprises to a large extent of short-term exposure, where the Group's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Group to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Group manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government - E-Toll), where the risk is limited as counterparties are either highly rated banks (rating AA and better), government institutions or entities with guarantees by highly rated banks.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2014. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

(CZKm)	Credits	Investment	Trading	Settlement accounts and Other assets	Total
ASSETS					
Cash and balances with central banks (Note: 15)	-	62,690	-	-	62,690
Financial assets held for trading	637	292	49,697	-	50,626
Financial assets designated at fair value through profit or loss	-	3,327	-	-	3,327
Available-for-sale financial assets	2,289	53,832	-	-	56,121
Loans and receivables	465,670	35,294	-	5,671	506,635
Held-to-maturity investments	196	143,878	-	-	144,074
Fair value adjustments of the hedged items in portfolio hedge	-	1,654	-	-	1,654
Derivatives used for hedging	-	13,967	-	-	13,967
Other assets (Note: 25)	-	-	-	810	810
Total	468,792	314,934	49,697	6,481	839,904
Contingent liabilities (Note: 35)	28,914	-	-	-	28,914
Commitments – irrevocable (Note: 35)	90,500	-	-	-	90,500
Total	119,414	-	-	-	119,414
Total credit risk exposure	**588,206**	**314,934**	**49,697**	**6,481**	**959,318**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2013. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

(CZKm)	Credits	Investment	Trading	Settlement accounts and Other assets	Total
ASSETS					
Cash and balances with central banks (Note: 15)	-	10,789	-	-	10,789
Financial assets held for trading	-	390	204,339	-	204,729
Financial assets designated at fair value through profit or loss	192	7,275	-	-	7,467
Available-for-sale financial assets	2,748	73,095	-	-	75,843
Loans and receivables	427,272	44,696	-	3,575	475,543
Held-to-maturity investments	192	150,752	-	-	150,944
Fair value adjustments of the hedged items in portfolio hedge	-	927	-	-	927
Derivatives used for hedging	-	9,285	-	-	9,285
Other assets (Note: 25)	-	-	-	1,043	1,043
Total	430,404	297,209	204,339	4,618	936,570
Contingent liabilities (Note: 35)	30,141	-	-	-	30,141
Commitments – irrevocable (Note: 35)	87,826	-	-	-	87,826
Total	117,967	-	-	-	117,967
Total credit risk exposure	**548,371**	**297,209**	**204,339**	**4,618**	**1,054,537**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Set out below is an analysis of the maximum exposure to credit risk of the Group before and after taking into account the collateral held:

	2014			2013		
(CZKm)	Gross maximum exposure	Financial effect of collateral	Net maximum exposure	Gross maximum exposure	Financial effect of collateral	Net maximum exposure
ASSETS						
Cash and balances with central banks (Note: 15)	62,690	-	62,690	10,789	-	10,789
Financial assets held for trading	50,626	3,710	46,916	204,729	140,036	64,693
Financial assets designated at fair value through profit or loss	3,327	-	3,327	7,467	-	7,467
Available-for-sale financial assets	56,121	-	56,121	75,843	-	75,843
Loans and receivables	506,635	336,167	170,468	475,543	330,205	145,338
Held-to-maturity investments	144,074	-	144,074	150,944	-	150,944
Fair value adjustments of the hedged items in portfolio hedge	1,654	-	1,654	927	-	927
Derivatives used for hedging	13,967	1,228	12,739	9,285	657	8,628
Other assets (Note: 25)	810	-	810	1,043	-	1,043
Total	839,904	341,105	498,799	936,570	470,898	465,672
Contingent liabilities and Commitments – irrevocable (Note: 35)	119,414	25,451	93,963	117,967	22,128	95,839
Total credit risk exposure	**959,318**	**366,556**	**592,762**	**1,054,537**	**493,026**	**561,511**

The credit portfolio is structured according to the type of the business the Group enters into:

2014 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	214,754	-	10,726	**225,480**	(3,314)	-	**222,166**
Consumer loans	19,324	9	8,819	**28,152**	(1,238)	(7)	**26,907**
SME	77,786	3,340	26,544	**107,670**	(3,642)	(109)	**103,919**
Leasing	27,405	-	2,156	**29,561**	(571)	-	**28,990**
Corporate	136,595	25,481	42,182	**204,258**	(2,050)	(38)	**202,170**
Factoring	4,044	-	-	**4,044**	(329)	-	**3,715**
Other	82	356	73	**511**	(54)	(118)	**339**
Total credits	**479,990**	**29,186**	**90,500**	**599,676**	**(11,198)**	**(272)**	**588,206**

2013 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	199,310	-	9,247	**208,557**	(3,213)	-	**205,344**
Consumer loans	19,142	12	8,973	**28,127**	(1,285)	(5)	**26,837**
SME	73,731	3,030	23,775	**100,536**	(3,463)	(53)	**97,020**
Leasing	23,461	-	2,363	**25,824**	(662)	-	**25,162**
Corporate	121,531	27,085	42,435	**191,051**	(2,175)	(55)	**188,821**
Factoring	4,072	-	-	**4,072**	(315)	-	**3,757**
Other	301	339	1,033	**1,673**	(31)	(212)	**1,430**
Total credits	**441,548**	**30,466**	**87,826**	**559,840**	**(11,144)**	**(325)**	**548,371**

An industry sector analysis of the Group's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2014		2013	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Private persons	250,569	41.8	233,151	41.6
Services	55,817	9.3	50,563	9.0
Distribution	52,022	8.6	44,179	7.9
Automotive	35,191	5.9	32,453	5.8
Building and Construction	30,129	5.0	26,508	4.7
Commercial Real Estate	28,576	4.8	24,408	4.4
Machinery and Heavy Equipment	17,944	3.0	18,529	3.3
Authorities	17,218	2.9	16,730	3.0
Electricity	19,149	3.2	14,731	2.7
Oil, Gas and other Fuels	13,055	2.2	14,549	2.6
Finance and Insurance	12,300	2.1	14,165	2.5
Metals	13,006	2.2	11,289	2.0
Other sectors	54,700	9.0	58,585	10.5
Total	**599,676**	**100.0**	**559,840**	**100.0**

The investment portfolio is structured according to type of the instrument.

2014 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	203,371	-	-	-	**203,371**
Equity securities	523	-	-	(79)	**444**
Loans and receivables within investment portfolio	34,170	-	-	-	**34,170**
Derivatives used for hedging	13,967	-	-	-	**13,967**
Derivatives held for trading	292	-	-	-	**292**
Cash and balances with central banks	62,690	-	-	-	**62,690**
Total investment	**315,013**	**-**	**-**	**(79)**	**314,934**

2013 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	230,413	-	-	-	**230,413**
Equity securities	849	-	-	(140)	**709**
Loans and receivables within investment portfolio	45,623	-	-	-	**45,623**
Derivatives used for hedging	9,285	-	-	-	**9,285**
Derivatives held for trading	390	-	-	-	**390**
Cash and balances with central banks	10,789	-	-	-	**10,789**
Total investment	**297,349**	**-**	**-**	**(140)**	**297,209**

The investment portfolio is monitored from a counterparty sector point of view:

	2014		2013	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central banks	89,690	28.4	40,481	13.6
General government	175,397	55.7	202,742	68.2
Credit institutions	49,280	15.7	51,034	17.2
Corporate	567	0.2	2,952	1.0
Total investment	**314,934**	**100.0**	**297,209**	**100.0**

The trading portfolio is structured according to type of the instrument.

2014 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	32,037	-	-	**32,037**
Loans and advances	2,725	-	-	**2,725**
Derivatives held for trading	14,935	-	-	**14,935**
Total trading portfolio	**49,697**	**-**	**-**	**49,697**

2013 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	33,405	-	-	**33,405**
Loans and advances	159,431	-	-	**159,431**
Derivatives held for trading	11,503	-	-	**11,503**
Total trading portfolio	**204,339**	**-**	**-**	**204,339**

The trading portfolio is monitored from a counterparty sector point of view:

	2014		2013	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central banks	-	-	150,001	73.4
General government	25,084	50.5	27,888	13.6
Credit institutions	19,341	38.9	21,995	10.8
Corporate	5,272	10.6	4,455	2.2
Total trading portfolio	**49,697**	**100.0**	**204,339**	**100.0**

Risk concentrations of the maximum exposure to credit risk

The concentration of risk is managed by geographical region, industry and by client/counterparty. The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2014		2013	
(CZKm)	Total risk	of which General government	Total risk	of which General government
Czech Republic	876,404	195,581	963,618	224,104
Slovak Republic	10,166	3,452	6,491	1,389
Greece	-	-	2	-
Italy	8,153	-	9,789	-
Spain	445	-	576	-
Belgium	16,397	2,562	13,817	2,594
Hungary	147	-	65	-
Other Europe	45,262	6,306	56,743	7,708
Other	2,344	-	3,436	-
Total	**959,318**	**207,901**	**1,054,537**	**235,795**

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

	2014		2013	
Client	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
1 largest client	7,468	1.2	7,227	1.1
10 largest clients	48,311	8.1	44,133	7.0
25 largest clients	83,818	14.0	75,611	12.0

The largest exposures to single clients in the investment and trading portfolio as at 31 December 2014 and 31 December 2013 were:

	2014		2013	
Client	Granted exposure (CZK m)	% of total investment portfolio	Granted exposure (CZK m)	% of total investment portfolio
Investment portfolio				
Czech Ministry of Finance	171,584	54.3	196,975	66.3
CNB	89,661	28.4	42,757	14.4
Trading portfolio				
Czech Ministry of Finance	23,997	49.4	27,129	13.3
CNB	-	-	150,001	73.4

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, pledges over real estate properties, inventory and trade receivables;
- For retail lending, pledges over residential properties are used for mortgage financing.

The Group continuously monitors the market value of all collateral, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

The Group also makes use of master netting agreements with counterparties.

Impairment assessment

The main considerations for credit impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract. The Group addresses impairment in two areas: specific impairments and impairments incurred but not reported (IBNR).

Specific impairments are applied to individual assets where there is registered objective evidence of default, whereas IBNR are applied for asset groups that based on statistical evidence contain probably already impaired assets, but have not been yet individually recognised.

Specific impairment (Individual assessment)

The Group determines allowances appropriate for loans with outstanding amounts above a predefined materiality threshold where there is registered objective evidence of default on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the availability of other financial support liquidation value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. For insignificant exposures with registered objective evidence of default a portfolio approach for deriving the impairment allowance is applied using statistical methods and models.

IBNR (Collective assessment)

Collective allowances are applied for loans and advances where there has not yet been recognised objective evidence of impairment and they reflect impairment that is likely to be present in the group of assets. Collective allowances are assessed based on statistical estimates and evaluated at each reporting period.

Collective allowances are estimated by taking into consideration:

(i) historical losses in the portfolio;

(ii) current economic conditions;

(iii) the approximate delay between the time a loss is likely to have been incurred and the time it will be identified (emergence period).

The local management is responsible for deciding the length of emergence period. In both 2014 and 2013, the Group used a uniform emergence period of four months, which was confirmed by the backtesting.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

The Group sorts exposures into five categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Group's credit rating system as at 31 December 2014 and 2013 by individual portfolios:

Credit portfolio

	2014				
	Collectively assessed assets		Individually impaired assets		Total
(CZKm)	Normal	AQR	Uncertain	Irrecoverable	
Mortgage loans	203,512	3,111	2,152	5,979	214,754
Consumer loans	17,713	251	416	944	19,324
SME	70,638	2,197	1,500	3,451	77,786
Leasing	25,946	751	190	518	27,405
Corporate	130,726	2,251	1,889	1,729	136,595
Factoring	3,338	-	578	128	4,044
Other	-	-	35	47	82
Total	**451,873**	**8,561**	**6,760**	**12,796**	**479,990**

	2013				
	Collectively assessed assets		Individually impaired assets		Total
(CZKm)	Normal	AQR	Uncertain	Irrecoverable	
Mortgage loans	188,173	3,622	1,901	5,614	199,310
Consumer loans	17,445	255	449	993	19,142
SME	67,157	1,489	1,715	3,370	73,731
Leasing	22,282	272	356	551	23,461
Corporate	113,086	3,841	2,846	1,758	121,531
Factoring	3,136	-	828	108	4,072
Other	270	-	-	31	301
Total	**411,549**	**9,479**	**8,095**	**12,425**	**441,548**

Investment portfolio

(CZKm)	2014 Collectively assessed assets Normal	Individually impaired assets Irrecoverable	Total
Debt securities	203,371	-	203,371
Equity securities	443	1	444
Loans and receivables within investment portfolio	34,170	-	34,170
Derivatives used for hedging	13,967	-	13,967
Derivative contracts held for trading	292	-	292
Cash and balances with central banks	62,690	-	62,690
Total	**314,933**	**1**	**314,934**

(CZKm)	2013 Collectively assessed assets Normal	Individually impaired assets Irrecoverable	Total
Debt securities	230,413	-	230,413
Equity securities	652	57	709
Loans and receivables within investment portfolio	45,623	-	45,623
Derivatives used for hedging	9,285	-	9,285
Derivative contracts held for trading	390	-	390
Cash and balances with central banks	10,789	-	10,789
Total	**297,152**	**57**	**297,209**

Trading portfolio

(CZKm)	2014 Collectively assessed assets Normal	Individually impaired assets Irrecoverable	Total
Debt securities	32,037	-	32,037
Loans and advances	2,725	-	2,725
Derivative contracts held for trading	14,935	-	14,935
Total	**49,697**	**-**	**49,697**

(CZKm)	2013 Collectively assessed assets Normal	Individually impaired assets Irrecoverable	Total
Debt securities	33,405	-	33,405
Loans and advances	159,431	-	159,431
Derivative contracts held for trading	11,503	-	11,503
Total	**204,339**	**-**	**204,339**

The table below shows an ageing analysis of gross past due but not impaired financial assets in the Credit portfolio:

	2014	2013
(CZKm)	Less than 30 days	Less than 30 days
Mortgage loans	9,515	10,215
Consumer loans	474	626
SME	346	265
Leasing	55	62
Corporate	-	-
Factoring	-	-
Other	-	-
Total	**10,390**	**11,168**

There were no past due but not impaired assets in the Investment and Trading portfolios.

Gross amounts of individually impaired financial assets included in the credit portfolio and the related impairment are as follows:

	2014		2013	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Mortgage loans	8,131	(3,094)	7,515	(2,873)
Consumer loans	1,360	(1,068)	1,442	(1,161)
SME	4,951	(3,416)	5,085	(3,333)
Leasing	708	(502)	907	(542)
Corporate	3,618	(1,994)	4,604	(2,111)
Factoring	706	(314)	936	(299)
Other	82	(53)	31	(31)
Total	**19,556**	**(10,441)**	**20,520**	**(10,350)**

Individually impaired financial assets included in the investment portfolio in the carrying amounts are as follows:

(CZKm)	2014	2013
Debt securities	-	-
Equity securities	1	57
Total	**1**	**57**

Forbearance measures

Based on the new guidelines on non-performing exposures and forbearance measures laid down by the European Banking Authority, which came into effect on 30 September 2014, the Group implemented a new definition of forborne loans.

Forbearance measures consist of concessions towards a borrower facing or about to face financial difficulties, which leave the borrower unable to comply with the original terms and conditions of a credit. Contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled are referred to as Forborne credits. Such an approach enables the Group to control and limit potential future losses stemming from troubled credits.

As a result of the update of the Definition of Default made by the Group, the Group's definition of default is now aligned with the EBA definition of non-performing exposures (PD 10-11-12), meaning that from 2014 they are only to be seen as synonyms. Previously, only PD grades 11 and 12 fell within the 'non-performing' exposure category. The same holds for the definition of the individually impaired financial instrument according to IFRS.

The approved changes impacted the business of the Group in the following way. The minimum period for the default status for the forborne exposures has been extended from 6 to 12 months; following the conservative approach of the local regulator, default status occurs any time a forbearance measure-concession is granted. The minimum period for assignment of the 'Forborne tag' is therefore 36 months: this period consists of the 12 months of the default status, and 24 months of what is referred to as the 'probation period'. In addition, any time more than 30 days past due are observed at an individual receivable during the 'probation period', the receivable is re-classified as defaulted and the 36-month period is re-set.

The implementation of changes in the Group increased the balance of non-performing exposures of CZK 741 m, and led to the creation of an additional individual impairment of CZK 110 m.

At 31 December 2014, forborne loans represent 1.4% of the outstanding gross amount.

Gross amounts of individually forborne exposures included in the credit portfolio and the related impairment as at 31 December are as follows:

	2014				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Exposure of collectively assessed assets	Exposure of individually impaired assets	Total exposure	Individual and collective impairment
Corporate	136,595	804	2,171	2,975	754
SME	77,786	249	992	1,241	453
Mortgage loans	214,754	801	1,336	2,137	242
Other	50,855	58	214	272	88
Total	**479,990**	**1,912**	**4,713**	**6,625**	**1,537**

40.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Group pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Group's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding Management

The actual development of liquidity might vary from ALM's liquidity prediction. The Group can address an adverse liquidity development in several ways. Most typically, the Group would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Group can borrow via repo operations on the market or use regulatory repo facilities (in the CNB or ECB).

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Group's business activities in the medium- and long-term horizon. For strategic liquidity management, the Group uses the net-stable-funding-ratio (NSFR) which is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). The strategy of the Group is to maintain the value of the NSFR well above one. That means the Group aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

The NSFR is monitored on a monthly basis and it is regularly reported to the top management of the Group.

The NSFR during 2014 and 2013 was as follows:

(%)	2014	2013
31 March	138.3	133.8
30 June	137.8	134.7
30 September	137.6	135.3
31 December	135.9	135.7

In addition to internally defined limits, the Group must also comply with a regulatory limit on the basis of minimum statutory reserves deposited with CNB. The limit presently equals to 2% of customer deposits.

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Group's financial liabilities based on the contractual undiscounted repayment obligations.

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2014:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading					
Financial derivatives	-	4,324	7,813	3,536	**15,673**
Other than financial derivatives	-	50,715	1,600	1,726	**54,041**
Financial liabilities at amortised cost	576,765	71,407	29,395	10,337	**687,904**
Fair value adjustments of the hedged items in portfolio hedge	5,145	-	-	-	**5,145**
Derivatives used for hedging	-	2,728	6,387	2,915	**12,030**
Other liabilities (Note: 28)	-	3,635	-	-	**3,635**
Total carrying value	**581,910**	**132,809**	**45,195**	**18,514**	**778,428**

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2013:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading					
Financial derivatives	-	7,216	5,762	1,612	**14,590**
Other than financial derivatives	7,184	163,143	1,589	657	**172,573**
Financial liabilities at amortised cost	524,442	92,093	37,963	34,199	**688,697**
Fair value adjustments of the hedged items in portfolio hedge	(57)	-	-	-	**(57)**
Derivatives used for hedging	-	2,888	4,749	2,131	**9,768**
Other liabilities (Note: 28)	-	4,845	-	-	**4,845**
Total carrying value	**531,569**	**270,185**	**50,063**	**38,599**	**890,416**

The maturity of contingent liabilities and commitments of CZK 155,963 m (2013: CZK 149,411 m) is less than one year. This represents the undiscounted cash flows of the Group's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Group is not managed based on the remaining contractual maturities of the financial instruments, as such the Group's expected cash flows on these instruments vary significantly from this analysis. For example, undrawn loan commitments are not expected to be drawn down immediately (Note: 34).

40.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The Board of Directors has set limits on the level of risk that may be accepted. The Group applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses a full linear VaR model for interest rate and foreign exchange rate risk. These calculations are based on historic scenarios derived from a two-year history. The Group has no net position in FX options, nor any position in equity. A nominal technical limit of EUR 6 m is set for interest rate options; commodity derivatives and structured bonds; the position in these products, however, is not material.

Standard VaR calculations are supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Group. The Group analyses scenarios, dependent and independent of the Group’s position. Also, real historical scenarios are evaluated on a regular basis.

To enhance the system of risk management, the Group also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Group uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Group applies VaR assumptions to estimate potential losses at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Group uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The VaR model is back tested on a daily basis. Daily VaR (1 day holding period) is compared with theoretic profit or loss from holding previous day position. Daily VaR is also compared with real profit or loss made by trading book.

The Group received regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks in June 2007.

The Group calculate a Stress VaR to fulfill CRD 3 requirements for market risk capital. A one year historic stress period is used for determining of stress scenarios. These in combination with antithetic scenarios for the same periods are used for computation of stress VaR. All other assumptions are identical to the standard VaR measurement.

The tables below show potential gains or losses analysed using VaR 10D 99% model in 2014 and 2013:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2014	113	7	(3)	117
Average during the period	142	10	(6)	146
Highest	186	25	(28)	183
Lowest	109	3	(5)	107

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2013	119	10	(6)	123
Average during the period	134	6	(5)	135
Highest	210	27	(22)	215
Lowest	56	1	-	57

Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the BPV sensitivity. The Board of Directors has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing financial assets designated at fair value through profit or loss for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by the maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The sensitivity of equity is calculated by revaluing Available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The Group’s investment portfolio consists of predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2014:

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	3.2	(3.2)	(48.6)	(325.7)	(374.3)
EUR	+ 10	0.2	(0.8)	29.0	66.3	94.7
USD	+ 10	0.0	(0.4)	(3.2)	(4.9)	(8.5)
CZK	- 10	(3.2)	3.2	48.6	325.7	374.3
EUR	- 10	(0.2)	0.8	(29.0)	(66.3)	(94.7)
USD	- 10	0.0	0.4	3.2	4.9	8.5

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(19.7)	3.9	21.7	(89.1)	(83.2)
EUR	+ 10	(1.4)	2.0	(0.3)	(7.1)	(6.8)
USD	+ 10	0.0	(0.2)	(3.7)	(0.5)	(4.4)
CZK	- 10	19.7	(3.9)	(21.7)	89.1	83.2
EUR	- 10	1.4	(2.0)	0.3	7.1	6.8
USD	- 10	0.0	0.2	3.7	0.5	4.4

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2013:

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(1.6)	10.5	(93.3)	(152.9)	(237.3)
EUR	+ 10	3.4	0.2	25.6	98.6	127.8
USD	+ 10	0.0	(0.3)	(3.8)	(3.4)	(7.5)
CZK	- 10	1.6	(10.5)	93.3	152.9	237.3
EUR	- 10	(3.4)	(0.2)	(25.6)	(98.6)	(127.8)
USD	- 10	0.0	0.3	3.8	3.4	7.5

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(1.6)	(1.6)	15.2	(6.7)	5.3
EUR	+ 10	1.4	1.2	5.7	2.2	10.5
USD	+ 10	(0.1)	0.0	(2.5)	(2.4)	(5.0)
CZK	- 10	1.6	1.6	(15.2)	6.7	(5.3)
EUR	- 10	(1.4)	(1.2)	(5.7)	(2.2)	(10.5)
USD	- 10	0.1	0.0	2.5	2.4	5.0

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Group adopted a strategy under which the banking book has no open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Group sets limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December 2014 and 2013:

	2014			2013		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	4	-	-	13	-	-

Sensitivity of the statement of income to currencies other than EUR is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Investment equity price risk exposure arises from the Group's investment portfolio.

- If, at the end of the accounting period, a share is quoted at less than 70% of its acquisition value or;
- If, during a period of one year before the end of the accounting period, the share price of a share was permanently lower than its acquisition value;

The share is irrevocably impaired to the closing quotation at end of the accounting period.

The effect on equity (as a result of a change in the fair value of equity instruments included in Available-for-sale financial assets at 31 December 2014) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, is as follows:

(CZKm)	Change in equity price (%)	Effect on equity
PX index	- 10	(45)
	+ 10	45

The effect on equity (as a result of a change in the fair value of equity instruments included in Available-for-sale financial assets at 31 December 2013) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, was as follows:

(CZKm)	Change in equity price (%)	Effect on equity
PX index	- 10	(45)
	+ 10	45

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Group's products is negligible, however it is regularly monitored.

40.5 Operational risk

The Group defines operational risk in line with Basel III as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. Operational risks include legal, compliance and tax risks. The impact of incidents on the Group's reputation is taken into consideration when assessing the Group's vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the Group, as well as an assessment of the Group's vulnerability in respect of potential risks that have not materialised yet. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses. The assessment involves ranking the risks and risk events in terms of their severity and anticipated frequency. The assessment is followed by decision of accountable manager, i.e. acceptance of risk or its mitigation by implementing appropriate control measures. Risk events that cannot be prevented may be also mitigated by business continuity arrangements and/or transfers of risk to third parties (e.g. by insurance) to the extent possible.

Operational Risk Management Governance

The basic objective is to make operational risk management a natural part of the decision-making in business units. Operational risk management governance is promoted by the CRO and the Risk Function. Regular meetings focusing on operational risk management take place at ČSOB subsidiaries and at distribution entities and departments responsible for creating new products within the Group.

Non-financial Risk Management Department (NFRD)

The NFRD is responsible for reporting in the non-financial risk management area, including operational risk management. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. NFRD covers also business continuity and information security areas. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Communication Unit, Legal Unit and Tax Unit.

Local Operational Risk Managers (the "LORMs")

LORMs are first line support for business managers in respect of operational risks. LORMs also act as business continuity coordinators, compliance coordinators and information risk coordinators. Beside frequent contacts, regular meetings of LORMs are organised by the NFRD every quarter for training and exchange of information.

Crisis Management

Apart from the regular operational risk management infrastructure, the Group has also established a crisis management infrastructure. Major incidents within the Group are resolved by the Crisis Committee with the involvement of the Board of Director members. Additionally, the Group has in place a procedure for resolving local incidents. This procedure is used for more explicit and structured situations, i.e. not complex crises.

Building Blocks of Operational Risk Management

Loss Data Collection

Loss events are registered into a loss database, which contains a full description of cases involving a higher level of loss. The quality of loss data is monitored on a daily basis, and data is reconciled regularly.

Detailed Risk Scan

The Detailed Risk Scan aims to identify and quantify operational risks in products, activities, processes and systems. This activity is forward-looking and allows future developments, e.g. an improvement in the control framework, to be taken into account. It consists of workshops organised and facilitated by the LORM, where business representatives and control function representatives discuss the key residual operational risks faced in order to reach a consensus on the adequate risk response (risk acceptance or mitigation).

Risk Scan

The Risk Scan is a structured risk self-assessment organised as an interview based on uniform questionnaires. The goal of the exercise is to identify the key risks that are relevant for the top management. Such risks are likely to differ from the risks identified during the detailed risk scan involving business experts closer to the working floor. The results of the Risk Scan are also used to underpin the Economic Capital for Operational and Business risk.

Group Key Controls and Zero Tolerances

The Group Key Controls and Zero Tolerances are top down basic control objectives used to mitigate key & killer non-financial risks (including risks to reputation) that are inherent to the processes of the business entities. Each GKC contain the key & killer operational risks related to the involved business process.

Key Risk Indicators

Key risk indicators are measurable metrics or indicators used to track the exposure to loss or other difficulties. Key risk indicators are used for informing the management of the current level of risk exposure and/or the effectiveness of the controls in place.

41. CAPITAL

Capital Adequacy

Capital adequacy measures the financial strength and stability of an institution. It compares the amount of the capital held by a financial institution to the risk of possible decline in value of assets on its statement of financial position.

Capital adequacy (or solvency) risk is the risk that the capital base of the Group might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios and its active steering.

Capital targets and structure

Regarding the capital targets and structure, the Group fully follows the KBC Group Capital Policy stating that fully owned subsidiaries shall: (i) hold the regulatory minimum capital (all capital in excess of the regulatory minimum must be held at the Group level), and (ii) build up the regulatory capital from equity.

Managing solvency

The Group reports its solvency calculated on the basis of IFRS balances, taking into account all relevant regulatory requirements. Solvency targets were met throughout 2014 with sufficient buffers above the regulatory minimum standards, underpinning a very strong capital position of the Group.

The primary objectives of the Group’s capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

In accordance with Basel II, Pillar 2 requirements, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) in place. In addition to the regulatory capital requirements, this process also uses an economic capital model to measure capital requirements based on aggregate group-wide risks, and to compare these requirements with the capital available to cover risks. The ICAAP examines both the current and future capital situation. To assess the latter situation, a three-year forecast is drawn up for required and available capital, both regulatory and economic, according to a basic scenario that takes account of anticipated internal and external growth, and according to various likely alternative scenarios. Basel III is currently changing the regulatory Pillar 2 practices mainly in the area of capital planning, stress testing and risk strategies.

The Basel III agreement and corresponding European CRD IV Directive and Regulation has introduced new, more stringent capital requirements for financial institutions. According to these requirements, the legal minimum tier-1 ratio, which stood at 4% under Basel II, increased to 6.0% (with a common equity ratio of 4.5%). On top of this, a so-called 'capital conservation buffer' (2.5% Common Equity Tier 1), and an extra charge for systemic risks of banks was applied. In addition, a 'countercyclical buffer' (of between 0% and 2.5% Common Equity Tier 1, to be determined by the national regulatory authority) may further be introduced from 2014 (first nonzero rates being implemented in Europe since 2015). The Group incorporated major changes / ratios into the regular management of the risk and capital positions.

The Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

No significant changes have been made to the objectives, policies and processes from the previous years.

The following table shows the capital and CAD ratio calculated under Basel III (2014) and Basel II (2013) for ČSOB Group.

(CZKm)	2014	2013
Tier 1 capital	60,104	55,245
Tier 2 capital	749	76
Deductible items of Tier 1 and Tier 2 [1)]	-	(16)
Total capital	**60,853**	**55,305**
Capital requirements	27,894	28,409
Risk weighted assets	**348,670**	**355,114**
Capital adequacy ratio	17.45%	15.57%

[(1)] Deductible items of Tier 1 and Tier 2, presented as a separate line of the total capital, is applicable for capital calculation under Basel II only. Basel III requires Tier 1 capital to be presented net of deductible items.

INDEPENDENT AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS

Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Československá obchodní banka, a. s.:

We have audited the accompanying financial statements of Československá obchodní banka, a. s., which comprise the statement of financial position as at 31 December 2014, and the statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of Československá obchodní banka, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

Jan Zedník, Auditor
License No. 2201

Douglas Burnham
Partner

20 March 2015
Prague, Czech Republic

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Note	2014	2013
Interest income	4	21,039	20,958
Interest expense	5	(4,260)	(4,865)
Net interest income		**16,779**	**16,093**
Fee and commission income	6	8,203	7,797
Fee and commission expense	6	(3,027)	(2,794)
Net fee and commission income		**5,176**	**5,003**
Dividend income		4,224	4,834
Net gains from financial instruments at fair value through profit or loss and foreign exchange	7	1,414	2,421
Net realised gains on available-for-sale financial assets		214	352
Other net income	8	646	803
Operating income		**28,453**	**29,506**
Staff expenses	9	(5,877)	(5,711)
General administrative expenses	10	(7,067)	(6,958)
Depreciation and amortisation	20, 21	(359)	(451)
Operating expenses		**(13,303)**	**(13,120)**
Impairment losses	11	(305)	(595)
Profit before tax		**14,845**	**15,791**
Income tax expense	12	(1,637)	(1,457)
Profit for the year		**13,208**	**14,334**

The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Note	2014	2013
Profit for the year		**13,208**	**14,334**
Net gain / (loss) on cash flow hedges	29	817	(1,233)
Net (loss) / gain on available-for-sale financial assets	29	(716)	3,916
Income tax expense relating to components of other comprehensive income	29	(19)	(510)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods		**82**	**2,173**
Total comprehensive income for the year, net of tax		**13,290**	**16,507**

The accompanying notes are an integral part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Note	2014	Reclassified 2013
ASSETS			
Cash and balances with central banks	14	72,039	20,691
Financial assets held for trading	15	52,676	206,040
Financial assets designated at fair value through profit or loss	15	6,677	8,543
Available-for-sale financial assets	16	69,928	69,581
Held-to-maturity investments	16	144,576	145,467
Loans and receivables	17	435,231	416,997
Fair value adjustments of the hedged items in portfolio hedge		1,539	927
Investments in subsidiaries, associates and joint ventures	18	39,610	36,250
Derivatives used for hedging	19	13,967	9,285
Property and equipment	20	2,551	3,226
Goodwill and other intangible assets	21	2,727	2,711
Non-current assets held-for-sale	22	491	20
Other assets	23	828	786
Total assets		**842,840**	**920,524**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	69,821	192,473
Financial liabilities at amortised cost	25	674,306	641,293
Fair value adjustments of the hedged items in portfolio hedge		5,145	(57)
Derivatives used for hedging	19	11,818	9,092
Current tax liabilities		147	697
Deferred tax liabilities	12	1,106	991
Other liabilities	26	3,197	3,779
Provisions	27	686	823
Total liabilities		**766,226**	**849,091**
Share capital	28	5,855	5,855
Share premium		14,673	14,673
Statutory reserve		18,687	18,687
Retained earnings		31,171	26,072
Available-for-sale reserve	28	3,027	3,607
Cash flow hedge reserve	28	3,201	2,539
Total equity		**76,614**	**71,433**
Total liabilities and equity		**842,840**	**920,524**

The accompanying notes are an integral part of these separate financial statements.

These separate financial statements were approved for issue by the Board of Directors and signed on its behalf on 20 March 2015 by:

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

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

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(CZKm)	Share capital (Note: 28)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 28)	Total Equity
At 1 January 2013	**5,855**	**6,673**	**18,687**	**25,058**	**3,973**	**60,246**
Profit for the year	-	-	-	14,334	-	14,334
Other comprehensive income for the year	-	-	-	-	2,173	2,173
Total comprehensive income for the year	-	-	-	14,334	2,173	16,507
Increase of Share capital and Share premium	-	8,000	-	-	-	8,000
Dividends paid (Note: 13)	-	-	-	(13,320)	-	(13,320)
At 31 December 2013	**5,855**	**14,673**	**18,687**	**26,072**	**6,146**	**71,433**
At 1 January 2014	**5,855**	**14,673**	**18,687**	**26,072**	**6,146**	**71,433**
Profit for the year	-	-	-	13,208	-	13,208
Other comprehensive income for the year	-	-	-	-	82	82
Total comprehensive income for the year	-	-	-	13,208	82	13,290
Dividends paid (Note: 13)	-	-	-	(8,109)	-	(8,109)
At 31 December 2014	**5,855**	**14,673**	**18,687**	**31,171**	**6,228**	**76,614**

(1) The statutory reserve represents accumulated transfers from retained earnings in compliance with the Statutes of the Bank. This reserve is distributable based on the decision of the Board of Directors.

The accompanying notes are an integral part of these separate financial statements.

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

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

(CZKm)	Note	2014	Restated 2013
OPERATING ACTIVITIES			
Profit before tax		14,845	15,791
Adjustments for:			
Change in operating assets	31	127,284	(67,591)
Change in operating liabilities	31	(95,674)	73,271
Non-cash items included in profit before tax	31	6,054	(1,691)
Net gains from investing activities		(222)	(16)
Income tax paid		(2,091)	(1,371)
Net cash flows from operating activities		**50,196**	**18,393**
INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		(6,753)	(3,260)
Acquisition and equity increase of subsidiary, associate and joint venture companies		(3,887)	-
Maturity / disposal of investment securities		7,325	6,801
Purchase of property, equipment and intangible assets		(268)	(272)
Proceeds from sale and equity decrease of subsidiary, associate and joint venture companies		527	97
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		265	195
Net cash flows (used in) / from investing activities		**(2,791)**	**3,561**
FINANCING ACTIVITIES			
Repayment of subordinated debt		-	(8,000)
Increase of share capital and share premium		-	8,000
Dividends paid		(8,109)	(13,320)
Net cash flows used in financing activities		**(8,109)**	**(13,320)**
Net increase in cash and cash equivalents		**39,296**	**8,634**
Cash and cash equivalents at the beginning of the year	31	15,211	6,577
Net increase in cash and cash equivalents		39,296	8,634
Cash and cash equivalents at the end of the year	31	**54,507**	**15,211**
Additional information			
Interest paid		(5,006)	(5,440)
Interest received		22,947	22,548
Dividends received		4,224	4,834

The accompanying notes are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic. The Corporate ID is 00001350. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

The Bank is operating in the Czech Republic. It is a universal bank offering to its clients a wide range of banking products and services, including the products and services of the entire ČSOB group. The main activities services of the ČSOB include accepting deposits from the public, providing loans, investing in securities on the Bank´s own account, financial leasing, payments and clearance, the issuance and administration of payment instruments, the provision of guarantees, the issuance of letters of credit, the provision of collection services, the provision of all investment service according to a special law, the issuance of mortgage bonds, financial brokerage, the provision of depository services, exchange office services (purchase of foreign exchange), the provision of banking information, trading in foreign exchange values and gold on the Bank´s own account or on a client´s account, the rental of safe-deposit boxes. Furthermore, the Bank performs activities directly related to the activities described above and activities carried out for other parties if they relate to the running of the Bank and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the Bank.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

The separate financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e. cost less accumulated depreciation and impairment losses). The separate financial statements are presented in millions of Czech Crowns (CZKm) which is the Bank's presentation currency. The preparation of separate financial statements is required by the Act on Accounting. Simultaneously, the Bank also prepares consolidated financial statements of the ČSOB Group in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Statement of compliance

The ČSOB separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

2.2 Significant accounting judgements and estimates

While applying the Bank accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit, liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments

The Bank reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, management judgement is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances, the Bank also makes a collective impairment allowance against exposures which, although not individually identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Goodwill impairment

Goodwill is tested annually for impairment. For this purpose, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Classification of leases

The classification of leases into either finance leases or operating leases is based on the extent to which the risks and rewards from the asset ownership have been transferred from a lessor to a lessee. If a substantial number of all the risks and rewards incidental to ownership have been transferred to the lessee the lease is classified as a finance lease. Management judgement is needed to assess the extent to which the risks and rewards have been transferred.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine 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.

Provisions

Provisions are recognised when a current obligation exists as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount will be made. Judgements are applied to evaluate whether the current obligation exists taking into account all available evidence and whether the event is more likely to occur than not. Estimates of the amount of the obligation also require management judgement.

Assessment of the nature of interest in Group entities

The Bank considers all relevant facts and circumstances in assessing whether it has a control, joint control (and its type) or significant influence over an investee. The assessment is based on the conclusions made by taking into account the contractual arrangements with the other vote holders of the investee, rights arising from other contractual arrangements and the Bank's voting rights and potential voting rights.

2.3 Changes in accounting policies

Effective from 1 January 2014

The accounting policies adopted are consistent with those used in the previous financial year except for the adoption of the following standards, amendments and interpretations. The adoption of them did not have any effect on the financial performance or position of the Bank, unless otherwise described below.

IFRS 10 Consolidated Financial Statements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces the part relating to the consolidated portion of IAS 27 Consolidated and Separate Financial Statements. A new definition of control is included and a single control model that applies to all entities is introduced. The model has been applied to the Group.

IFRS 11 Joint Arrangements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. The standard has an impact on the consolidated financial statements of the Group.

IFRS 12 Disclosure of Interest in Other Entities is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard includes all of the disclosure requirements that were included in IAS 27, IAS 28 and IAS 31. The entity is required to disclose judgements made to determine whether it controls an entity.

IFRS 10, 11, 12 Transition Guidance (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The amendments change the transition guidance to provide further relief from full retrospective application. The amendments clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC-12 and when applying IFRS 10.

Investment Entities (Amendments to IFRS 10, 12 and IAS 27) is effective for periods beginning on or after 1 January 2014. The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

IAS 27 Separate Financial Statements (Amendment) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (Amendment) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments) is effective for periods beginning on or after 1 January 2014. These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) is effective for periods beginning on or after 1 January 2014. The amendments provide relief from discontinuing hedge accounting when the novation of a derivative designated as a hedging instrument meets certain criteria.

Recoverable Amount Disclosures for Non-financial Assets (Amendments to IAS 36) is effective for periods beginning on or after 1 January 2014. The amendment clarifies the disclosure requirements of IAS 36 in relation to the standard IFRS 13 *Fair value measurement.*

IFRIC 21 Levies is effective for periods beginning on or after 1 January 2014. IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

Annual Improvements to IFRSs (2009 - 2011 Cycle), issued in May 2012 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. None of these have a significant impact on the accounting policies, financial position or performance of the Bank.

Effective after 1 January 2014

The following standards, amendments and interpretations have been issued and are effective after 1 January 2014. The Bank has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Bank financial statements.

IFRS 9 Financial Instruments (2014) is effective for periods beginning on or after 1 January 2018. The standard has not been endorsed by the European Commission to date.

Classification and measurement of financial instruments

Financial assets are measured at amortised cost if both conditions are fulfilled:

- The financial asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets are measured at fair value through other comprehensive income if both conditions are fulfilled:

- The financial asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows and to sell; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Other financial assets are measured at fair value through profit or loss. IFRS 9 retains a fair value option. Reclassifications between the three asset categories are required when the entity changes its business model.

All equity instruments are measured at fair value either through other comprehensive income or profit or loss.

IFRS 9 removes the separation of embedded derivatives requirements for financial assets and the instrument is assessed in its entirety as to whether it fulfills the above two conditions.

Financial liabilities are classified and measured either at amortised cost or at fair value through profit or loss. A financial liability can be designated as measured at fair value through profit or loss if doing so results in more relevant information, because either:

- It eliminates or reduces a measurement or recognition inconsistency;
- A group of financial liabilities is managed and its performance is evaluated on a fair value basis.

IFRS 9 requires that changes in the fair value of an entity’s own debt caused by changes in its own credit quality are recognised in other comprehensive income. The original requirements related to the derecognition of financial assets and financial liabilities are carried forward unchanged from IAS 39 to IFRS 9.

Impairment of financial assets

IFRS 9 introduces a three-stage model based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition, or have low credit risk at the reporting date. 12-month expected credit losses are recognised for these assets. Interest income is based on the gross carrying amount of the assets.

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment. Lifetime expected credit losses are recognised for these assets. Interest income is still calculated on the gross carrying amount of the assets.

Stage 3 includes financial instruments that have objective evidence of impairment at the reporting date. Lifetime expected credit losses are recognised for these assets. Interest income is calculated on the net carrying amount of the assets.

The new model is applied to debt instruments measured at amortised cost or fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit or loss and lease/trade receivables. There are simplifications available for trade, lease receivables and contract assets that do not contain a significant financing component. The 12-month expected credit losses do not have to be calculated and lifetime expected credit losses are used instead. For the assets with a significant financing component there is a policy choice to apply either the simplified or general model.

The accounting for impairment of financial assets will have a significant impact on the Bank. The assessment is in progress.

Hedge accounting

The third phase, general hedge accounting, aligns more closely the hedge accounting and risk management. In practice, more hedging strategies used for risk management will qualify for hedge accounting. The three types of hedge accounting (cash flow, fair value and net investment hedges) have been carried forward from IAS 39. The hedging relationship has to be effective at inception and on an ongoing basis and will be subject to a qualitative or quantitative forward-looking effectiveness assessment. The hedge effectiveness range of 80-125% is replaced by an objective-based test. If the hedging relationship meets risk management objectives it cannot be voluntarily terminated, rather, the quantities of a hedged item or a hedging instrument have to be adjusted and the hedged ratio rebalanced to comply with the hedge effectiveness requirement.

Non-derivative financial assets and liabilities with fair value through profit or loss can be designated as hedging instruments in hedging relationships of any risk, not just foreign currency risk. They have to be designated in their entirety or as a proportion of their nominal amount.

The hedge accounting model extends the eligibility of risk components to include non-financial items, provided the component is separately identifiable and can be reliably measured.

The new general hedge accounting will have only marginal, if any, effect on the existing hedging constructions.

The new standard will have a significant impact on the financial statements of the Bank. The assessment of the impact is in progress.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) is effective for periods beginning on or after 1 January 2016. The amendment requires an acquirer of an interest in a joint operation to apply all of the principles on business combinations (IFRS 3) except for those that conflict with the guidance in this amendment.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and 28) is effective for periods beginning on or after 1 January 2016. The amendments clarify the accounting for transactions where a parent loses control of a subsidiary that does not constitute a business as defined in IFRS 3. The gain or loss resulting from the sale or contribution to an associate or a joint venture of assets is recognised in the parent´s profit or loss only to the extent of the unrelated investors interests in the associate or joint venture.

Equity Method in Separate Financial Statements (Amendments to IAS 27) is effective for periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity´s separate financial statements.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, 12 and IAS 28) is effective for periods beginning on or after 1 January 2016. The amendments further clarify the exception in consolidating investment entities.

IFRS 14 Regulatory Deferral Accounts is effective for periods beginning on or after 1 January 2016. The standard is limited to first-time adopters that recognise regulatory deferral account balances in accordance with their previous GAAP.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2017. The key concept of the new standard is identifying separate Performance Obligations. Entities will follow a five-step model for revenue recognition:

1. Identify the contract with the customer (a contract exists only when it is ‘probable’ that the entity will collect the consideration)

2. Identify separate Performance Obligations in the contract (a promise to transfer good or service)

3. Determine the transaction price (only an amount not subject to subsequent future reversals)

4. Allocate the transaction price to each Performance Obligation

5. Recognise revenue when or as each Performance Obligation is satisfied

As the standard is not applicable to insurance contracts, financial instruments or lease contracts, the impact on the Bank will be limited. The assessment of the impact is in progress.

Disclosure Initiative (Amendments to IAS 1) is effective for periods beginning on or after 1 January 2016. The amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments state that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) is effective for periods beginning on or after 1 January 2016. The amendment clarifies the use of a revenue-based method for depreciating an asset.

Defined Benefit Plans: Employees Contributions (Amendments to IAS 19) is effective for periods beginning on or after 1 July 2014. The amendment brings clarification of the accounting requirements for contributions from employees or third parties to a defined benefit plan. It specifies conditions under which the contributions can be accounted for as a reduction of service costs.

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) is effective for periods beginning on or after 1 January 2016. The amendments define a bearer plant and include bearer plants within the scope of IAS 16.

Annual Improvements to IFRSs (2010 - 2012 Cycle, 2011 - 2013 Cycle, 2012 - 2014 Cycle), issued in December 2013 and September 2014 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, all of which are applicable on or after 1 July 2014 or on or after 1 January 2016.

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of the Bank are initially measured using the currency of the primary economic environment in which the Bank operates ("the functional currency").

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the end of the reporting period. All differences are taken to Net gains/losses from financial instruments at fair value through profit or loss and foreign exchange (Net gains/losses from financial instruments at fair value through profit or loss onwards) in the statement of income with the exception of differences in foreign currency borrowing or derivatives that provide an effective hedge in the cash flow hedge of currency risk, which are taken through OCI directly to equity until the hedged cash flow influences the statement of income, at which time they are recognised in the statement of income as well.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the end of the reporting period. Exchange differences from non-monetary available-for-sale financial assets are included in the fair value revaluation recognised in equity until the assets are derecognised or impaired.

(2) Investments in subsidiaries, associates and jointly controlled entities

A subsidiary is an entity which is controlled by the Bank (parent entity). The Bank controls an investee when 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.

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in subsidiaries, associates and joint ventures are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries, associates and joint ventures are recorded in Dividend income.

(3) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the financial instrument, except for "regular way" purchases and sales of financial assets (see below). A financial asset is derecognised from the statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset’s cash flows; or (b) retains the right to the asset’s cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Bank has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

A "regular way" purchase or sale of a financial asset is one in which the delivery of the asset is made within the time frame generally established by regulation or convention of the particular market concerned. For all categories of financial assets the Bank recognises "regular way" purchases and sales using settlement date accounting. Under settlement date accounting, a financial asset is recognised or derecognised in the statement of financial position on the day it is physically transferred to or from the Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank loses control of the contractual rights from a financial asset sale is commonly referred to as the "trade date". For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between the "trade date" and "settlement date" in connection with purchases and sales are recognised in Net gains / losses from financial instruments at fair value through profit or loss and in the Available-for-sale reserve, respectively. On the settlement date, a respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(4) Financial instruments - initial recognition and subsequent measurement

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

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

This category has two sub-categories: financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading consist of derivatives held for trading and financial instruments other than derivatives held for trading.

- *Derivatives held for trading*

Derivatives include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency, interest rate and commodity options. Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of derivatives held for trading are included in Net gains/losses from financial instruments at fair value through profit or loss.

Changes in the clean fair value (fair value less any net interest accrual) of derivatives used as economic hedges are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Net interest income/expense from these derivatives is recorded in Net interest income on a deal by deal basis.

The derivatives used as economic hedges are derivatives, which do not meet the IFRS requirements for applying hedge accounting but which the Bank Asset Liability Management department uses for decreasing the interest rate risk of the Bank, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Bank cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value in the statement of financial position with changes in fair value reflected in the statement of income.

- *Financial instruments held for trading other than derivatives*

Financial assets or financial liabilities held for trading other than derivatives are recorded in the statement of financial position at fair value. Changes in clean fair value are recognised in Net gains/losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income using the effective interest rate method. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

- *Financial instruments designated at fair value through profit or loss*

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities, or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in clean fair value are recorded in Net gains / losses from financial instruments at fair value through profit or loss. Interest income or expense is recorded in Net interest income using the effective interest rate method.

(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's management has the positive intention and ability to hold to maturity. Were the Bank to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(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 and the Bank has no intention of trading the financial asset.

After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any allowance for impairment, except in the case of a fair value hedge of items in this category, which have to be fair valued to the extent of the hedged risk. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in Interest income. The losses arising from the impairment of such investments are recognised in the statement of income in Impairment losses.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve on an after-tax basis, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reclassified to Net realised gains / losses on available-for-sale financial assets. Interest income arising from available-for-sale assets, calculated using the effective interest rate method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(v) Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, those financial liabilities are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(vi) 'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or the fair value based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

(5) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (repos) remain in the statement of financial position. The corresponding cash received is recognised in the statement of financial position in Financial liabilities held for trading, or Financial liabilities at amortised cost, reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase price is recorded as Interest expense and is accrued over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. The corresponding cash paid is recognised in the statement of financial position in Financial assets held for trading or Loans and receivables or Cash and balances with central banks. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(6) Determination of fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using quoted market prices if there is a published price quotation in an active market. For financial instruments that are not traded on an active market their fair values are estimated using pricing models, utilising quoted prices of instruments with similar characteristics, discounted cash flows methods or other models. Those fair value estimation techniques are significantly affected by assumptions used by the Bank including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(7) Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Bank would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

The Bank assesses objective evidence of impairment individually or collectively for financial assets at amortised cost. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the statement of income.

When a loan is uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures for collecting the loan have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded in the statement of income in Impairment losses.

(ii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Assets carried at fair value

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of a debt instrument classified as available-for-sale, the assessment of impairment is based on the same criteria as financial assets carried at amortised cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A significant decline is considered to be a 30% decline in the fair value. A prolonged decline is considered to be a decline of one year or longer. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of income - is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale 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 through the statement of income.

(8) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank makes an estimate of the recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income.

(9) Hedge accounting

The Bank uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Bank's interest rate risk or foreign currency risk. Cash flow hedges and fair value hedges are used to minimise the variability in cash flows of interest-earning assets or interest-bearing liabilities or anticipated transactions caused by interest rate fluctuations or to minimise the variability in the fair value of asset or liability, which could affect the statement of income. Hedge accounting is used for derivatives and other financial instruments designated in this way provided certain criteria are met. The Bank's criteria for the application of hedge accounting include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period;
- the hedge is highly effective on an ongoing basis. The hedge is considered to be highly effective if the Bank achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Bank has complied with the amended standard, taking into account the ‘carved out’ parts as approved by the European Commission.

(i) Cash flow hedges

The effective portion of the change in fair value of a cash flow hedging derivative is recorded in the Cash flow hedge reserve. The ineffective portion is recorded directly in Net gains/losses from financial instruments at fair value through profit or loss. Amounts in the Cash flow hedge reserve are reclassified into the statement of income in a manner consistent with the earnings recognition pattern of the underlying hedged item. If a cash flow hedge is terminated or the hedge designation removed the related remaining amounts in the Cash flow hedge reserve are reclassified into the statement of income in the same period during which the hedged item affects income. If the hedged anticipated transaction is no longer expected to occur the related remaining amounts in the Cash flow hedge reserve are recognised immediately in the statement of income.

(ii) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging instrument is recognised in the statement of income. Related interest income / expense from the hedging instrument is recorded in Net interest income, revaluation of the hedging instrument is recognised in Net gains / losses from financial instruments at fair value through profit or loss. Meanwhile, the change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of income in Net gains/losses from financial instruments at fair value through profit or loss. If the hedging instrument expires, is sold, terminated or exercised or if the hedge is not assessed as effective any more, then the hedge accounting is discontinued.

For fair value hedges relating to items carried at amortised cost, any adjustment to the carrying value is amortised through the statement of income over the remaining term of the hedge using the effective interest rate method. Amortisation begins as soon as an adjustment exists but no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of income.

(10) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(11) Reclassification of financial assets

The Bank does not reclassify any financial assets into or out of the Financial assets designated at fair value through profit or loss after initial recognition.

If a non-derivative financial asset at fair value through profit or loss is no longer held for selling or repurchasing it can only be reclassified in rare circumstances.

The Bank can also reclassify, under certain circumstances, financial assets out of Available-for-sale. A financial asset classified as Available-for-sale that would have met the definition of loans and receivables may be reclassified out of the Available-for-sale category to the loans and receivables category if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. A financial asset classified as Available-for-sale that would have met the definition of held-to-maturity investment may be reclassified out of the Available-for-sale category to the held-to-maturity investment category if the Bank has the intention and ability to hold the financial asset until maturity.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the Available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised in the statement of income 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.

Sales and reclassifications from the Held-to-maturity portfolio without the risk of triggering tainting rules are possible only in limited circumstances, such as when it concerns an insignificant amount of instruments or instruments that are so close to maturity that the changes in the market interest rates would not significantly change their fair value. Further, no tainting rules are applied if the sales or reclassifications are attributable to an isolated event that is beyond the Bank's control (i.e. significant deterioration in the issuer's creditworthiness or changes in tax, statutory or regulatory requirements) or if the sales occur after collecting a substantial amount of the instrument's principal.

However, if sales or reclassifications from the Held-to-maturity portfolio do not fulfil the above limits, any remaining investments have to be reclassified as available-for-sale. Furthermore, no financial assets can be classified as Held-to-maturity for the following two years.

(12) Leasing

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Bank as a lessee

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Bank as a lessor

Leases, in which the Bank does not transfer substantially all the risks and benefits of ownership of the asset, are classified as operating leases. The Bank leases out certain of its properties under operating leases, thus generating rental income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Rental income is included in Other net income.

(13) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and expense of interest-bearing non-derivative financial instruments in the held-for-trading portfolio designated at fair value through profit or loss portfolio, derivatives used as economic hedges and hedging derivatives are also recognised in the caption using the effective interest rate method.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

Fees and commissions that are not an integral part of the effective interest rate are generally recognised on an accrual basis when the service has been provided. Origination fees for loans that are probable of being drawn down, are deferred and recognised as an integral part of the effective interest on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on the completion of the underlying transaction. Recognition of portfolio and other management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided.

(iii) Dividend income

Revenue is recognised when the Bank's right to receive a payment is established.

(iv) Net gains / losses from financial instruments at fair value through profit or loss

Net gains / losses from financial instruments at fair value through profit or loss include all gains and losses from changes in the clean fair value of financial assets and financial liabilities held for trading and those designated at fair value through profit or loss except for trading derivatives that are not used as economic hedges, where the interest income/expense is also included. This caption also includes net gains from fair value hedging constructions (revaluation of hedging and hedged items) and any ineffectiveness recorded in cash flow hedging transactions.

(14) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition including: cash and balances with central banks loans and advances to credit institutions and central banks (measured at amortised cost) and financial liabilities at amortised cost to credit institutions and central banks. Only highly liquid transactions contracted with general government bodies (reverse repo / repo operations) are assessed by the Bank as cash equivalents. According to the implementation of new rules and principles of the Unified Framework of the Financial Reporting (FINREP), a definition of the counterparties reported as credit institutions changed.

(15) Property and equipment

Property and equipment includes Bank occupied properties, IT and communication and other machines and equipment.

Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	30 years
IT equipment	4 years
Office equipment	10 years
Other	4-30 years

Gains and losses on disposals are determined by comparing the proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

Property and equipment is reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When it is highly probable that an asset will be sold, the asset is classified in Non-current assets held-for-sale at the lower of its carrying amount and fair value less costs to sell.

(16) Goodwill

Goodwill as of the acquisition date is measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the net of the identifiable assets acquired and the liabilities assumed at the date of acquisition.

If a bargain purchase is made, in which the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed is larger than the aggregate of the consideration transferred and the amount of non-controlling interest in the acquiree, the resulting gain is recognised in the statement of income at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Impairment losses relating to goodwill cannot be reversed in future periods.

(17) Intangible assets

Intangible assets include software, licences and other intangible assets.

Intangible assets are carried at cost less accumulated amortisation and impairment, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Amortisation of the software and other intangible assets is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life, as follows:

Software	4 years
Other intangible assets	5 years

Gains and losses on disposals are determined by comparing proceeds received in the transaction with the carrying amount of the asset. The resulting gains and losses are included as a net amount in Other net income.

(18) Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognised in the financial statements at the higher of the amortised premium and the best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. Fees are recognised in the statement of income in Fee and commission income. Any increase or decrease in the provision relating to financial guarantees is included in Impairment losses.

(19) Employee retirement benefits

Retirement benefits

Pensions are provided by the Czech Republic to resident employees financed by salary-based social security contributions of the employees and their employers.

The Bank contributes to a defined contribution retirement benefit scheme for participating employees, in addition to the employer social security contributions required by the law in the Czech Republic. Contributions are charged to the statement of income as they are made.

Termination benefits

Employees dismissed by their employer are entitled to termination benefits equal to or less than three times the employees's month's average salary in accordance with the Czech employment law. Employees employed over ten years are entitled to additional termination benefits, which are scaled in accordance of the years of service. Termination benefits are recognised in the statement of income based on the approval of the restructuring programme implementation.

(20) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(21) Taxes

There are two components of income tax expense: current and deferred. Current income tax expense approximates amounts to be paid or refunded for taxes for the appropriate period.

Deferred tax assets and liabilities are recognised due to differences between the tax bases of assets and liabilities and their respective carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and the taxable profit will be available against which the temporary differences can be utilised.

All deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets and liabilities are offset in the financial statements where a right of set-off exists.

Deferred tax related to the fair value movements of cash flow hedges and available-for-sale securities, which are charged or credited to OCI, is also credited or charged to OCI and is subsequently recognised in the statement of income together with the deferred gain or loss.

The Bank records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(22) Share capital and reserves

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

The statutory reserve fund is accumulated in compliance with the Statutes of the Bank and its use is limited by the Articles of association or Statutes. The fund is distributable based on the decision of the Board of Directors.

Dividends are recognised after they have been ratified by the resolution of the sole shareholder.

(23) Fiduciary activities

The Bank commonly acts in fiduciary activities that result in the holding or placing of assets on behalf of individuals and institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

(24) Operating segments

Operating segments are components of the Bank that engage in business activities from which they earn revenues and incur expenses and whose operating results are regularly reviewed on the Bank level to assess their performance. Discrete information is available for each operating segment.

2.5 *Comparative balances*

Reclassifications

In September 2014, new rules of the Unified Framework of the Consolidated Financial Reporting (FINREP) issued by the Committee of European Banking Supervision became effective. The ČSOB and the KBC have decided to use the same presentation of some items within the structure of the financial statements to be consistent with the requirements of the FINREP, since such a presentation provides more reliable and more relevant information about the nature of the assets and liabilities including an increase of comparability among different reporters on the market. Therefore certain items are presented differently in the financial statements as at 31 December 2014 from the presentation applied in the financial statements as at 31 December 2013. To conform to the changes in presentation in the current year, certain items in the comparative balances have been reclassified.

The tables below show the impact of the reclassifications and restatement on the financial statements level. Relevant balances in the notes were restated accordingly.

A reconciliation of the selected items of the financial statement of the financiat position as at 31 December 2013 is provided below:

	2013	Reclassifications		2013
(CZKm)	As reported	A	B	Reclassified
Cash and cash balances with central banks	52,691	(32,000)		20,691
Loans and receivables	384,623	32,000	374	416,997
Other assets	1,160		(374)	786
Financial liabilities at amortised cost	636,662		4,631	641,293
Other liabilities	8,410		(4,631)	3,779

The explanation for the reclassifications is as follows:

A/ **Reverse repo operations**

Loans provided to the Czech National Bank under the reverse repo operations which are not classified as held for trading and therefore measured at amortised cost have been reclassified from Cash balances with central banks to the Loans and receivables. Reverse repo transactions are interest bearing term loans and their presentation in the statement of financial position as a part of the Loans and receivables portfolio provides more reliable and more relevant information about the nature of the transactions.

B/ **Other receivables from / Other liabilities to customers**

Receivables and liabilities of the Bank originated from unsettled transactions with customers have been reclassified from Other assets to the Loans and receivables and from Other liabilities to the Financial liabilities at amortised cost, respectively, since these items relate to core business of the Bank and therefore such presentation in the statement of financial position provides more reliable and more relevant information about the nature of the transactions.

In 2014, the Bank revised the definition of cash equivalents to be consistent with KBC Bank and to be aligned with the requirements of FINREP. Therefore, cash equivalents are presented differently in the financial statements at 31 December 2014 from the presentation applied in the financial statements at 31 December 2013 and 2012.

A reconciliation of the statement of cash flows for the year ended 31 December 2013 is as follows:

(CZKm)	2013 As reported	Adjustments A	B	C	D	E	2013 Restated
OPERATING ACTIVITIES							
Profit before tax	15,791	-	-	-	-	-	15,791
Adjustments for:							
Change in operating assets	(67,639)	(320)	1,306	-	(93)	(845)	(67,591)
Change in operating liabilities	75,458	-	-	(10,533)	8,346	-	73,271
Non-cash items included in profit before tax	(2,536)	-		-	-	845	(1,691)
Net gains from investing activities	(16)	-	-	-	-	-	(16)
Income tax paid	(1,371)	-	-	-	-	-	(1,371)
Net cash flows from operating activities	**19,687**	**(320)**	**1,306**	**(10,533)**	**8,253**	**-**	**18,393**
INVESTING ACTIVITIES							
Purchase of held-to-maturity investments	(3,260)	-	-	-	-	-	(3,260)
Maturity / disposal of investment securities	6,801	-	-	-	-	-	6,801
Purchase of property, equipment and intangible assets	(272)	-	-	-	-	-	(272)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale	195	-	-	-	-	-	195
Proceeds from sale and equity decrease of subsidiary, associate and joint venture companies	97	-	-	-	-	-	97
Net cash flows from investing activities	**3,561**	**-**	**-**	**-**	**-**	**-**	**3,561**
FINANCING ACTIVITIES							
Repayment of subordinated debt	(8,000)	-	-	-	-	-	(8,000)
Increase of share capital and share premium	8,000	-	-	-	-	-	8,000
Dividends paid	(13,320)	-	-	-	-	-	(13,320)
Net cash flows used in financing activities	**(13,320)**	**-**	**-**	**-**	**-**	**-**	**(13,320)**
Net increase in cash and cash equivalents	**9,928**	**(320)**	**1,306**	**(10,533)**	**8,253**	**-**	**8,634**
Cash and cash equivalents at the beginning of the year	9,489	8,776	(10,339)	-	(1,349)	-	6,577
Net increase in cash and cash equivalents	9,928	(320)	1,306	(10,533)	8,253	-	8,634
Cash and cash equivalents at the end of the year	19,417	8,456	(9,033)	(10,533)	6,904	-	15,211

The explanation for the restating adjustments is as follows:

A/ Inclusion of Mandatory minimum reserves (Note: 14)

B/ Exclusion of trading assets and trading liabilities

C/ Inclusion of repo transactions with the Czech Ministry of Finance

D/ Exclusion of net balance of advances to / deposits from counterparties not meeting the new definition of credit institutions of FINREP principles

E/ Amortisation of discounts and premiums of investment securities

3. SEGMENT INFORMATION

The Bank's primary segment reporting is by customer segment.

The Bank has four reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting (controlling) structure. For each of the strategic business units, the Bank's management reviews internal management reports on a quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the separate financial statements. Income tax is allocated to operating segments, but is managed on a Bank basis.

Definitions of customer operating segments:

Retail: Private individuals and entrepreneurs. This segment contains customers' deposits, consumer loans, overdrafts, credit card facilities, mortgages, funds transfer facilities and other transactions and balances with retail customers. Margin income from operations with retail clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

SME / Corporate: Corporate companies with a turnover greater than CZK 300 m and SME companies with a turnover of less than CZK 300 m and financial institutions. This segment contains customers' deposits, loans, overdrafts, credit card facilities, funds transfer facilities and other transactions and balances with corporate and SME customers. Margin income from the operations with corporate and SME clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services. In 2014, the Bank changed its investment policy and process of concluding deals with CNB and Ministry of Finance. The deals are concluded to the banking book and are included in Group Centre segment (Note: 15), while as at 31 December 2013 they were recognized as positions of the segment Financial markets.

Group Centre: The Group Centre segment consists of the results of the reinvestment of free equity of the Bank, dividends from subsidiaries, associates and joint ventures, Asset Liability Management (ALM) and income and expenses not directly attributable to other segments.

In 2014, the Bank‘s segment reporting was modified following the change of the organisational structure of the Bank. Thus, SME customers are managed in the same way as corporate clients. As a result, companies with a turnover of less than CZK 300 m were included into a strategic business unit SME / Corporate in 2014. Comparative balances were restated accordingly.

Segment reporting information by customer segments for 2014

(CZKm)	Retail	SME / Corporate	Financial markets	Group Centre	Total
Statement of income					
Net interest income	7,810	6,727	404	1,838	16,779
Net fee and commission income	3,019	1,938	238	(19)	5,176
Dividend income	-	-	-	4,224	4,224
Net gains / (losses) from financial instruments at fair value through profit or loss	554	1,352	287	(779)	1,414
Net realised gains on available-for-sale financial assets	-	-	-	214	214
Other net income	33	(3)	-	616	646
Operating income	**11,416**	**10,014**	**929**	**6,094**	**28,453**
of which:					
External operating income	*4,416*	*8,518*	*929*	*14,590*	*28,453*
Internal operating income	*7,000*	*1,496*	*-*	*(8,496)*	*-*
Depreciation and amortisation	(37)	(1)	-	(321)	(359)
Other operating expenses	(8,045)	(3,898)	(360)	(641)	(12,944)
Operating expenses	**(8,082)**	**(3,899)**	**(360)**	**(962)**	**(13,303)**
Impairment losses - additions	(503)	(1,232)	-	(100)	(1,835)
Impairment losses - reversals	259	773	-	498	1,530
Profit before tax	**3,090**	**5,656**	**569**	**5,530**	**14,845**
Income tax (expense) / benefit	(588)	(1,074)	(108)	133	(1,637)
Segment profit	**2,502**	**4,582**	**461**	**5,663**	**13,208**
Assets and liabilities					
Segment assets	19,397	214,632	51,659	556,661	842,349
Non-current assets held-for-sale	-	-	-	491	491
Total assets	**19,397**	**214,632**	**51,659**	**557,152**	**842,840**
Total liabilities	**354,881**	**243,629**	**69,379**	**98,337**	**766,226**
Capital expenditures	**123**	**-**	**-**	**145**	**268**

Segment reporting information by customer segments for 2013

(CZKm)	Retail	SME / Corporate	Financial markets	Group Centre	Total
Statement of income					
Net interest income	7,889	6,235	627	1,342	16,093
Net fee and commission income	2,924	1,873	388	(182)	5,003
Dividend income	-	-	-	4,834	4,834
Net gains from financial instruments at fair value through profit or loss	528	1,447	15	431	2,421
Net realised gains on available-for-sale financial assets	-	-	-	352	352
Other net income	132	58	-	613	803
Operating income	**11,473**	**9,613**	**1,030**	**7,390**	**29,506**
of which:					
External operating income	*4,109*	*8,157*	*1,030*	*16,210*	*29,506*
Internal operating income	*7,364*	*1,456*	*-*	*(8,820)*	*-*
Depreciation and amortisation	(76)	-	-	(375)	(451)
Other operating expenses	(7,962)	(3,742)	(326)	(639)	(12,669)
Operating expenses	**(8,038)**	**(3,742)**	**(326)**	**(1,014)**	**(13,120)**
Impairment losses - additions	(543)	(1,240)	-	(140)	(1,923)
Impairment losses - reversals	101	952	-	275	1,328
Profit before tax	**2,993**	**5,583**	**704**	**6,511**	**15,791**
Income tax (expense) / benefit	(550)	(1,060)	(134)	287	(1,457)
Segment profit	**2,443**	**4,523**	**570**	**6,798**	**14,334**
Assets and liabilities					
Segment assets	19,207	195,676	238,850	466,771	920,504
Non-current assets held-for-sale	-	-	-	20	20
Total assets	**19,207**	**195,676**	**238,850**	**466,791**	**920,524**
Total liabilities	**327,797**	**232,343**	**192,331**	**96,620**	**849,091**
Capital expenditures	**86**	**2**	**-**	**184**	**272**

Interest income and interest expense are not presented separately since the Bank assesses the performance of the segments primarily on the basis of the net interest income.

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Bank operates predominantly in the Czech Republic.

4. INTEREST INCOME

(CZKm)	2014	2013
Cash balances with central banks	6	5
Loans and receivables		
Credit institutions	3,327	2,878
Other than credit institutions	7,995	7,779
Available-for-sale financial assets	1,929	2,765
Held-to-maturity investments	5,810	5,671
Financial assets held for trading (Note: 7)	611	783
Financial assets designated at fair value through profit or loss (Note: 7)	193	247
Derivatives used as economic hedges (Note: 7)	164	198
Derivatives used for hedging (Note: 7)	1,004	632
	21,039	**20,958**

5. INTEREST EXPENSE

(CZKm)	2014	2013
Financial liabilities at amortised cost		
Credit institutions	664	726
Other than credit institutions	2,138	2,598
Debt instruments in issue	159	158
Subordinated liabilities	-	76
Discount amortisation on other provisions (Note: 27)	3	3
Financial liabilities held for trading (Note: 7)	203	164
Derivatives used as economic hedges (Note: 7)	261	416
Derivatives used for hedging (Note: 7)	832	724
	4,260	**4,865**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2014	2013
Fee and commission income		
Payment services	5,410	5,216
Administration of credits	1,164	1,114
Collective investments	729	604
Securities	237	196
Custody	160	144
Asset management	52	61
Other	451	462
	8,203	**7,797**
Fee and commission expense		
Payment services	1,497	1,185
Retail service fees	953	1,101
Commissions to agents	47	41
Other	530	467
	3,027	**2,794**
Net fee and commission income	**5,176**	**5,003**

7. NET GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains from financial instruments at fair value through profit or loss, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Bank:

(CZKm)	2014	2013
Net gains from financial instruments at fair value through profit or loss and foreign exchange - as reported	**1,414**	**2,421**
Net interest income (Notes: 4, 5)	676	556
	2,090	**2,977**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	564	399
Foreign exchange	(751)	(5,847)
Commodity contracts	19	14
	(168)	(5,434)
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	(340)	384
Foreign exchange differences	2,598	8,027
Financial instruments at fair value through profit or loss and foreign exchange	**2,090**	**2,977**

8. OTHER NET INCOME

(CZKm)	2014	2013
Operating leasing and rental income	154	152
Services provided to Československá obchodná banka, a.s (ČSOB SK)	86	102
Net gain on disposal of loans and receivables	66	29
Net decrease in provisions for legal issues and other losses	25	-
Net gain on disposal of Held-to-maturity investments	-	10
Net (loss) / gain on disposal of non-current assets held-for-sale	(6)	6
Net (loss) / gain on disposal of financial liabilities at amortised cost	(75)	4
Other	396	500
	646	**803**

9. STAFF EXPENSES

(CZKm)	2014	2013
Wages and salaries	4,189	4,051
Salaries and other short-term benefits of top management	112	91
Social security charges	1,325	1,313
Pension and similar expense	141	131
Additions and reversals of provision for Restructuring programme (Note: 27)	-	(1)
Other	110	126
	5,877	**5,711**

Number of Bank personnel

The number (in full-time equivalents) of Bank personnel was 6,424 at 31 December 2014 (31 December 2013: 6,253).

Management bonus scheme

Included within Salaries and other short-term benefits of top management are salaries and remuneration of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

Only the Chairman of the Supervisory Board is remunerated for his membership of the Supervisory Board.

Following the change in legislation, a new bonus scheme for selective employees was launched in 2011. Half of the bonus is provided in a non-cash instrument Virtual investment certificate (VIC) as an equivalent of the 10-year government bond. Payment of half of the bonus (both cash and non-cash portion) is deferred for up to the next three years following the initial assignment of the benefit.

Retirement benefits

The Bank provides its employees (including top management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries mainly to Transformovaný fond Stabilita ČSOB Penzijní společnosti, a.s., a member of the ČSOB Group or participation funds managed by ČSOB Penzijní společnost, a. s. and by other pension companies approved by the Ministry of Finance of the Czech Republic (MF CZ), with an additional contribution of the Bank of 2% or 3% of their salaries, respectively.

Termination benefits

Employees dismissed by their employer according to the Czech employment law are entitled to termination benefits equal to or less than three times the employees's month's average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (2 times the month's average salary), 15-20 years (2.5 times the month's average salary), 20-25 years (3 times the month's average salary), 25-30 years (4 times the month's average salary), 30-35 years (5 times the month's average salary) and over 35 years (6 times the month's average salary).

In the case of contract terminations, the members of the Board of Directors are entitled to receive an amount of 0 to 12 monthly salaries as termination benefits (according to conditions of individual contracts). In 2014, termination benefits paid represented CZK 13 m. In 2013, no such compensation was paid.

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2014	2013
Rental expenses on information technologies – minimum lease payments	1,841	1,638
Information technologies	1,081	1,079
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	884	821
Rental expenses on land and buildings – minimum lease payments	677	656
Other building expenses	487	509
Marketing	458	515
Professional fees	376	374
Communication	279	325
Retail service fees	185	174
Travel and transportation	141	127
Administration	95	113
Payment cards and electronic banking	88	111
Training	70	68
Car expenses	50	54
Insurance	41	39
Other	314	355
	7,067	**6,958**

11. IMPAIRMENT LOSSES

(CZKm)	2014	2013
Impairment of loans and receivables (Notes: 17, 31)	(544)	(487)
Provisions for loan commitments and guarantees (Notes: 27, 31)	54	18
Impairment of investments in subsidiaries, associates and joint ventures (Notes: 18, 31)	240	(70)
Impairment of property and equipment (Notes: 20, 31)	(8)	(50)
Impairment of non-current assets held-for-sale (Notes: 22, 31)	(45)	(7)
Impairment of other assets (Note: 31)	(2)	1
	(305)	**(595)**

12. TAXATION

The components of income tax expense for the years ended 31 December 2014 and 2013 are as follows:

(CZKm)	2014	2013
Current tax expense	1,498	1,485
Previous year under / (over) accrual of current tax	43	(41)
Deferred tax expense relating to the origination and reversal of temporary differences	96	13
	1,637	**1,457**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2014 and 2013 is as follows:

(CZKm)	2014	2013
Profit before taxation	14,845	15,791
Applicable tax rates	19%	19%
Taxation at applicable tax rates	2,821	3,000
Previous year under / (over) accrual of current tax	43	(41)
Tax effect of non-taxable income	(1,382)	(1,649)
Tax effect of non-deductible expenses	155	147
	1,637	**1,457**

The applicable tax rate for 2014 was 19% (2013: 19%).

Included in non-taxable income are tax-free interest income and dividend income.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19%.

The movement on the deferred income tax account is as follows:

(CZKm)	2014	2013
At 1 January	**(991)**	**(468)**
Statement of income	(96)	(13)
Available-for-sale securities (Note: 29)		
Fair value remeasurement	46	(839)
Transfer to net profit	90	95
Cash-flow hedges (Note: 29)		
Fair value remeasurement	(261)	194
Transfer to net profit (Note: 19)	106	40
At 31 December	**(1,106)**	**(991)**

Deferred tax assets / (liability) are attributable to the following items:

(CZKm)	2014	2013
Deferred tax assets / (liability)		
Employee benefits	284	279
Accelerated tax depreciation	188	255
Allowances for credit losses	86	60
Provisions	84	115
Loans and receivables - bonds reclassified from Available-for-sale securities (Note: 16)	82	86
Legal claim	78	72
Impairment losses on financial investments	26	26
Held-to-maturity investments - bonds reclassified from Available-for-sale securities (Note: 16)	(159)	(208)
Amortisation of goodwill	(406)	(369)
Available-for-sale securities	(632)	(724)
Cash-flow hedges	(751)	(596)
Other temporary differences	14	13
	(1,106)	**(991)**

The deferred tax (charge) / benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2014	2013
Allowances for credit losses	26	5
Legal claim	6	(59)
Employee benefits	5	84
Impairment losses on financial investments	-	(12)
Provisions	(31)	(17)
Amortisation of goodwill	(37)	(31)
Accelerated tax depreciation	(67)	9
Other temporary differences	2	8
	(96)	**(13)**

The Bank's management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank's current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

13. DIVIDENDS PAID

Dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution. The decision of a profit allocation for 2014 has not been taken before the date of issue of the financial statements.

Based on a sole shareholder decision from 28 June 2013, a dividend of CZK 45.50 per share was paid for 2012, representing a total dividend of CZK 13,320 m.

Based on a sole shareholder decision from 14 April 2014, a dividend of CZK 27.70 per share was paid for 2013, representing a total dividend of CZK 8,109 m.

14. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2014	2013
Cash (Note: 31)	9,378	9,934
Mandatory minimum reserves (Note: 38.2)	7,606	8,456
Other balances with central banks (Notes: 31, 38.2)	55,055	2,301
	72,039	**20,691**

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The Bank is obliged to keep the balance of mandatory minimum reserve, however it is allowed to use the reserve for a liquidity management purposes during the month. Given that fact, mandatory minimum reserve is assessed to be a cash equivalent by the Bank.

Other balances with central banks contain overnights loan provided to central banks in the amount of CZK 51,300 m at 31 December 2014 (31 December 2013: CZK Nil).

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2014	2013
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 34)	3,194	139,864
Money market placements	169	19,567
Debt instruments		
General government	24,894	27,886
Credit institutions	7,884	5,969
Corporate	957	384
Derivative contracts (Note: 19)		
Trading derivatives	14,969	11,855
Derivatives used as economic hedges	609	515
	52,676	**206,040**
Financial assets designated at fair value through profit or loss		
Debt instruments		
General government	-	425
Credit institutions	6,677	8,118
	6,677	**8,543**
Financial assets at fair value through profit or loss	**59,353**	**214,583**

Included within Financial assets at fair value through profit or loss are debt securities of CZK 1,121 m (2013: CZK 9,163 m) pledged as collateral in repo transactions.

Included in Financial assets designated at fair value through profit or loss are debt securities recorded at fair value to reduce the accounting mismatch that would otherwise arise from measuring these assets or recognising the gains and losses from them on a different basis.

Since April 2014, the Bank changed its investment policy and process of concluding deals with the CNB and Ministry of Finance. The deals are concluded to the banking book and are classified as Loans and receivables (Note: 17), while as at 31 December 2013 they were recognized as financial assets held for trading (31 December 2013: CZK 150,000 m).

A similar treatment is adopted for repo transactions with the Ministry of Finance, which are being booked as Financial liabilities at amortised cost (Note: 25) (Financial liabilities held for trading as at 31 December 2013 in the volume of CZK 90,927 m).

However, in December 2014, a majority of the transactions, concluded to the banking book according to the revised investment policy, matured.

16. FINANCIAL INVESTMENTS

(CZKm)	2014	2013
Available-for-sale financial assets		
Debt securities		
General government	32,977	29,683
Credit institutions	36,266	37,092
Corporate	242	2,179
Equity securities		
Corporate	443	627
	69,928	**69,581**
Held-to-maturity investments		
Debt securities		
General government	142,442	143,357
Credit institutions	1,938	1,918
Corporate	196	192
	144,576	**145,467**
Financial investments	**214,504**	**215,048**

Included within Financial investments are debt securities of CZK 17,491 m (2013: CZK 31,501 m) pledged as collateral in repo transactions and debt securities of CZK 8,483 m (2013: CZK 5,330 m) pledged as collateral of term deposits and financial guarantees.

In June 2013, a part of the portfolio of debt sovereign bonds was transferred from Available-for-sale financial assets to the portfolio of Held-to-maturity investments in the fair value of CZK 14,513 m, as a result of the change of the Bank's intention to hold the bonds to maturity. Unrealised gains from the bonds in the amount of CZK 1,224 m at the date of the transfer remained a part of the Available-for-sale reserve and will be amortised in interest income over the remaining maturity of the bonds (2012: CZK 1,412 m).

In July and August 2013, a part of the portfolio of mortgage bonds was transferred from the Available-for-sale financial assets to the portfolio of Loans and receivables in the fair value of CZK 62,978 m, as a result of a change of the Bank's intention to hold the bonds to maturity. Unrealised losses from the bonds in the amount of CZK 463 m at the date of the transfer remained a part of the Available-for-sale reserve and will be amortised to the interest income over the remaining maturity of the bonds (2012: CZK 4,943 m).

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that were reclassified from the Available-for-sale financial assets:

	2014		2013	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Held-to-maturity investments	13,913	14,966	14,001	14,675
Loans and receivables	62,389	54,761	62,762	59,232

The following table shows the total fair value gain or loss in Statement comprehensive income that would have been recognised during 2014 if the Bank had not reclassified financial assets from Available-for-sale. This disclosure is provided for information purposes only; it does not reflect what has been recorded in the financial statements:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Net gain / (loss) on Available-for-sale assets (before tax)	380	(4,098)	(3,718)

The following table shows the total fair value gain or loss in Statement comprehensive income that would have been recognised during 2013 after date of reclassification if the Bank had not reclassified financial assets from Available-for-sale. This disclosure is provided for information purposes only; it does not reflect what has been recorded in the financial statements:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Net gain / (loss) on Available-for-sale assets (before tax)	674	(3,530)	(2,856)

The following table shows the net profit or loss recorded on reclassified assets in 2014:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Interest income (before tax)	457	1,054	1,511

The following table shows the net profit or loss recorded on reclassified assets in 2013 after the date of reclassification:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Interest income (before tax)	256	402	658

The following table shows the expected undiscounted cash recoveries, as assessed at the date of reclassification and anticipated average EIR over the remaining life of the assets:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Expected undiscounted cash recoveries, as assessed at the date of reclassification	15,135	86,007	101,142
Anticipated average EIR over the remaining life of the assets	3.5%	2.0%	

The following table shows a reconciliation of the cumulative impairment losses on financial investments for 2013 and 2014:

	Available-for-sale financial assets		Total
(CZKm)	Debt securities	Equity securities	
At 1 January 2013	**-**	**116**	**116**
Utilisation	-	(37)	(37)
At 31 December 2013	**-**	**79**	**79**
Increase	-	-	-
Utilisation	-	-	-
At 31 December 2014	**-**	**79**	**79**

17. LOANS AND RECEIVABLES

(CZKm)	2014	2013
Analysed by category of borrower		
Central banks	27,000	32,000
General government	7,568	7,483
Credit institutions	167,544	168,135
Other legal entities	201,163	178,257
Private individuals	38,940	38,076
Gross loans	442,215	423,951
Allowance for impairment losses	(6,984)	(6,954)
	435,231	**416,997**

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2013 and 2014 by classes of financial instruments and by individual and collective impairment:

(CZKm)	General government	Credit institutions	Other legal entities	Private individuals	Total
At 1 January 2013	**1**	**206**	**5,633**	**1,595**	**7,435**
Net increase in allowances for credit losses (Note: 11)	1	(202)	133	555	487
Write-offs	-	-	(426)	(577)	(1,003)
Foreign currency translation	-	-	33	2	35
At 31 December 2013	**2**	**4**	**5,373**	**1,575**	**6,954**
Net increase in allowances for credit losses (Note: 11)	5	13	258	268	544
Write-offs	-	(4)	(239)	(290)	(533)
Foreign currency translation	-	-	31	(12)	19
At 31 December 2014	**7**	**13**	**5,423**	**1,541**	**6,984**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2013	**7,146**	**289**	**7,435**
Increase in allowances for credit losses (Note: 11)	1,597	110	1,707
Decrease in allowances for credit losses (Note: 11)	(1,139)	(81)	(1,220)
Write-offs	(1,003)	-	(1,003)
Foreign currency translation	35	-	35
At 31 December 2013	**6,636**	**318**	**6,954**
Increase in allowances for credit losses (Note: 11)	1,468	187	1,655
Decrease in allowances for credit losses (Note: 11)	(1,058)	(53)	(1,111)
Write-offs	(533)	-	(533)
Foreign currency translation	19	-	19
At 31 December 2014	**6,532**	**452**	**6,984**

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

		2014		2013	
Name	Abbreviation	(%)	Carrying amount	(%)	Carrying amount
Subsidiaries					
Bankovní informační technologie, s.r.o.	BANIT	100.00	60	100.00	30
Centrum Radlická a.s.	Centrum Radlická	100.00	709	100.00	709
ČSOB Advisory, a.s.	ČSOB Advisory	100.00	1,858	100.00	1,858
ČSOB Factoring, a.s.	ČSOB Factoring	100.00	975	100.00	1,175
ČSOB Leasing, a.s.	ČSOB Leasing	100.00	4,900	100.00	4,100
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	100.00	1,267	100.00	1,318
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	ČSOB Property fund	59.79	272	59.79	281
Hypoteční banka, a.s.	Hypoteční banka	100.00	27,676	100.00	25,130
Radlice Rozvojová, a.s.	Radlice Rozvojová	100.00	271	-	-
Joint venture					
Českomoravská stavební spořitelna, a.s.	ČMSS	55.00	1,540	55.00	1,540
Associate					
ČSOB Asset Management, a.s., investment company	ČSOB AM	40.08	73	40.08	100
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	0.24	9	0.24	9
			39,610		**36,250**

All companies are incorporated in the Czech Republic.

In March 2014, based on the Sole shareholder decision, the Bank increased the share premium of Hypoteční banka by CZK 2,500 m.

Additional payments for the squeeze-out of minority interest in Hypoteční banka in 2014 resulted in an increase of the carrying amount of the interest of CZK 46 m.

In May 2014, the Bank increased its investment in ČSOB Leasing by CZK 800 m through an additional charge apart from the registered capital of the companies.

In June 2014, the Bank increased its investment in BANIT by CZK 30 m through an additional charge apart from the registered capital of the companies.

In June 2014, a redemption of the other capital funds from ČSOB AM in the amount of CZK 27 m was processed.

In May 2014, the Bank decreased its investment in ČSOB PS by CZK 300 m through the redemption of other capital funds of the company.

In June 2014, the Bank decreased its investment in ČSOB Factoring by CZK 200 m through the redemption of the share premium of the company.

In 2014, Bank founded a company, Radlice Rozvojová, and invested capital in the amount of CZK 271m. The entity was established by ČSOB for the construction of a new ČSOB headquarters building and has no other activities.

In July 2013, a redemption of the other capital funds from ČSOB AM in the amount of CZK 27 m was processed.

The Bank is entitled to exercise 50.82% of the voting rights in ČSOB Leasing, since the remaining 49.18% of the voting rights were transferred to the KBC Lease Holding NV.

In November 2012, ČSOB sold 24.76% of its ownership in ČSOB Pojišťovna to KBC Insurance NV. The sale did not affect the significant influence of the Bank over ČSOB Pojišťovna as based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 40% of the voting rights in ČSOB Pojišťovna from now on. Thus, ČSOB Pojišťovna is still assessed to be an associated company of the Bank (Notes: 36).

Based on the Agreement on the exercise of voting rights, the Bank is entitled to a total of 95.67% of the voting rights in ČSOB Property fund.

Based on the company statutes, the Bank controls ČMSS jointly with the owner of the remaining 45%. Therefore, the entity is classified as a joint venture.

Ownership in other companies corresponds with the share of voting rights.

At 31 December 2013, and 2014, the Bank considered the value of interests in certain subsidiaries to be impaired.

In December 2013, the value of interests in ČSOB PS was impaired as a result of a decrease in the projected discounted cash flows. As a result, a provision for an impairment loss of CZK 39 m has been recognised. In 2014, with regard to the equity decrease and discounted projected cash flows the impairment was reversed in the amount of CZK 250 m.

In December 2014 and 2013, the value of interests in ČSOB Property fund was impaired as a result of a decrease in projected discounted cash flows. As a result, a provision for an impairment loss of CZK 10 m and CZK 31 m, respectively, has been recognised.

The Bank's management believes that there is no other indication of impairment in the value of its investments in subsidiaries, associates and joint ventures.

The following table shows a reconciliation of the impairment losses on investment in subsidiaries, associates and joint ventures for 2013 and 2014:

(CZKm)	ČSOB PS	ČSOB Property fund	Total
At 1 January 2013	**569**	**213**	**782**
Increase (Note: 11)	39	31	70
At 31 December 2013	**608**	**244**	**852**
(Decrease) / increase (Note: 11)	(250)	10	(240)
At 31 December 2014	**358**	**254**	**612**

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Bank for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Bank is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Bank bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Bank minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Bank obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Bank's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Bank's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Bank's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2014 and 2013 are set out in the table below.
The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

Trading positions

	2014			2013		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	454,483	11,162	13,733	440,632	7,478	9,607
Forwards	49,500	8	1	52,985	14	3
Options	41,615	136	181	31,922	198	250
	545,598	**11,306**	**13,915**	**525,539**	**7,690**	**9,860**
Foreign exchange contracts						
Swaps / Forwards	133,800	1,543	509	96,759	1,790	527
Cross currency interest rate swaps	57,529	1,641	397	94,657	2,078	2,829
Options	16,864	96	100	13,928	192	197
	208,193	**3,280**	**1,006**	**205,344**	**4,060**	**3,553**
Commodity contracts						
Swaps / Options	6,347	383	374	7,650	105	97
Total trading derivatives (Notes: 15, 24)	**760,138**	**14,969**	**15,295**	**738,533**	**11,855**	**13,510**

Positions of ALM – economic hedges

	2014			2013		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	82,583	367	431	44,643	124	458
Forwards	-	-	-	501	-	-
Foreign exchange contracts						
Cross currency interest rate swaps	9,249	242	117	18,059	391	869
Total derivatives used as economic hedges (Notes: 15, 24)	**91,832**	**609**	**548**	**63,203**	**515**	**1,327**

Hedging derivatives

The Bank's ALM function utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading or ALM activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Bank policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Bank uses these instruments to hedge floating interest income from expected **reverse repo operations** with the Czech National Bank earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Bank and the fixed interest rate the Bank receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

The Bank also uses single currency interest rate swaps

- to hedge the interest rate risk arising from changes in external interest rates on a group of **client term deposits** with contractual maturity varying from one week to six months and on a group of **non-standard client current accounts** (the variability in the interest paid on the client floating rate deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to hedge the interest rate risk arising from changes in external interest rates on a group of **non-retail client current accounts** (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert **floating-rate client loans / floating rate subordinated debt** to fixed rates. In August 2013, the Bank redeemed its subordinated debt and terminated related interest rate swaps used to hedge interest rate risk arising from variability of interest paid on the subordinated debt (Note: 25).

Cross currency interest rate swaps (fix-to-fix or floating-to-fix) are used to hedge currency risk resulting from interest income accrued on **foreign currency investment debt securities**. These fixed and floating interest earning securities are included in Available-for-sale financial assets and in Held-to-maturity investments of the Bank's statement of financial position.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding cash flow hedging derivatives as at 31 December 2014 and 2013 are set out as follows:

	2014			2013		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	112,083	7,963	3,445	139,268	7,042	3,837
Cross currency interest rate swaps	15,340	373	1,283	22,605	1,158	1,171
Total hedging derivatives	**127,423**	**8,336**	**4,728**	**161,873**	**8,200**	**5,008**

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2014	2013
Interest income (Note: 29)	603	246
Net losses from financial instruments at fair value through profit or loss (Note: 29)	(46)	(33)
Taxation (Note: 12)	(106)	(40)
Net gains / (losses)	**451**	**173**

In 2014, a loss of CZK 1 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2013: loss of CZK 20 m).

In 2014 the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in a reclassification of the associated cumulative losses of CZK 45 m from equity to the statement of income (2013: CZK 13 m). The losses were included in Net gains from financial instruments at fair value through profit or loss.

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Bank uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same periods as the remaining maturity of cash flows from hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December 2014 and 2013:

(CZKm)	2014	2013
Less than 3 months	3,190	3,726
More than 3 months but not more than 6 months	3,353	16,667
More than 6 months but not more than 1 year	11,348	23,413
More than 1 year but not more than 2 years	15,542	15,462
More than 2 years but not more than 5 years	52,894	54,876
More than 5 years	41,096	47,729
	127,423	**161,873**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of **foreign currency fixed rate bonds classified as Available-for-sale** attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

Interest rate swaps are used by the Bank to hedge the interest rate risk arising from the movement in the fair value of **bonds classified as Available-for-sale** attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be highly effective hedge.

Fair value hedges for **portfolios of retail non-maturity deposits** have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current and savings accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

Fair value hedges for **portfolios of fixed rate loans** have been used to hedge interest rate risk arising from changes in the fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

Fair value hedges for **portfolios of fixed rate mortgage bonds classified as Available-for-sale** have been used to hedge interest rate risk arising from changes in the fair value of fixed rate bonds to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

Interest rate swaps are used by the Bank to hedge the interest rate risk arising from the movement in the fair value of **bonds classified as Loans and receivables**, i.e. private issues without active secondary market, to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be a highly effective hedge.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding fair value hedging derivatives as at 31 December 2014 and 2013 are set out as follows:

	2014			2013		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	25,951	-	4,651	21,335	212	1,756
Fair value portfolio hedges	187,125	5,631	2,222	158,193	873	2,014
Cross currency interest rate swaps						
Fair value micro hedges	923	-	217	5,935	-	314
Total hedging derivatives	**213,999**	**5,631**	**7,090**	**185,463**	**1,085**	**4,084**

In 2014, the net losses in the amount of CZK 2,507 m (2013: net gains of CZK 874 m) realised on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

Net gains realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 2,363 m (2013: net losses of CZK 1,020 m).

20. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2013	5,514	130	573	1,398	37	7,652
Depreciation and impairment at 1 January 2013	(2,577)	(125)	(419)	(910)	-	(4,031)
Net book value at 1 January 2013	**2,937**	**5**	**154**	**488**	**37**	**3,621**
Transfers	94	3	22	74	(193)	-
Additions	-	-	-	-	248	248
Disposals	(182)	-	(1)	-	-	(183)
Depreciation	(232)	(4)	(31)	(116)	-	(383)
Transfer to non-current assets held-for-sale	(27)	-	-	-	-	(27)
Impairment (Note: 11)	(50)	-	-	-	-	(50)
Net book value at 31 December 2013	**2,540**	**4**	**144**	**446**	**92**	**3,226**
of which						
Cost	5,341	130	576	1,484	92	7,623
Depreciation and impairment	(2,801)	(126)	(432)	(1,038)	-	(4,397)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2014	5,341	130	576	1,484	92	7,623
Depreciation and impairment at 1 January 2014	(2,801)	(126)	(432)	(1,038)	-	(4,397)
Net book value at 1 January 2014	**2,540**	**4**	**144**	**446**	**92**	**3,226**
Transfers	246	-	16	50	(312)	-
Additions	-	-	-	-	231	231
Disposals	(1)	(2)	(7)	(3)	-	(13)
Depreciation	(210)	(2)	(29)	(106)	-	(347)
Transfer to non-current assets held-for-sale	(538)	-	-	-	-	(538)
Impairment (Note: 11)	(8)	-	-	-	-	(8)
Net book value at 31 December 2014	**2,029**	**-**	**124**	**387**	**11**	**2,551**
of which						
Cost	4,549	123	553	1,467	11	6,703
Depreciation and impairment	(2,520)	(123)	(429)	(1,080)	-	(4,152)

The cost of fully depreciated property and equipment still used by the Bank amounted to CZK 1,650 m as at 31 December 2014 (31 December 2013: CZK 1,520 m).

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2013	2,752	3,145	747	1	6,645
Amortisation and impairment at 1 January 2013	(63)	(3,130)	(691)	-	(3,884)
Net book value at 1 January 2013	**2,689**	**15**	**56**	**1**	**2,761**
Transfers	-	2	23	(25)	-
Additions	-	-	-	24	24
Disposals	-	-	(6)	-	(6)
Amortisation	-	(17)	(51)	-	(68)
Net book value at 31 December 2013	**2,689**	**-**	**22**	**-**	**2,711**
of which					
Cost	2,752	3,148	748	-	6,648
Amortisation and impairment	(63)	(3,148)	(726)	-	(3,937)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2014	2,752	3,148	748	-	6,648
Amortisation and impairment at 1 January 2014	(63)	(3,148)	(726)	-	(3,937)
Net book value at 1 January 2014	**2,689**	**-**	**22**	**-**	**2,711**
Transfers	-	10	18	(28)	-
Additions	-	-	-	37	37
Disposals	-	-	(9)	-	(9)
Amortisation	-	(1)	(11)	-	(12)
Net book value at 31 December 2014	**2,689**	**9**	**20**	**9**	**2,727**
of which					
Cost	2,752	2,347	726	9	5,834
Amortisation and impairment	(63)	(2,338)	(706)	-	(3,107)

The cost of fully amortised intangible assets still used by the Bank amounted to CZK 2,876 m as at 31 December 2014 (31 December 2013: CZK 3,649 m).

Goodwill has been allocated to the Retail segment and SME clients, representing a cash-generating unit (CGU). The recoverable amount for the Retail segment and SME clients was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a five further years using the expected average growth rate of 3%; after that a terminal value is applied.

Cash flows in the Retail segment and SME clients are based on the net profit generated by the CGU above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 8.9% in 2014 (2013: 9.0%) and no long term growth rates were used in 2014 and 2013.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Bank has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail segment and SME clients has been used for extrapolation purposes beyond the budget period.

- The risk discount rate. For Retail segment and SME clients a risk discount rate of 8.9% in 2014 (2013: 9.0%) has been applied. This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of the Retail segment and SME clients would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

22. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Land and buildings	Total
Net book value at 1 January 2013	**-**	**-**
Transfer from Property and equipment	27	27
Impairment (Note: 11)	(7)	(7)
Net book value at 31 December 2013	**20**	**20**
of which		
Cost	27	27
Impairment	(7)	(7)

(CZKm)	Land and buildings	Total
Net book value at 1 January 2014	**20**	**20**
Transfer from Property and equipment	538	538
Disposal	(22)	(22)
Impairment (Note: 11)	(45)	(45)
Net book value at 31 December 2014	**491**	**491**
of which		
Cost	538	538
Impairment	(47)	(47)

Movements disclosed in Transfer from Property and equipment represent buildings which were decided to be sold. The buildings were measured at the lower of their carrying amount and fair value less costs to sell. The fair value of the buildings was calculated based on indicative market prices.

The impairment losses resulting from the decreased recoverable amount of the buildings were caused by a decrease of expected future cash-flows less costs to sell.

23. OTHER ASSETS

(CZKm)	2014	2013
Other debtors, net of provisions (Notes: 30, 32, 35, 38.2)	503	455
Prepaid charges	160	195
Accrued income (Notes: 30, 32, 35, 38.2)	158	129
VAT and other tax receivables	7	7
	828	**786**

24. FINANCIAL LIABILITIES HELD FOR TRADING

(CZKm)	2014	2013
Short positions	4,358	5,546
Derivative contracts (Note: 19)		
Trading derivatives	15,295	13,510
Derivatives used as economic hedges	548	1,327
Overnight deposits	22,590	7,184
Term deposits	18,955	57,552
Repo transactions	1,018	102,298
Promissory notes	257	80
Bonds issued	6,800	4,976
Financial liabilities held for trading	**69,821**	**192,473**

The decrease of the balance of the repo transactions in 2014 is related to the revision of the transactions split between the banking and trading book of the Bank (Note: 15).

25. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2014	2013
Deposits received from credit institutions		
Current accounts and overnight deposits	20,931	11,210
Term deposits	32,497	35,122
Repo transactions	16,173	21,025
	69,601	**67,357**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	342,741	304,131
Term deposits	10,970	17,283
Savings deposits	222,484	217,511
Repo transactions	14,141	10,533
Other deposits	7,940	8,088
	598,276	**557,546**
Debt securities in issue		
Bonds issued	1,501	1,793
Promissory notes	4,928	14,597
	6,429	**16,390**
Financial liabilities at amortised cost	**674,306**	**641,293**

In September 2006 and in February 2007, the Bank issued subordinated debt in the nominal amounts of CZK 5,000 m and CZK 7,000 m, respectively to KBC Bank NV. Both subordinated debts were issued with a ten-year maturity. Their coupon rate was set up at PRIBOR + 0.35% (interest period 1M, 3M or 6M at the discretion of the Bank) in the first six year period and PRIBOR + 0.85% (interest period 1M, 3M or 6M at the discretion of the Bank) thereafter. The Bank was allowed to prepay the debt at any time following the first six year period. In September 2012, the Bank prepaid a majority of the first tranche in the amount of CZK 4,000 m. In August 2013, the Bank prepaid the whole remaining balance of the subordinated debt.

26. OTHER LIABILITIES

(CZKm)	2014	2013
Payables to employees including social security charges (Notes: 30, 32, 35, 38.3)	1,674	1,855
Accrued charges (Notes: 30, 32, 35, 38.3)	884	1,200
Other creditors (Notes: 30, 32, 35, 38.3)	368	390
Income received in advance	169	218
VAT and other tax payables	102	116
	3,197	**3,779**

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loan commitments and guarantees (Note: 33)	Total
At 1 January 2014	**316**	**97**	**86**	**324**	**823**
Additions	46	-	3	106	155
Amounts utilised	(4)	(59)	(24)	-	(87)
Unused amounts reversed	(40)	-	(10)	(160)	(210)
Discount amortisation (Note: 5)	-	-	3	-	3
Foreign currency translation	-	-	-	2	2
At 31 December 2014	**318**	**38**	**58**	**272**	**686**

Restructuring

During 2012, the Bank started a restructuring programme to reduce the total number of personnel, resulting in the creation of a provision of CZK 191 m. The Bank expects to use the remaining provision of CZK 38 m to cover the costs related to further reductions in the number of personnel in 2015.

Pending legal issues and other losses

Provisions for legal issues and other losses represent an obligation to cover potential risks resulting from litigation, where the Bank is the defendant.

The Bank is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Bank. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Bank's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Bank creates a provision in the full amount to cover the possible cost in the event of loss.

In 2014, the Bank had a provision for Pending legal issues and other losses in the total amount of CZK 318 m. It is expected that the majority of the costs will be probably incurred in the next 3 years.

On a quarterly basis, the Bank monitors the status of all cases and makes a decision as to whether to create, utilise or reverse any provision.

The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

Contractual engagements

ČSOB assumed a number of leasehold property arrangements from Investiční a Poštovní banka, a.s. (IPB) for which, on a net basis, the unavoidable contractual rental costs exceeded normal market rental conditions existing as at 19 June 2000, the date when IPB was acquired by ČSOB. This provision represents the present value of the future net rental losses that will arise. It is expected that the majority of costs will be incurred over the next 4 years.

In 2014, ČSOB had other provisions for onerous rental contracts in the amount of CZK 6 m. Provisions were created in 2012, 2013 and 2014. It is expected that the costs will be incurred over the next 3 years.

28. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2014, the total authorised share capital was CZK 5,855 m (31 December 2013: CZK 5,855 m) and comprised of 292,750,001 ordinary shares with a nominal value of CZK 20 each (31 December 2013: 292,750,001 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

Based on the resolution of the sole shareholder dated 11 July 2013, ČSOB issued one ordinary share with a nominal value of CZK 20 and with a share premium of CZK 7,999,999,980 (evidenced by an entry in the Register of Companies dated 23 July 2013).

No Treasury shares were held by the Bank at 31 December 2014 and 2013.

On 31 December 2014, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2013: 100%). On the same date, KBC Bank was controlled by the KBC Group and, therefore, KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The following table shows movements of Other reserves in 2014 and 2013:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Total
At 1 January 2013	**435**	**3,538**	**3,973**
Other comprehensive income (Note: 29)	3,172	(999)	2,173
At 31 December 2013	**3,607**	**2,539**	**6,146**
Other comprehensive income (Note: 29)	(580)	662	82
At 31 December 2014	**3,027**	**3,201**	**6,228**

29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2014	2013
Cash flow hedges		
Net unrealised gains / (losses) on cash flow hedges	1,374	(1,020)
Net gains on cash flow hedges reclassified to the statement of income (Note: 19)	(557)	(213)
Tax effect relating to cash flow hedges (Note: 12)	(155)	234
	662	(999)
Available-for-sale financial assets		
Net unrealised (losses) / gains on available-for-sale financial investments	(266)	4,406
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	(214)	(352)
Net realised gains on available-for-sale financial investments amortised to the statement of income on reclassified assets (Note: 16)	(236)	(138)
Tax effect relating to available-for-sale financial investments (Note: 12)	136	(744)
	(580)	3,172
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**82**	**2,173**

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Bank's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (4)).

Financial assets and liabilities at fair value (available-for-sale, held for trading, designated at fair value through profit or loss) are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained using prices of an identical asset or liability, which means that no model is involved in the process of a revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate and foreign exchange contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include unlisted shares, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to determine a fair value that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The Valuation policy is subject to approval of the ČSOB Risk and Capital Oversight Committee and KBC Group Valuation Committee. The process for the approval of any new product consist also of an assessment of the valuation of the product and the eventual new valuation model for the product has to be approved before the product is endorsed or approval of the model is a blocking condition for the product implementation. The New and Active Product Process also requires a regular review of all products and the assessment of valuation quality is an important part of the review. Any valuation model, which uses not directly observable inputs, is subject to the Parameter review policy. The policy requires quarterly assessment of all parameters correctness. The Bank currently checks valuation of all bonds quarterly.

The Bank also monitors the quality of asset valuations on a daily basis. If an asset quote quality does not meet required criteria for Level 1 or level 2 the asset is transferred to Level 3 and vice versa. The monitoring process evaluates among others the frequency of quote updates.

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2014:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	3,363	-	3,363
Debt instruments	11,102	17,073	5,560	33,735
Derivative contracts	-	15,578	-	15,578
Financial assets designated at fair value through profit or loss				
Debt instruments	-	3,299	3,378	6,677
Available-for-sale financial assets				
Debt securities	31,847	34,481	3,157	69,485
Equity securities	-	-	443	443
Fair value adjustments of the hedged items in portfolio hedge	-	1,539	-	1,539
Derivatives used for hedging	-	13,967	-	13,967
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	4,358	-	-	4,358
Derivative contracts	-	15,843	-	15,843
Overnight deposits	-	22,590	-	22,590
Term deposits	-	18,955	-	18,955
Repo transactions	-	1,018	-	1,018
Promissory notes	-	257	-	257
Bonds issued	-	6,800	-	6,800
Fair value adjustments of the hedged items in portfolio hedge	-	5,145	-	5,145
Derivatives used for hedging	-	11,818	-	11,818

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2013:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	159,431	-	159,431
Debt instruments	21,512	6,293	6,434	34,239
Derivative contracts	-	12,370	-	12,370
Financial assets designated at fair value through profit or loss				
Debt instruments	862	2,924	4,757	8,543
Available-for-sale financial assets				
Debt securities	29,974	31,857	7,123	68,954
Equity securities	-	-	627	627
Fair value adjustments of the hedged items in portfolio hedge	-	927	-	927
Derivatives used for hedging	-	9,285	-	9,285
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	5,546	-	-	5,546
Derivative contracts	-	14,837	-	14,837
Overnight deposits	-	7,184	-	7,184
Term deposits	-	57,552	-	57,552
Repo transactions	-	102,298	-	102,298
Promissory notes	-	80	-	80
Bonds issued	-	4,976	-	4,976
Fair value adjustments of the hedged items in portfolio hedge	-	(57)	-	(57)
Derivatives used for hedging	-	9,092	-	9,092

Yield curves used in the mortgage bonds valuation model for discounting future cash flows curves are constructed from IRS rates and respective credit spreads. The credit spreads are derived from available market quotes of mortgage bonds, governments bonds and IRS rates.

The spreads for the first five years of maturity are exclusively derived from market observable quotes of mortgage bonds. Therefore mortgage bonds with a maturity of up to five years are included in level 2. The spread for the rest of the curve is derived from observed mortgage bond spread at 5 and 10 years and the slope of the Czech government yield curve. The management considers this a significant market unobservable input, and as a consequence, the mortgage bonds with a maturity of longer than 5 years were transferred to Level 3.

The mortgage bond valuation model was regularly reviewed for its parameters in November 2014. The credit spreads used in the model were updated according observed mortgage bond quotes on the market and for the slope of Czech government bond curve. The model was tested also against observed market transactions. This test led to a modification of the approach to tax allowance on interest revenues of mortgage bonds issued up to 2007. The previous assumption that the market distinguish between bonds with tax allowance and bonds without the tax allowance was not confirmed. As a consequence, tax allowance factor was excluded from the model. All mortgage bonds are now treated equally and tax allowance is disregarded.

As a result of the credit spreads update, the Bank has recorded unrealised losses of CZK 542 m into the Net gains from financial instruments at fair value through profit or loss and CZK 734 m into the Available-for-sale reserve.

The spread according to bond maturity was 65 bps (6-year) to 111 bps (above 25-year) in 2013 and 50 bps (6-year) to 145 bps (above 30-year) in 2014.

All transfers of financial instruments among the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Movements in Level 3 financial instruments measured at fair value

The following table shows the reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets		Total
(CZKm)	Debt securities	Debt securities	Debt securities	Equity securities	
At 1 January 2013	**6,826**	**4,514**	**65,083**	**365**	**76,788**
Total gains / (losses) recorded in profit or loss	344	284	238	70	936
Total gains / (losses) recorded in other comprehensive income	-	-	4,055	80	4,135
Transfers into level 3	210	-	-	-	210
Transfers out of level 3	(392)	-	-	-	(392)
Transfers from Available-for-sale to Loans and receivables	-	-	(62,978)	-	(62,978)
Purchases	4,878	-	1,254	186	6,318
Settlement	(597)	-	-	-	(597)
Sales	(4,835)	(41)	(529)	(74)	(5,479)
At 31 December 2013	**6,434**	**4,757**	**7,123**	**627**	**18,941**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	286	284	-	-	**570**
At 1 January 2014	**6,434**	**4,757**	**7,123**	**627**	**18,941**
Total gains / (losses) recorded in profit or loss	618	(417)	94	-	295
Total gains / (losses) recorded in other comprehensive income	-	-	173	2	175
Transfers out of level 3	(938)	(545)	(3,689)	-	(5,172)
Transfers from Available-for-sale to Investments in subsidiaries	-	-	-	(186)	(186)
Purchases	1,183	13	1,666	-	2,862
Settlement	(447)	(430)	(804)	-	(1,681)
Sales	(1,290)	-	(1,406)	-	(2,696)
At 31 December 2014	**5,560**	**3,378**	**3,157**	**443**	**12,538**
Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period	617	(414)	-	-	**203**

Total gains or (losses) recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss, Net realised gains / (losses) on available-for-sale financial assets and Impairment losses of the statement of income.

In 2014, the valuation of financial instruments in the amount of CZK 5,172 m was calculated based on valuation techniques using market observable inputs whereas valuation techniques based on unobservable inputs were used for the valuation in 2013. Accordingly, those financial instruments were transferred from level 3 to level 2 in 2014.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

Management considers the value of credit spread included in the discount factor applied on estimated future cash flows from the mortgage bonds in periods after the fifth year from the balance sheet date as a key assumption not derived from observable market inputs, which is influencing the fair value of Level 3 financial instruments.

As at 31 December 2014, an increase / (decrease) of a credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds included in level 3 by CZK 67 m (2013: CZK 141 m). Such a change of the credit spread is based on the variability of mortgage bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other non-observable market inputs in the valuation models used would not have a material impact on the estimated fair values.

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

The following table shows transfers between a group of financial instruments with a market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs:

	Transfers from Level 1 to Level 2		Transfers from Level 2 to Level 1	
(CZKm)	2014	2013	2014	2013
Financial assets				
Financial assets held for trading				
Debt instruments	261	-	-	-
Financial assets designated at fair value through profit or loss				
Debt instruments	-	-	-	-
Available-for-sale financial assets				
Debt securities	758	-	-	-

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements:

	2014		2013	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	72,039	72,039	20,691	20,691
Loans and receivables	435,231	435,625	416,997	419,480
Held-to-maturity investments	144,576	168,882	145,467	161,439
Other assets (Note: 23)	661	661	584	584
Financial liabilities				
Financial liabilities at amortised cost	674.306	679,827	641,293	645,137
Other liabilities (Note: 26)	2,926	2,926	3,445	3,445

The following table shows an analysis of financial instruments for which fair value are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2014:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash and balances with central banks	-	72,039	-	72,039
Loans and receivables	-	75,848	359,777	435,625
Held-to-maturity investments	166,755	513	1,614	168,882
Other assets (Note: 23)	-	661	-	661
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	654,923	24,904	679,827
Other liabilities (Note: 26)	-	2,926	-	2,926

The following table shows an analysis of financial instruments for which fair value are disclosed, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 31 December 2013:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash and balances with central banks	-	20,691	-	20,691
Loans and receivables	-	48,610	370,870	419,480
Held-to-maturity investments	159,430	523	1,486	161,439
Other assets (Note: 23)	-	584	-	584
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	612,729	32,408	645,137
Other liabilities (Note: 26)	-	3,445	-	3,445

The following methods and assumptions were applied in estimating the fair values of the Bank's financial assets and liabilities:

Held-to-maturity investments

Fair values for held-to-maturity securities are based on quoted market prices, where available. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments or using the valuation model using discounted future cash flows.

Loans and receivables to credit institutions and balances with central banks

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates, including the respective credit spread derived from the Bank's own experience of probability of default and loss given default. A majority of the loans reprice within relatively short time periods, therefore, it is assumed that their carrying values approximate their fair values.

Loans and receivables to other than credit institutions

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates including the respective credit spread derived from the Bank's own experience of probability of default and loss given default. Fair value incorporates expected future losses, while amortised cost and related impairment include only incurred losses at the end of the accounting period.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spread.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spreads.

Debt securities in issue

Bonds issued are publicly traded and their fair values are based on quoted market prices. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

31. ADDITIONAL CASH FLOW INFORMATION

Analysis of the balances of cash and cash equivalents as shown in the statement of financial position

(CZKm)	2014	2013
Cash and balances with central banks	72,039	20,691
Loans and advances to credit institutions and central banks	33,792	37,665
Financial liabilities at amortised cost to credit institutions and central banks	(37,183)	(32,612)
Financial liabilities at amortised cost - repo transactions with general government bodies	(14,141)	(10,533)
Cash and cash equivalents	**54,507**	**15,211**

Change in operating assets

(CZKm)	2014	2013
Net change in financial assets held for trading	153,364	(42,821)
Net change in financial assets designated at fair value through profit or loss	1,866	(176)
Net change in available-for-sale financial assets	(1,014)	(2,899)
Net change in loans and receivables	(23,023)	(25,575)
Net change in derivatives used for hedging	(3,865)	3,935
Net change in other assets	(44)	(55)
	127,824	**(67,591)**

Change in operating liabilities

(CZKm)	2014	2013
Net change in financial liabilities held for trading	(122,652)	56,603
Net change in financial liabilities at amortised cost	24,834	16,165
Net change in derivatives used for hedging	2,726	440
Net change in other liabilities	(582)	63
	(95,674)	**73,271**

Non-cash items included in profit before tax

(CZKm)	2014	2013
Net change in fair value adjustments of the hedged items in portfolio hedge	4,590	(1,695)
Amortisation of discounts and premiums in investment securities	1,162	1.015
Allowances and provisions for credit losses (Note: 11)	490	469
Depreciation and amortisation	359	451
Impairment of non-current assets held-for-sale (Note: 11)	45	7
Impairment on property and equipment (Note: 11)	8	50
Impairment on other assets (Note: 11)	2	(1)
Provisions	(85)	(89)
Impairment on investment securities (Note: 11)	(240)	70
Foreign exchange differences in held-to-maturity investments	(322)	(2,068)
Other	45	100
	6,054	**(1,691)**

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2014:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash and balances with Central banks (Note: 14)	62,661	-	-	-	62,661
Financial assets held for trading					
Financial derivatives	5,118	7,288	3,172	-	15,578
Other than financial derivatives	16,163	15,709	5,226	-	37,098
Financial assets designated at fair value through profit or loss	3,331	-	3,346	-	6,677
Available-for-sale financial assets	6,086	37,931	25,468	443	69,928
Loans and receivables	164,285	160,861	110,085	-	435,231
Fair value adjustments of the hedged items in portfolio hedge	508	1,031	-	-	1,539
Held-to-maturity investments	15,968	63,846	64,762	-	144,576
Derivatives used for hedging	2,585	7,790	3,592	-	13,967
Other assets (Note: 23)	661	-	-	-	661
Total carrying value	**277,366**	**294,456**	**215,651**	**443**	**787,916**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	4,390	7,991	3,462	-	15,843
Other than financial derivatives	50,715	1,606	1,657	-	53,978
Financial liabilities at amortised cost	152,257	243,347	278,702	-	674,306
Fair value adjustments of the hedged items in portfolio hedge	682	2,387	2,076	-	5,145
Derivatives used for hedging	2,683	6,303	2,832	-	11,818
Other liabilities (Note: 26)	2,926	-	-	-	2,926
Total carrying value	**213,653**	**261,634**	**288,729**	**-**	**764,016**

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2013:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash and balances with Central banks (Note: 14)	10,757	-	-	-	10,757
Financial assets held for trading					
Financial derivatives	5,614	5,419	1,337	-	12,370
Other than financial derivatives	171,780	16,874	5,016	-	193,670
Financial assets designated at fair value through profit or loss	1,248	3,502	3,793	-	8,543
Available-for-sale financial assets	8,573	39,390	20,991	627	69,581
Loans and receivables	167,739	138,999	110,259	-	416,997
Fair value adjustments of the hedged items in portfolio hedge	361	566	-	-	927
Held-to-maturity investments	7,468	51,714	86,285	-	145,467
Derivatives used for hedging	2,672	4,981	1,632	-	9,285
Other assets (Note: 23)	584	-	-	-	584
Total carrying value	**376,796**	**261,445**	**229,313**	**627**	**868,181**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	7,278	5,947	1,612	-	14,837
Other than financial derivatives	175,447	1,567	622	-	177,636
Financial liabilities at amortised cost	160,660	227,761	252,602	-	641,023
Fair value adjustments of the hedged items in portfolio hedge	13	20	(90)	-	(57)
Derivatives used for hedging	2,833	4,499	1,760	-	9,092
Other liabilities (Note: 26)	3,715	-	-	-	3,715
Total carrying value	**349,946**	**239,794**	**256,506**	-	**846,246**

33. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Bank recovered a written-off loan amounting to CZK 485 m in 2007. Due to uncertainty regarding the continuing court proceedings, following the appeal by the counterparty against the ruling, the Bank will not recognise this amount in the statement of income until the final court ruling regarding the Bank's claim is known. In 2011, the original court ruling was cancelled and the legal case was passed to the court in the first instance for new judicial proceedings. Based on that decision, the Bank returned the expenses compensation of CZK 3 m from the total received amount from the original court case to the counterparty. Judicial proceeding is continuing at the appeal court.

In 2013, the Bank successfully completed another case. Based on the final court decision, the Bank recognised a recovery (received already in 2010) relating to a partially impaired loan in the amount of CZK 695 m as follows. An unimpaired part of the loan in the amount of CZK 319 m was redeemed and derecognised from the statement of the financial position. In the statement of income, penalty interest in the amount of CZK 178 m was recognised in Other net income, allowances in the amount of CZK 197 m were reversed in Impairment losses from loans and receivables and court expenses compensation income in the amount of CZK 1 m was recognised in General administrative expenses.

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2014 and 2013 are as follows:

(CZKm)	2014	2013
Loan commitments - irrevocable (Note: 38.2)	78,055	78,376
Loan commitments - revocable	38,028	39,321
Financial guarantees (Note: 38.2)	27,164	28,049
Other commitments (Note: 38.2)	2,022	2,417
	145,269	**148,163**
Provisions for loan commitments and guarantees (Notes: 27, 38.2)	272	324

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements (Note: 38.3).

Litigation

Other than the litigations, for which provisions have already been made (Note: 27), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

The Bank is subject to a number of claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. The Bank believes that such claims are unfounded. In addition, potential risk arising from such claims is covered by guarantee agreements issued by the institutions of the Czech state.

Further, the Bank has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease commitments (Bank is the lessee)

Future minimum lease payments under operating leases related to information technologies, land and buildings are as follows:

(CZKm)	2014	2013
Not later than 1 year	1,773	1,715
Later than 1 year and not later than 5 years	1,319	1,746
Later than 5 years	179	176
	3,271	**3,637**

Future minimum sublease payments amounted to CZK 85 m as at 31 December 2014 (31 December 2013: CZK 79 m).

Operating lease commitments related to information technologies to KBC Group are included in 'Not later than 1 year' in the amount of CZK 1,007 m (2013: CZK 949 m). They represent expected half-year lease payments according to the committed notice period.

The operating leases related to land and buildings can be technically cancelled under the Czech law; however, the Bank is commercially bound to continue with these leases for the periods set out above.

Operating lease receivables (Bank is the lessor)

Future minimum lease payments (including sublease payments) under operating leases related to land and buildings are as follows:

(CZKm)	2014	2013
Not later than 1 year	47	43
Later than 1 year and not later than 5 years	89	127
	136	**170**

These operating leases can be technically cancelled under Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

34. REPURCHASE AGREEMENTS AND COLLATERAL

The following table shows an analysis of the loans the Bank has made to counterparties in reverse repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2014	2013
Financial assets		
Financial assets held for trading	3,194	139,864
Loans and receivables	27,000	32,000
	30,194	**171,864**

Under reverse repurchase agreements, the Bank obtains legal ownership of the respective collateral received and, thus, is permitted to use the collateral; however, the same collateral must be delivered back to the borrower of the funds on maturity.

The fair value of financial assets accepted as collateral in connection with reverse repo transactions as at 31 December 2014 was CZK 38,240 m, of which CZK 19,131 m has been either sold or repledged (31 December 2013: CZK 176,338 m and CZK 100,588 m, respectively).

The following table shows an analysis of the loans the Bank has received from counterparties in repurchase agreements according to the lines of the statement of financial position in which they are included:

(CZKm)	2014	2013
Financial liabilities		
Financial liabilities held for trading	1,018	102,298
Financial liabilities at amortised cost	30,314	31,558
	31,332	**133,856**

Amounts of financial assets pledged as collateral in repo transactions are described in Financial assets at fair value through profit or loss (Note: 15) and Financial investments (Note: 16).

The decrease of the balance of the repo transactions included in financial assets and liabilities held for trading in 2014 is related to the revision of the transactions split between banking and trading book of the Bank and subsequent maturity of a majority of these transactions (Note: 15).

35. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows an analysis of the financial assets and liabilities of the Bank that have been set-off or that are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2014:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set off	Net amounts of financial instrument presented in the balance sheet
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	22,105	-	22,105
Derivatives not set-off that are not subject to an enforceable master netting arrangement	7,440	-	7,440
Total trading and hedging derivatives	**29,545**	**-**	**29,545**
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	30,194	-	30,194
Total repurchase agreements (Note: 34)	**30,194**	**-**	**30,194**
Other financial assets set-off in the balance sheet	221	221	-
Other financial assets not set-off that are not subject to an enforceable master netting arrangement	661	-	661
Total other financial assets (Note: 23)	**882**	**221**	**661**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	24,976	-	24,976
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,685	-	2,685
Total trading and hedging derivatives	**27,661**	**-**	**27,661**
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	11,169	-	11,169
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	20,163	-	20,163
Total repurchase agreements (Note: 34)	**31,332**	**-**	**31,332**
Other financial liabilities set-off in the balance sheet	221	221	-
Other financial liabilities not set-off that are not subject to an enforceable master netting arrangement	2,926	-	2,926
Total other financial liabilities (Note: 26)	**3,147**	**221**	**2,926**

The following table shows an analysis of the financial assets and liabilities of the Bank that have been set-off or that are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2013:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set off	Net amounts of financial instrument presented in the balance sheet
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	14,880	-	14,880
Derivatives not set-off that are not subject to an enforceable master netting arrangement	6,775	-	6,775
Total trading and hedging derivatives	**21,655**	**-**	**21,655**
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	171,864	-	171,864
Total repurchase agreements (Note: 34)	**171,864**	**-**	**171,864**
Other financial assets set-off in the balance sheet	263	263	-
Other financial assets not set-off that are not subject to an enforceable master netting arrangement	584	-	584
Total other financial assets (Note: 23)	**847**	**263**	**584**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,656	-	18,656
Derivatives not set-off that are not subject to an enforceable master netting arrangement	5,273	-	5,273
Total trading and hedging derivatives	**23,929**	**-**	**23,929**
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	13,099	-	13,099
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	120,757	-	120,757
Total repurchase agreements (Note: 34)	**133,856**	**-**	**133,856**
Other financial liabilities set-off in the balance sheet	263	263	-
Other financial liabilities not set-off that are not subject to an enforceable master netting arrangement	3,445	-	3,445
Total other financial liabilities (Note: 26)	**3,708**	**263**	**3,445**

The following table shows an analysis of the financial assets and liabilities of the Bank that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2014:

(CZKm)	Net amounts of financial assets presented in the balance sheet	Amounts not set off in the balance sheet Financial instruments	Cash collateral	Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	22,105	20,287	1,398	-	420
Total carrying value	**22,105**	**20,287**	**1,398**	**-**	**420**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	24,976	20,287	4,493	-	196
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	11,169	-	-	11,169	-
Total carrying value	**36,145**	**20,287**	**4,493**	**11,169**	**196**

The following table shows an analysis of the financial assets and liabilities of the Bank that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2013:

(CZKm)	Net amounts of financial assets presented in the balance sheet	Amounts not set off in the balance sheet Financial instruments	Cash collateral	Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	14,880	13,585	829	-	466
Total carrying value	**14,880**	**13,585**	**829**	**-**	**466**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,656	13,585	4,919	-	152
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	13,099	-	-	13,099	-
Total carrying value	**31,755**	**13,585**	**4,919**	**13,099**	**152**

The amounts in both tables are subject to master netting agreement in accordance with International Swaps and Derivatives Association (ISDA), however with no intention to settle them on a net basis.

36. RELATED PARTY DISCLOSURES

A number of transactions is executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2014 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held- to-maturity investments	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-	-
KBC Bank NV	2,909	-	-	1,906	-	8,523	1
Entities under common control							
ČSOB SK	681	-	-	312	-	3	-
KBC Internationale Financieringsmij NV	287	-	-	2,312	-	-	-
Patria Finance, a.s. (in 2014 merged with Patria Direct, a.s.)	47	-	-	-	-	-	-
Other	124	-	-	152	-	-	-
Subsidiaries							
BANIT	-	-	-	51	-	-	1
Centrum Radlická	-	-	-	1,815	-	-	-
ČSOB Factoring	-	-	-	2,697	-	-	-
ČSOB Leasing	89	-	-	21,153	-	-	-
ČSOB Property fund	28	-	-	-	-	-	-
Hypoteční banka	1,933	3,379	15,916	145,062	502	-	-
Radlice Rozvojová	-	-	-	-	-	-	3
Associates							
ČSOB AM	-	-	-	198	-	-	-
ČSOB Pojišťovna	331	-	-	-	-	-	11
Joint ventures							
ČMSS	-	-	-	1,769	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2014 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	70	-	60
KBC Bank NV	42,667	13,597	9,191	-
Entities under common control				
ČSOB SK	1	202	-	-
KBC Group (in 2013 merged with KBC Global Services NV)	-	7	-	97
Patria Finance, a.s. (in 2014 merged with Patria Direct, a.s.)	1	2,000	-	-
Other	6	339	-	2
Subsidiaries				
BANIT	-	-	-	14
Centrum Radlická	-	8	-	-
ČSOB Advisory	-	28	-	-
ČSOB Leasing	-	89	-	-
ČSOB Property fund	-	181	-	-
Hypoteční banka	17	10,536	-	-
Radlice Rozvojová	-	42	-	-
Associates				
ČSOB AM	-	645	-	-
ČSOB Pojišťovna	95	1,412	-	-
Joint ventures				
ČMSS	-	19,906	-	-

The outstanding balances of assets from related party transactions as at 31 December 2013 are as follows:

(CZKm)	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Held- to-maturity investments	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-	-
KBC Bank NV	3,012	-	-	3,078	-	3,901	-
Entities under common control							
ČSOB SK	439	-	-	146	-	116	-
KBC Internationale Financieringsmij NV	310	-	-	6,333	-	-	-
Patria Direct, a.s.	1	-	-	-	-	-	-
Patria Finance, a.s.	34	-	-	-	-	-	-
Other	73	-	-	204	-	-	28
Subsidiaries							
BANIT	-	-	-	63	-	-	-
Centrum Radlická	-	-	-	1,894	-	-	-
ČSOB Factoring	-	-	-	2,635	-	-	-
ČSOB Leasing	89	-	-	17,950	-	-	-
ČSOB Property fund	68	-	-	-	-	-	-
Hypoteční banka	834	3,793	16,333	142,351	502	-	-
Transformed fund	321	-	-	-	-	-	-
Associates							
ČSOB AM	-	-	-	-	-	-	146
ČSOB Pojišťovna	-	-	-	-	-	279	-
Joint ventures							
ČMSS	-	-	-	1,888	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2013 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	74	-	49
KBC Bank NV	48,246	13,358	5,508	2
Entities under common control				
ČSOB SK	13	49	-	-
KBC Global Services NV	-	3	-	263
Patria Direct, a.s.	13	2,999	-	-
Patria Finance, a.s.	-	819	-	-
Other	13	196	-	-
Subsidiaries				
Centrum Radlická	-	8	-	-
ČSOB Advisory	-	2,053	-	-
ČSOB Leasing	2	52	-	-
ČSOB PF Stabilita	-	2	-	-
ČSOB Property fund	13	88	-	-
Hypoteční banka	5,120	12,411	-	-
Associates				
ČSOB AM	-	592	-	-
ČSOB Pojišťovna	74	2,173	-	-
Joint ventures				
ČMSS	-	22,142	-	-

The outstanding balances of assets and liabilities with KBC Bank NV and the entities under common control principally comprise the fair value of derivative financial instruments, debt instruments and repo transactions.

The Bank provides banking services to its subsidiaries, associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services. In addition, the Bank acquired interest bearing debt instruments issued by its subsidiaries.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

	2014		2013	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Top management	-	-	-	-
KBC Bank NV	882	1,072	851	1,301
Entities under common control				
ČSOB SK	5	-	2	-
KBC Internationale Financieringsmij NV	71	-	118	-
Patria Direct, a.s	-	-	-	4
Patria Finance, a.s. (in 2014 merged with Patria Direct, a.s.)	1	3	-	2
Other	5	-	4	-
Subsidiaries				
BANIT	1	-	-	-
Centrum Radlická	58	-	61	-
ČSOB Factoring	20	-	19	-
ČSOB Advisory	-	3	-	10
ČSOB Leasing	328	-	350	-
ČSOB Property fund	7	3	11	9
Hypoteční banka	3,085	586	3,368	662
Associates				
ČSOB AM	-	-	-	1
ČSOB Pojišťovna	-	21	-	19
Joint ventures				
ČMSS	56	245	58	273

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

(CZKm)	2014 Fee and commission income	2014 Fee and commission expense	2013 Fee and commission income	2013 Fee and commission expense
KBC Bank NV	44	10	57	7
Entities under common control				
KBC Global Services NV	-	-	-	20
KBC Group (in 2013 merged with KBC Global Services NV)	-	50	-	16
KBC Securities NV	11	-	11	-
Patria Direct, a.s	-	-	1	-
Other	-	1	-	-
Subsidiaries				
BANIT	-	139	-	114
ČSOB Factoring	2	-	-	-
ČSOB Penzijní společnost	13	-	-	-
Hypoteční banka	158	20	160	-
Associates				
ČSOB AM	380	-	292	-
ČSOB Pojišťovna	138	1	117	-
Joint ventures				
ČMSS	-	3	5	10

Dividend income received from subsidiaries, associates and joint ventures in 2014 amounted to CZK 4,218 m (2013: CZK 4,828 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2014 amounted to CZK 187 m (2013: CZK 185 m).

In accordance with the Group strategy, the Bank has been purchasing information and communication services from the related party KBC Global Services NV, since 2009. In 2013, KBC Global Services NV merged with KBC Group. KBC Group being the successor company.

Effective from 1 July 2009, the Bank concluded an office space rental agreement and a service level agreement on the provision of administration services, such as human resources and accounting services, with KBC Group (formerly KBC Global Services NV). In 2014, the Bank received income of CZK 76 m (2013: CZK 75 m) from the rental payments and related services, received CZK 45 m (2013: CZK 41 m) from the provision of administration services, received CZK 230 m from sale of intangible assets and paid expense of CZK 2,878 m (2013: CZK 2,645 m) for IT services, including rental expenses on information technologies.

In 2014, the Bank received income of CZK 86 m (2013: CZK 102 m) from ČSOB SK arising from providing services and support in the following areas such as: electronic banking, cards, payment processing, financial management and risk management.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

	2014		2013	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank NV	5,898	217	7,269	213
Entities under common control				
Kereskedelmi és Hitelbank Rt.	277	23	-	23
ČSOB SK	1,593	204	-	210

The outstanding balances of guarantees received from KBC Bank NV and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

37. EVENTS AFTER THE END OF THE REPORTING PERIOD

Acquisition of Patria Group

On 19 December 2014, a share purchase agreement was concluded between ČSOB and KBC Securities NV on the purchase of 100% shares and 100% voting rights of Patria Online, a.s. (member of KBC Group). The acquisition of Patria Online, a.s., which has a full control over Patria Finance, a.s. and Patria Corporate Finance, a.s. (hereinafter referred to as Patria Subgroup), enables the Bank to offer a private investment services and services of mergers and acquisitions advisory to the clients of the Bank. The acquisition cost was CZK 1,180 m and was based on an independent expert appraisal. Control over Patria Online, a.s. was transferred to the Bank on 1 January 2015.

There were no other significant events after the end of the reporting period.

38. RISK MANAGEMENT

38.1 Introduction

Risk is an inherent part of ČSOB's activities, and risk and capital management is critical to the results of operations and financial condition of ČSOB.

The principal risks that ČSOB faces are credit risk, liquidity risk, operational and other non-financial risks, market risk, subdivided into trading (trading portfolio) and non-trading (credit and investment portfolio) risks. ČSOB manages risk and capital through a system of ongoing identification, measurement and monitoring, subject to risk and capital limits and other controls. ČSOB primarily allocates capital to each subsidiary and business unit with the aim of achieving an acceptable balance between risk and return. The Bank's risk and capital management system is based on a risk strategy determined by the ČSOB Board of Directors and is intended to be consistent with the KBC Group's risk and business strategy, with a primary focus on the early identification and management of risks and trends. ČSOB maintains and develops its risk and capital management system to meet its ongoing internal risk and capital management needs and to comply with all legal and other regulatory (capital) requirements, including Basel III, and the regulations of the CNB and other relevant bodies.

Risk and Capital Management Organization

Main Principles of Risk and Capital Management Organization

The Bank's risk and capital management organization is based on the principle of segregating risk origination and acceptance from risk monitoring and control. The risk and capital management and control functions are designed to be exercised independently of the front office functions. Nevertheless, the front office is engaged in risk and capital management and control functions and is responsible in the first instance for risk control in all risk and capital management areas. The aim of risk and capital management at ČSOB is to closely cooperate with the business in achieving an acceptable balance between return and risk, as opposed to focusing solely on minimising risks.

The risk and capital management governance model that was implemented within the ČSOB in 2011 is based on the following general principles:

- the business, including both sales and credit departments, should be responsible in the first instance for risk and capital management, and must systematically take into account risk and capital management considerations into all its decisions;
- risk and capital management, and risk reporting, should be performed consistently within the entire KBC Group, including ČSOB, and management incentives should be linked to risk and capital adjusted measures, and aligned consistently within the entire KBC Group;
- the risk and capital management governance structure should be an independent and vertically integrated structure aimed at ensuring that risk and capital management considerations are properly reflected in the business decisions within ČSOB;
- risk and capital management should closely cooperate with the business with the aim of achieving an acceptable balance between return and risk, as opposed to focusing only on minimising risks;
- the Board of Directors should determine the risk appetite of ČSOB within which the business has the right to take risks and beyond which the CRO can intervene; and
- the risk reporting processes should be uniform and insightful to allow for the adoption of risk and capital management decisions at both strategic and implementation levels.

The described above principles establish a governance structure, within which

(i) the Board of Directors is responsible for determining the risk appetite of ČSOB, and capital allocation within ČSOB, by establishing measurable risk and capital parameters, which must be followed in all business activities;

(ii) the Risk and Capital Oversight Committee (RCOC) is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

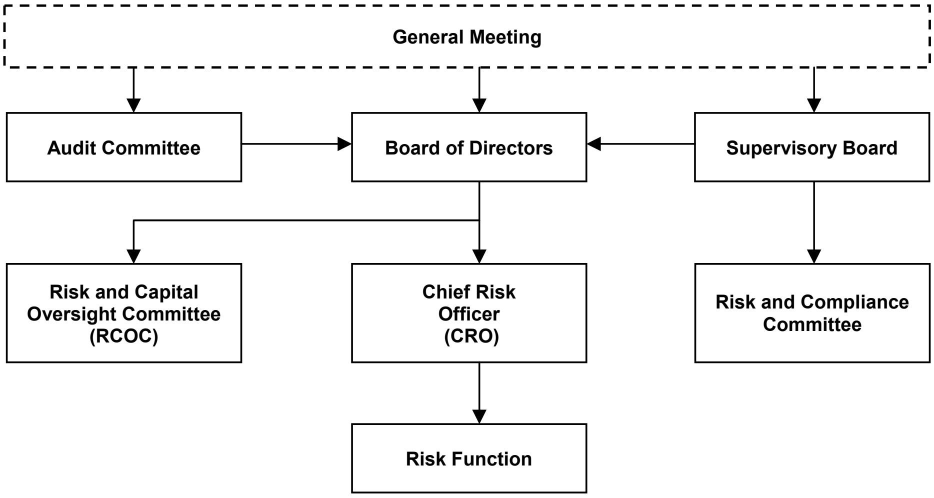
(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place; and

(iv) the business is responsible for taking risks within the risk and capital allocation.

Risk and Capital Management Governance

Risk and capital governance in the Bank is fully embedded in the governance of the KBC Group. During the year of 2014, a few changes were put in place to take account of changes in the organisational structure of ČSOB. Most importantly, the Risk and Compliance Committee was the established as a sub-committee of the Supervisory Board with specific focus on risk management and compliance matters.

The chart below depicts an overview of the principal bodies of the risk and capital governance model in the Bank.



The Bank operates a three-line of defense risk management model whereby front office functions, risk management oversight and assurance roles are played by functions independent of one another. The model is characterised primarily by:

- the Board of Directors, assisted by the Audit Committee, Supervisory Board and its Committees,
- the Risk and Capital Oversight Committee,
- an independent Chief Risk Officer, supported by the independent Risk Function, and
- risk-aware business people, who act as the first line of defence ensuring that a risk control environment is established as part of day-to-day operations.

Supervisory Board

In its main role, the Supervisory Board oversees whether the governance of the Bank is efficient, comprehensive and adequate, and regularly evaluates the findings obtained from this activity. Its oversight role consists in providing constructive challenge when developing the strategy of the Bank; monitoring of the performance of the management function and the realisation of agreed goals and objectives, business and risk strategies; and ensuring the integrity of the financial information, effective risk management and internal controls (including proper segregation of duties within the Bank).

The Supervisory Board regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

Risk and Compliance Committee

The Supervisory Board established the Risk and Compliance Committee which is mainly responsible for advising the Supervisory Board on the Bank's overall current and future risk appetite and strategy, and for overseeing the implementation of that strategy.

The Committee regularly discusses risk management related matters and communicates with the Bank's risk control function and Chief Risk Officer. In addition, the Risk and Compliance Committee assists the Supervisory Board in the establishment of sound remuneration policies and practices, examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity likelihood and timing of earnings.

The Committee regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

Audit Committee

The Audit Committee, inter alia, monitors the effectiveness of the Bank's internal control, internal audit, risk management systems, establishment of accounting policies by the institution and procedures in preparing the financial statements of the Bank.

With regards to external audit, the Committee oversees the Bank's external auditors, monitors the process of mandatory audits of the financial statements and consolidated financial statements, assesses the independency of statutory auditors and the auditing firm(s), recommends for approval by the management body the appointment, compensation and dismissal of the external auditors; review and approves the audit scope and frequency; review audit reports.

In addition to that the Committee checks that the management body in its management function takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulations and policies, and other problems identified by the auditors.

Board of Directors

The Board of Directors has the overall responsibility for the Bank, proposes its strategic direction within applicable legal and regulatory framework taking into account the institution's long-term financial interests and solvency; ensures the effective implementation of the strategy and is responsible for the day-to-day running of the Bank.

The Board of Directors generally ensures and oversees that a comprehensive and adequate internal control and governance system is established well-functioning and efficient, in its entirety and in parts. Regarding the risk management matters, the Board of Directors is the sole integrated risk decision body responsible for establishing the risk appetite and capital allocation within ČSOB. This process involves, inter alia:

(i) the approval of ČSOB’s risk appetite statement;

(ii) the approval of ČSOB’s risk and capital (adequacy) strategy;

(iii) the approval of risk limits for ČSOB that are consistent with the ČSOB’s risk appetite and risk and capital management strategy;

(iv) the allocation of regulatory and economic capital to the subsidiaries and business units within ČSOB with the aim of achieving an acceptable balance between return and risk and

(v) the approval of ČSOB’s risk and capital management governance structure and ensuring that it conforms with both internal guidelines and regulatory requirements.

On the basis of monthly integrated risk management reports prepared by the Risk Function, the Board of Directors is also responsible for monitoring whether ČSOB’s risk profile is in line with ČSOB’s risk appetite, limits system and making decisions on risk and capital management issues that may be escalated to its attention by the CRO or the RCOC, as described below.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors in monitoring ČSOB's risk and capital management exposures against the limits set by the Board of Directors. The key responsibilities of the RCOC regarding risk and capital management matters are to

(i) propose to the Board of Directors the risk appetite statement, risk and capital management strategy and risk limits for ČSOB;

(ii) review risk limits at regular intervals and propose changes to the same to the Board of Directors;

(iii) monitor risk exposure against risk limits;

(iv) take corrective actions, if needed, including bringing any material issues or concerns to the Board of Directors; and

(v) monitor capital adequacy and the usage of regulatory and economic capital.

The RCOC reviews regular risk reports prepared by the Risk Function, which are then submitted to the Board of Directors, the Audit Committee and the Supervisory Board. These reports form the basis for the risk monitoring process. Further ad hoc reports may be prepared and submitted, where relevant. The CRO is the chairman and the CFO is the vice-chairman of the Committee.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO), who is a member of the Board of Directors, is in general responsible for the identification, assessment and reporting of risks arising within operations across all business and all risk types, and has a direct management responsibility for the following risk management functions / departments:

(i) Credit Risk Management;

(ii) Market and Liquidity Risk Management;

(iii) Non-financial Risk Management;

(iv) Validations; and

(v) Data Management.

The CRO is responsible for ensuring that:

(i) the risk management process is effective, efficient, ensures its operation including the organisation of risk management function and committees and promotes a culture of ethical business conduct and prudent risk management;

(ii) 'fit–for–purpose' governance and frameworks are implemented, maintained and enhanced to manage risk and capital within agreed limits;

(iii) compliance with Group (KBC) and regulatory requirements in the field of risk management;

(iv) the Bank's risk and capital management strategy is properly implemented through risk management frameworks and policies.

The key strategic and governance responsibilities of the CRO are to:

(i) provide input to the Risk Appetite, local Strategy / strategic plans to ensure it is within the defined and approved risk playing field;

(ii) provide input to the Risk and Capital Management Strategy, local limits and delegation of authority setting within and below BoD delegation;

(iii) recommend and decide on changes to local Risk Function owned frameworks and to provide input on relevant elements of non-Risk Function owned risk & capital frameworks;

(iv) provide input on local capital and funding allocation and agree to final allocation to ensure within the risk playing field;

(v) decide on the structure of the local Risk Functions.

The CRO, in its role has following key execution activities:

(i) decides on risk and capital management matters in line with the BoD delegations / authorisation;

(ii) decides on validation of transactional models for risk management within the Bank;

(iii) provides input on guidelines for portfolio and transactional model development;

(iv) provides input to day to day local business decisions as a trusted advisor and agree to risk taking decisions at local level outside of the risk playing field with the right to call "time out";

(v) acts as the head of Risk Function who has direct access to the ČSOB Supervisory Board and its committees, where necessary.

The CRO may suspend any decisions of any department or committee, or any business unit or sub-unit, affecting the risk or capital position of ČSOB by escalating it to the RCOC or the Board of Directors.

Risk Function

The Risk Function is represented by the following departments reporting to the CRO - Credit Risk Management, Market and Liquidity Risk Management, Non-financial Risk Management, Data Management and Validations. The departments have the following roles:

Credit Risk Management, Market and Liquidity Risk Management, Non-financial Risk Management

Particular risk management departments are responsible for managing credit risk, liquidity risk, operational risk and market risk. In particular, they are responsible for:

(i) ensuring that the risk frameworks specific to these types of risks are in place and properly implemented and;

(ii) monitoring the risk limits and proposing changes to these risk limits or corrective actions to be taken in response to breaches of these risk limits;

(iii) information security frameworks for informational risk, including cyber risk, and the monitoring of these risks;

(iv) integrated risk reporting (see Risk Monitoring and Reporting below);

(v) the management of economic capital.

Within the Non-financial Risk Management department, the information security officer is responsible for determining the risk frameworks for informational risk, including cyber risk, and the monitoring of these risks.

Data Management

The Data Management is responsible for supporting all the other departments forming the Risk Function in data management and reporting. In particular::

(i) maintaining all ICT applications needed for the performance of risk and capital management;

(ii) designing the technical ICT architecture in cooperation with the ICT; and

(iii) performing activities aimed at ensuring the correct flow of data needed for proper risk and capital monitoring.

Data Management is responsible for risk data governance and also forms the link between the requirements of the Risk Function and ICT.

Group Validation Department

The Validation Department is responsible for the validation of all risk measurement tools and methodologies used within the ČSOB Group, which are used to calculate the value of credit, ALM, market and other instruments for risk and capital management purposes, including the risk measurement models developed at the KBC Group level.

Risk Integration

Furthermore, several teams within the Risk Function cover overarching aspects of risk management. Their mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance our risk management. Key objectives are to:

(i) drive key strategic cross-risk initiatives and establish greater cohesion between defining portfolio strategy and governing execution, including regulatory adherence and recovery planning;

(ii) provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Bank (risk appetite, stress testing framework);

(iii) strengthen risk culture at the Bank; and

(iv) foster the implementation of consistent risk management standards.

Risk Integration is responsible for managing the process of measuring and monitoring risk on an integrated basis within the Bank. In particular, performs the ICAAP process (see ICAAP Process below), including the management of economic capital, and was responsible for integrated risk reporting (see Risk Monitoring and Reporting below). The Integration also regularly provided reports to the supervisory section of the CNB.

Delegation of responsibilities

The Board of Directors has delegated responsibilities to each of the RCOC and the CRO. Such delegated authority includes the following:

- the RCOC may authorize transactions and approve risk limit exceptions:

  (i) where the decision impacts 5% or more of the ČSOB Group's regulatory capital by risk type or a derivation thereof; and

  (ii) where, if the regulatory capital cannot be taken as a relevant measure, the decision impacts 2% of the ČSOB Group's estimated underlying profit (calculated by Controlling Department for the purposes of management) for the current year.

In addition, in instances where amounts cannot be calculated or for which there is uncertainty over the exact risk exposure, the CRO may decide to submit the transaction to the RCOC.

- an authorization of the CRO is required for decisions on risk frameworks and policies:

  (i) where the risk frameworks or policies impact 5% or more of the ČSOB Group's regulatory capital by risk type or a derivation thereof; and

  (ii) where, if the regulatory capital cannot be taken as a relevant measure, the risk framework or policy impacts 2% of the ČSOB Group's estimated underlying profit for the current year.

- to the CRO, the authority to decide on matters falling below the above-mentioned thresholds. The CRO may sub-delegate this authority further to one of the departments forming the Risk Function.

Moreover, the CRO may submit to the Board of Directors, the Supervisory Board the Risk and Compliance Committee and/or the Audit Committee issues and concerns related to the entire ČSOB which the CRO considers to have an actual or potential material impact on ČSOB's risk parameters.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the ČSOB level:

Credit Departments

The Credit Departments are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors. ČSOB has two Credit Departments, one for each of:

(i) corporates, SMEs and banks;

(ii) consumer finance;

These departments report either to a Credit Risk Manager or the CFO. The key responsibilities of the Credits Departments are to:

(i) approve individual credit applications;

(ii) approve contractual documentation concerning individual credits;

(iii) monitor credit behaviour of individual credits during their lifetime; and

(iv) manage the work-out process in respect of individual credits.

Asset and Liability Management Department (ALMD)

The ALMD is responsible for managing the assets and liabilities of ČSOB's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALMD is also primarily responsible for managing the funding and liquidity position of ČSOB. The ALMD reports to the CFO.

Internal Audit Department

The Internal Audit Department regularly audits risk / assesses and capital management processes throughout ČSOB examining both the adequacy of its risk and capital management procedures and the Bank's compliance with the same. The Internal Audit Department discusses the results of its assessments with management, and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

New and Active Product Processes (NAPPs)

NAPPs are responsible for the approval of new products and their distribution and marketing, as well as for the regular review of existing products. Cross functional membership in NAPPs including control functions (the Risk Function, Finance Department, Tax Department, Legal Department, Compliance Department and Internal Audit Department) seeks to ensure that no product may be offered to ČSOB's customers unless all significant risks have been analyzed and mitigated and residual risks have been accepted. ČSOB pays special attention to protecting ČSOB against claims arising from the mis-selling of products. As a general rule, all products as well as all distribution channels must be covered by a NAPP.

Credit Sanctioning Committee (CSC)

The CSC is a committee with group-wide responsibility and authority to take decisions on individual credit applications falling within the delegated decision powers of the CSC. As such, it acts as the highest decision-making committee for the ČSOB Group with respect to credit risk. The members of the CSC are the CFO, who is the CSC's chairman, and the head of ČSOB credit and bad debts department, corporate advice and underwriting department, corporate and bank credits department, corporate specialised finance department and corporate and institutional banking department. The CSC reports to the Board of Directors.

Business Risk Meetings (BRMs)

In order to facilitate the performance of day-to-day risk and capital management in close cooperation with the business, the business and the Risk Function conduct BRMs. The BRMs take place on a regular (usually monthly or quarterly) basis, and typically discuss issues concerning the monitoring of risk and implementation of risk frameworks. The BRMs are not decision bodies, but they are useful platform where business proposals can be discussed from a risk point of view.

Internal Capital Adequacy Assessment Process (ICAAP)

The New Basel Capital Accord, generally referred to as Basel II, was the first to present, a qualitatively new dimension of requirements for capital adequacy assessment at banks and other credit institutions known as the Second Pillar.

Pillar 2, inter alia, requires the institution to internally assess its capital adequacy taking into account all (material) risks it faces or may face (Internal Capital Adequacy Assessment Process – ICAAP). Basel III is currently changing the regulatory Pillar 2 practices mainly in the area of capital planning, stress testing and risk strategies.

The ICAAP is seen as an integral part of the overall management and control system of the Group, by which ČSOB also adopts and uses reliable, effective and comprehensive strategies and procedures to:

- continually set and assess the need for internal capital; and
- plan and maintain internal capital resources, of the amount, structure and allocation to sufficiently cover the risks that ČSOB is or may be exposed to (internally set and maintained capital adequacy).

As part of the KBC group, ČSOB has adopted a unified KBC group ICAAP approach, approved by the top managements of both KBC and ČSOB, taking into account requirements of the home regulator (the Czech National Bank) as well as the host regulator (the National Bank of Belgium).

Regularly, at least once a year, the Board of Directors evaluates the ICAAP, focusing on an overall assessment of whether the strategies and procedures used are reliable, effective, comprehensive and still proportionate to the nature, scale and complexity of the Group's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications.

Information about the ICAAP, including data on the state and anticipated development of internal capital adequacy, is also regularly presented to the top management, including the RCOC.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses a completely economic-value-based approach, while taking into account quantitative and qualitative inputs and methods, including its own expert analyses, forecasts and scenarios proportionate to the nature, scale and complexity of its activities and the risks associated with them.

ICAAP is forward-looking, i.e. it also takes into account the risks to which the Group will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP:

- the processes of planning, preparing and approving new activities, products or systems;
- other ongoing or anticipated material changes in its risk profile or in the external environment;
- effects of possible divergences from the anticipated developments, including the effects of possible extraordinary circumstances; and
- stress test results.

including the methods of reflecting them when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

The amount of capital need is determined using the economic capital method and addresses the following material risks to which the Group is or may be exposed:

- Credit risk, including concentration risk
- Market risk in the trading book
- Operational risk
- ALM risk
- Business risk

A relevant amount of economic capital is allocated directly to these types of risk. Other risks, such as liquidity risk, strategic risk and reputation risk, are covered, under ICAAP processes, by qualitative measures in risk management, organisation of processes, control mechanisms, etc.

The amount of capital need is calculated for the ČSOB group as a separate entity within the KBC group at the probability level of 99.9% for a one year period, taking into account relevant diversification effects. The internally defined capital resources must fully cover the total capital need and, if compliance with this condition was at risk, ČSOB, in cooperation with the KBC group, would take relevant remedial measures (increasing capital resources, reducing risk, etc.).

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the RCOC, and the CRO. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Bank.

A daily report is provided to the top management and all other relevant members of the Bank on the use of market limits and analysis of VaR in the trading book. A weekly report is provided to top management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Middle Office. The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. To prevent and manage excessive risk concentration at both a relationship and industry level, the Bank, for selected cases, uses credit risk transfer instruments (e.g. risk sharing participation, risk transfer guarantees, etc).

38.2 Credit risk

Credit risk is the risk of a potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Bank monitors exposures in relation to these limits. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes also regular collateral revisions.

Since September 2012, the Bank is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default) LGD (Loss Given Default) and EAD (Exposure at Default) are based on regulatory values for capital calculation purposes and on expert estimates combined with historical data for credit decision purposes.

For the retail exposures, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so-called pools).

The counterparty risk (i.e. default risk) is still managed based on statistical default prediction models that establish not only rating (PD / Probability of Default), but also LGD (Loss Given Default) and EAD (Exposure at Default). Risk factors are still determined in Retail based on risk-homogenous sets of exposure (so called pools).

The model results are used for capital calculation and for credit decision purposes too.

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without ČSOB seeking to collect its outstanding receivable through credit protection,

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards ČSOB is more than 90 days past the due date.

Non-retail exposure

Rating system: PD (Probability of Default)

The Bank manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Advanced compliant statistical rating models that take into account financial and non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

PD 1 to PD 9 represent the performing exposures.

PD 10 contains (i) customers where the relevant Bank credit decision authority has judged the exposure to be "unlikely to pay" and none of the obligations are more than 90 days overdue, and (ii) restructured loans irrespective of whether or not they are overdue. After at least twelve months of performance, the restructured loan may be reclassified to the performing status; and (iii) previously restructured loans already classified as performing less than two years ago which become more than 30 days overdue.

PD 11 and 12 represent customers, who have been overdue for 90 days or more, subject to bankruptcy proceeding or Bank credit decision authority has judged the exposure to be "partly or fully lost" without recourse to credit protection;

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, amongst other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Bank's risk categories, including the internal and external ratings, for non-retail exposure, and their comparison to the CNB's risk categories:

	ČSOB risk categories for Non-retail exposure				ČSOB and CNB risk categories	CNB risk categories
PD Scale	PD Rating	S&P Rating	Performance	Impairment		
Normal	1-7	AAA - B	Performing customers	Collectively assessed	Non-defaulted	Standard
Asset Quality review (AQR)	8-9	B- - C	Performing customers	Collectively assessed	Non-defaulted	Watched
Uncertain	10	D	Non-performing customers	Individually impaired	Defaulted	Substandard
Uncertain	11	D	Non-performing customers	Individually impaired	Defaulted	Doubtful
Irrecoverable	12	D	Non-performing customers	Individually impaired	Defaulted	Loss

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the Group Risk Management (GRM) and/or the CRO but developed, maintained and implemented by the Credit Departments in the Bank. These Credit Departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credit Department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC), the highest local decision taking body, or one of its sub-committees consisting of business line employees and employees in the Credit Department. The Committee adopts its decisions by consensus based on a draft decision formulated by the Chairman or Vice - Chairman.

Within the delegation framework set by the RCOC, the Credit Department can delegate the credit decision to the regional manager or senior relationship manager of a branch. Delegations are granted *ad personam*. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the “four eye principle”, i.e. at least 2 persons need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to all non-retail exposures. Credit exposures with a rating between PD 1 – 8 are reviewed by the business function with the support of monitoring applications. Credit exposures with a rating between PD 9 – 12 are reviewed by the Bad Debt Department, which is a sub-department of the Credit Departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority for a review at least once a year in accordance with the same application process as for the new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as the breach of financial or non-financial covenants or the non-payment of fees, interest or principal), but also events that do not constitute a breach of contract such as a sudden unexpected change in management that could lead to a deterioration of the customer's financial situation.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subjected to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports and financial statements. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process as described above.

Bad Debts Treatment

For both corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt Department. The credit customer relationship is transferred to the Bad Debt Department when an exposure reaches a PD rating of 9 in the case of non-retail SME and PD rating of 10, in the case of corporate customers.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Bank's risk categories for retail exposure and their comparison to the CNB's risk categories:

ČSOB risk categories for Retail exposure				ČSOB and CNB risk categories	CNB risk categories
PD Scale	Days overdue	Performance	Impairment		
Normal	0 - 30	Performing	Collectively assessed	Non-defaulted	Standard
Asset Quality review (AQR)	31 - 90	Performing	Collectively assessed	Non-defaulted	Watched
Uncertain	91 - 180	Non-performing	Individually impaired	Defaulted	Substandard
Uncertain	181 - 360	Non-performing	Individually impaired	Defaulted	Doubtful
Irrecoverable	360 and more	Non-performing	Individually impaired	Defaulted	Loss

In addition, all restructured exposures fall initially within the non-performing category irrespective of whether or not they are overdue. After at least twelve months of performance the restructured exposures may be reclassified to the performing status. Previously restructured exposures already classified as performing less than two years ago, can fall again into non-performing category when becoming more than 30 days overdue.

Application Process

The application process in the retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are in the vast majority of cases fully automated based on scorecards. Mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external credit bureau databases that include both positive and negative information.

Monitoring Process

The monitoring process in the retail segment is performed regularly by the relevant Credit Departments and the GRM. It is based on aggregated data. It does not involve individual reviews and looks at the development of defaults and probability of default within different sub-portfolios and the development of Credit Cost Ratios within the different sub-portfolios.

Collection Process

The collection process in retail consumer finance consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is three days overdue and may involve the restructuring of the loan. Late collection starts when any payment is 90 days overdue, and is focused on legal proceedings. All collection units within the Bank are managed by the relevant Credit Departments and monitored by the Risk Function.

Derivative financial instruments

Positive fair values arising from financial derivative instruments entered into by the Bank, such as foreign exchange derivatives and interest rate swaps, give rise to potential future claims resulting from counterparty default and are therefore treated for credit risk purposes in the same way as credit exposures.

Credit-related commitments risk

The Bank provides guarantees and letters of credit on behalf of its customers, as a result of which the Bank may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Bank to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Bank:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Bank has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. This type of exposure comprises to a large extent of short-term exposure, where the Bank's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Bank to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Bank manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government – E-Toll), where risk is limited as counterparties are either highly rated banks (rating AA and better), government institutions or entities with guarantees by highly rated banks.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2014. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

(CZKm)	Credits	Investment	Trading	Settlement accounts and Other assets	Total
ASSETS					
Cash and balances with central banks (Note: 14)	-	62,661	-	-	62,661
Financial assets held for trading	637	609	51,430	-	52,676
Financial assets designated at fair value through profit or loss	-	6,677	-	-	6,677
Available-for-sale financial assets	2,289	67,639	-	-	69,928
Loans and receivables	223,701	206,209	-	5,321	435,231
Fair value adjustments of the hedged items in portfolio hedge	-	1,539	-	-	1,539
Held-to-maturity investments	196	144,380	-	-	144,576
Derivatives used for hedging	-	13,967	-	-	13,967
Other assets (Note: 23)	-	-	-	661	661
Total	226,823	503,681	51,430	5,982	787,916
Contingent liabilities (Note: 33)	28,914	-	-	-	28,914
Commitments – irrevocable (Note: 33)	77,631	424	-	-	78,055
Total	106,545	424	-	-	106,969
Total credit risk exposure	**333,368**	**504,105**	**51,430**	**5,982**	**894,885**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2013. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

(CZKm)	Credits	Investment	Trading	Settlement accounts and Other assets	Total
ASSETS					
Cash and balances with central banks (Note: 14)	-	10,757	-	-	10,757
Financial assets held for trading	-	515	205,525	-	206,040
Financial assets designated at fair value through profit or loss	192	8,351	-	-	8,543
Available-for-sale financial assets	2,748	66,833	-	-	69,581
Loans and receivables	204,384	209,396	-	3,217	416,997
Fair value adjustments of the hedged items in portfolio hedge	-	927	-	-	927
Held-to-maturity investments	192	145,275	-	-	145,467
Derivatives used for hedging	-	9,285	-	-	9,285
Other assets (Note: 23)	-	-	-	584	584
Total	207,516	451,339	205,525	3,801	868,181
Contingent liabilities (Note: 33)	30,142	-	-	-	30,142
Commitments – irrevocable (Note: 33)	76,229	2,147	-	-	78,376
Total	106,371	2,147	-	-	108,518
Total credit risk exposure	**313,887**	**453,486**	**205,525**	**3,801**	**976,699**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Set out below is an analysis of the maximum exposure to credit risk of the Bank before and after taking into account the collateral held:

(CZKm)	2014 Gross maximum exposure	2014 Financial effect of collateral	2014 Net maximum exposure	2013 Gross maximum exposure	2013 Financial effect of collateral	2013 Net maximum exposure
ASSETS						
Cash and balances with central banks (Note: 14)	62,661	-	62,661	10,757	-	10,757
Financial assets held for trading	52,676	3,710	48,966	206,040	140,036	66,004
Financial assets designated at fair value through profit or loss	6,677	-	6,677	8,543	-	8,543
Available-for-sale financial assets	69,928	-	69,928	69,581	-	69,581
Loans and receivables	435,231	113,131	322,100	416,997	125,140	291,857
Fair value adjustments of the hedged items in portfolio hedge	1,539	-	1,539	927	-	927
Held-to-maturity investments	144,576	-	144,576	145,467	-	145,467
Derivatives used for hedging	13,967	1,228	12,739	9,285	657	8,628
Other assets (Note: 23)	661	-	661	584	-	584
Total	787,916	118,069	669,847	868,181	265,833	602,348
Contingent liabilities and commitments – irrevocable (Note: 33)	106,969	21,051	85,918	108,518	20,623	87,895
Total credit risk exposure	**894,885**	**139,120**	**755,765**	**976,699**	**286,456**	**690,243**

The portfolios are further structured as follows:

The credit portfolio is structured according to the type of the business the Bank enters into:

2014 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	136,616	25,480	42,195	**204,291**	(2,052)	(38)	**202,201**
SME	77,786	3,340	26,544	**107,670**	(3,642)	(109)	**103,919**
Retail	19,324	9	8,819	**28,152**	(1,238)	(7)	**26,907**
Other	82	357	73	**512**	(53)	(118)	**341**
Total credits	**233,808**	**29,186**	**77,631**	**340,625**	**(6,985)**	**(272)**	**333,368**

2013 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	121,565	27,085	42,448	**191,098**	(2,175)	(54)	**188,869**
SME	73,731	3,030	23,775	**100,536**	(3,463)	(53)	**97,020**
Retail	19,141	12	8,974	**28,127**	(1,285)	(5)	**26,837**
Other	33	339	1,032	**1,404**	(31)	(212)	**1,161**
Total credits	**214,470**	**30,466**	**76,229**	**321,165**	**(6,954)**	**(324)**	**313,887**

An industry sector analysis of the Bank's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2014		2013	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Services	51,466	15.1	46,903	14.6
Distribution	47,750	14.0	40,208	12.5
Building and Construction	28,505	8.4	25,044	7.8
Commercial Real Estate	28,262	8.3	24,173	7.5
Automotive	27,664	8.1	25,837	8.0
Private persons	25,366	7.4	25,532	7.9
Electricity	19,007	5.6	14,616	4.6
Machinery and Heavy Equipment	17,102	5.0	17,621	5.5
Authorities	16,747	4.9	16,094	5.0
Oil, Gas and other Fuels	12,995	3.8	14,534	4.5
Finance and Insurance	12,206	3.6	13,842	4.3
Metals	11,333	3.3	10,212	3.2
Telecommunications	6,117	1.8	8,251	2.6
Electrotechnics	5,686	1.7	5,851	1.8
Chemicals	5,148	1.5	3,777	1.2
Food producers	4,128	1.2	3,685	1.1
Other sectors	21,143	6.3	24,985	7.9
Total	**340,625**	**100.0**	**321,165**	**100.0**

The investment portfolio is structured according to type of the instrument:

2014 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	218,253	-	-	-	**218,253**
Equity securities	522	-	-	(79)	**443**
Loans and receivables within investment portfolio	207,748	-	424	-	**208,173**
Derivatives used for hedging	13,967	-	-	-	**13,967**
Derivatives held for trading	609	-	-	-	**609**
Cash and balances with central banks	62,661	-	-	-	**62,661**
Total investment	**503,760**	**-**	**424**	**(79)**	**504,105**

2013 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	219,833	-	-	-	**219,833**
Equity securities	706	-	-	(79)	**627**
Loans and receivables within investment portfolio	210,322	-	2,147	-	**212,469**
Derivatives used for hedging	9,285	-	-	-	**9,285**
Derivatives held for trading	515	-	-	-	**515**
Cash and balances with central banks	10,757	-	-	-	**10,757**
Total investment	**451,418**	**-**	**2,147**	**(79)**	**453,486**

The investment portfolio is monitored from counterparty sector point of view:

Sector	2014 Granted exposure (CZKm)	2014 Percentage of total exposure	2013 Granted exposure (CZKm)	2013 Percentage of total exposure
Central banks	89,661	17.8	42,757	9.4
General government	173,372	34.4	171,907	37.9
Credit institutions	214,411	42.5	212,191	46.8
Corporate	26,661	5.3	26,631	5.9
Total investment	**504,105**	**100.0**	**453,486**	**100.0**

The trading portfolio is structured according to type of the instrument:

2014 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	33,098	-	-	33,098
Loans and advances	3,363	-	-	3,363
Derivatives held for trading	14,969	-	-	14,969
Total trading portfolio	**51,430**	**-**	**-**	**51,430**

2013 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	34,239	-	-	34,239
Loans and advances	159,431	-	-	159,431
Derivatives held for trading	11,855	-	-	11,855
Total trading portfolio	**205,525**	**-**	**-**	**205,525**

The trading portfolio is monitored from counterparty sector point of view:

Sector	2014 Granted exposure (CZKm)	2014 Percentage of total exposure	2013 Granted exposure (CZKm)	2013 Percentage of total exposure
Central banks	-	-	150,001	73.0
General government	25,084	48.7	27,888	13.5
Credit institutions	21,074	41.0	23,181	11.3
Corporate	5,272	10.3	4,455	2.2
Total trading portfolio	**51,430**	**100.0**	**205,525**	**100.0**

Risk concentrations of the maximum exposure to credit risk

The concentration of risk is managed by geographical region, industry and by client/counterparty. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2014		2013	
(CZKm)	Total risk	of which General government	Total risk	of which General government
Czech Republic	816,677	195,552	895,672	197,711
Slovak Republic	9,668	3,452	6,034	1,389
Greece	-	-	2	-
Italy	8,153	-	9,789	-
Spain	445	-	576	-
Belgium	16,397	2,562	12,440	2,594
Hungary	147	-	65	-
Other Europe	41,474	6,306	49,034	6,059
Other	1,924	-	3,087	-
Total	**894,885**	**207,872**	**976,699**	**207,753**

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

	2014		2013	
Client	Granted exposure (CZK m)	% of total credit portfolio	Granted exposure (CZK m)	% of total credit portfolio
1 largest client	7,466	2.2	7,225	2.2
10 largest clients	48,272	14.2	43,616	13.6
25 largest clients	82,249	24.1	74,250	23.1

The largest exposures to single clients in the investment portfolio as at 31 December 2014 and 31 December 2013 were:

	2014		2013	
Client	Granted exposure (CZK m)	% of total investment portfolio	Granted exposure (CZK m)	% of total investment portfolio
Hypoteční banka	164,859	32.7	162,979	35.9
Czech Ministry of Finance	163,044	32.3	163,367	36.0
CNB	89,661	17.8	42,757	9.4

The largest exposures to single clients in the trading portfolio as at 31 December 2014 and 31 December 2013 were:

	2014		2013	
Client	Granted exposure (CZK m)	% of total trading portfolio	Granted exposure (CZK m)	% of total trading portfolio
Czech Ministry of Finance	23,997	46.7	27,129	13.2
CNB	-	-	150,001	73.0

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, pledges over real estate properties, inventory and trade receivables;
- For retail lending, pledges over residential properties are used for mortgage financing.

The Bank continuously monitors the market value of all collateral, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

The Bank also makes use of master netting agreements with counterparties.

Impairment assessment

The main considerations for credit impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract. The Bank addresses impairment in two areas: specific impairments and impairments incurred but not reported (IBNR).

Specific impairments are applied to individual assets where there is registered objective evidence of default, whereas IBNR are applied for asset groups that based on statistical evidence contain probably already impaired assets, but have not been yet individually recognised.

Specific impairment (Individual assessment)

The Bank determines allowances appropriate for loans with outstanding amounts above predefined materiality threshold where there is registered objective evidence of default on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the availability of other financial support, liquidation value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. For insignificant exposures with registered objective evidence of default a portfolio approach for deriving the impairment allowance is applied using statistical methods and models.

IBNR (Collective assessment)

Collective allowances are applied for loans and advances where there has not yet been recognised objective evidence of impairment and they reflect impairment that is likely to be present in the group of assets. Collective allowances are assessed based on statistical estimates and evaluated at each reporting period.

Collective allowances are estimated by taking into consideration:

(i) historical losses in the portfolio;

(ii) current economic conditions;

(iii) the approximate delay between the time a loss is likely to have been incurred and the time it will be identified (emergence period).

The local management is responsible for deciding the length of emergence period. In both 2014 and 2013, the Bank used a uniform emergence period of four months, which was confirmed by the backtesting.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

The Bank sorts exposures into five categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Bank's credit rating system as at 31 December 2014 and 2013 by individual portfolios:

Credit portflolio	2014				
	Collectively assessed assets		Individually impaired assets		Total
(CZKm)	Normal	AQR	Uncertain	Irrecoverable	
Corporate	130,747	2,251	1,889	1,729	136,616
SME	70,638	2,197	1,500	3,451	77,786
Retail	17,713	251	416	944	19,324
Other	-	-	35	47	82
Total	**219,098**	**4,699**	**3,840**	**6,171**	**233,808**

Credit portflolio	2013				
	Collectively assessed assets		Individually impaired assets		Total
(CZKm)	Normal	AQR	Uncertain	Irrecoverable	
Corporate	113,119	3,841	2,847	1,758	121,565
SME	67,157	1,489	1,715	3,370	73,731
Retail	17,444	255	449	993	19,141
Other	2	-	-	31	33
Total	**197,722**	**5,585**	**5,011**	**6,152**	**214,470**

Investment portfolio	2014		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	218,253	-	218,253
Equity securities	442	1	443
Loans and receivables within investment portfolio	207,748	-	207,748
Derivatives used for hedging	13,967	-	13,967
Derivative contracts held for trading	609	-	609
Cash and balances with central banks	62,661	-	62,661
Total	**503,680**	**1**	**503,681**

Investment portfolio	2013		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	219,833	-	219,833
Equity securities	626	1	627
Loans and receivables within investment portfolio	210,322	-	210,322
Derivatives used for hedging	9,285	-	9,285
Derivative contracts held for trading	515	-	515
Cash and balances with central banks	10,757	-	10,757
Total	**451,338**	**1**	**451,339**

Trading portfolio	2014		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	33,098	-	33,098
Loans and advances	3,363	-	3,363
Derivative contracts held for trading	14,969	-	14,969
Total	**51,430**	**-**	**51,430**

Trading portfolio	2013		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	34,239	-	34,239
Loans and advances	159,431	-	159,431
Derivative contracts held for trading	11,855	-	11,855
Total	**205,525**	**-**	**205,525**

The table below shows an ageing analysis of gross past due but not impaired financial assets in the Credit portfolio:

	2014	2013
(CZKm)	Less than 30 days	Less than 30 days
SME	346	265
Retail	474	626
Total	**820**	**891**

There were no past due but not impaired assets in the Investment and Trading portfolios.

Gross amounts of individually impaired financial assets included in the credit portfolio and the related impairment are as follows:

	2014		2013	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Credit portfolio				
Corporate	3,619	(1,996)	4,605	(2,111)
SME	4,950	(3,415)	5,085	(3,333)
Retail	1,360	(1,068)	1,442	(1,161)
Other	82	(53)	31	(31)
Total	**10,011**	**(6,532)**	**11,163**	**(6,636)**

Individually impaired financial assets included in the investment portfolio in the carrying amounts are as follows:

(CZKm)	2014	2013
Debt securities	-	-
Equity securities	1	1
Total	**1**	**1**

Forbearance measures

Based on the new guidelines on non-performing exposures and forbearance measures laid down by the European Banking Authority, which came into effect on 30 September 2014, the Bank implemented a new definition of forborne loans.

Forbearance measures consist of concessions towards a borrower facing or about to face financial difficulties, which leave the borrower unable to comply with the original terms and conditions of a credit. Contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled are referred to as Forborne credits. Such an approach enables the Bank to control and limit potential future losses stemming from troubled credits.

As a result of the update of the Definition of Default made by the Bank, the Bank's definition of default is now aligned with the EBA definition of non-performing exposures (PD 10-11-12), meaning that from 2014 they are only to be seen as synonyms. Previously, only PD grades 11 and 12 fell within the "non-performing" exposure category. The same holds for the definition of the individually impaired financial instrument according to IFRS.

The approved changes impacted the business of the Bank in the following way. The minimum period for the default status for the forborne exposures has been extended from 6 to 12 months; following the conservative approach of the local regulator, default status occurs any time a forbearance measure-concession is granted. The minimum period for assignment of the "Forborne tag" is therefore 36 months: this period consists of the 12 months of the default status, and 24 months of what is referred to as the "probation period". In addition, any time more than 30 days past due are observed at an individual receivable during the "probation period", the receivable is re-classified as defaulted and the 36-month period is re-set.

The implementation of changes in ČSOB increased the balance of non-performing exposures of CZK 116 m, and led to the creation of an additional individual impairment of CZK 58 m.

At 31 December 2014, forborne loans represent 1.7% of the outstanding gross amount.

Gross amounts of individually forborne exposures included in the credit portfolio and the related impairment as at 31 December are as follows:

	2014				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Exposure of collectively assessed assets	Exposure of individually impaired assets	Total exposure	Individual and collective impairment
Corporate	136,616	778	2,106	2,884	759
SME	77,786	103	823	926	409
Retail	19,324	53	200	253	87
Other	82	-	-	-	-
Total	**233,808**	**934**	**3,129**	**4,063**	**1,255**

38.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Bank pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Bank's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding Management

The actual development of liquidity might vary from ALM's liquidity prediction. The Bank can address an adverse liquidity development in several ways. Most typically, the Bank would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in a cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Bank can borrow via repo operations on the market or use regulatory repo facilities (in the CNB or ECB).

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Bank's business activities in the medium- and long-term horizon. For the strategic liquidity management, the Bank uses the net-stable-funding-ratio (NSFR) which is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). The strategy of the Bank is to maintain the value of NSFR well above one. That means the Bank aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

The NSFR is monitored on a monthly basis and it is regularly reported to the top management of ČSOB.

The NSFR during the year 2014 and 2013 was as follows:

(%)	2014	2013
31 March	146.6	129.8
30 June	145.9	132.2
30 September	146.4	136.4
31 December	145.2	139.4

In addition to internally defined limits, the Bank must also comply with a regulatory limit on the basis of minimum statutory reserves deposited with CNB. The limit presently equals to 2% of customer deposits.

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Bank's financial liabilities based on the contractual undiscounted repayment obligations.

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2014:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading					
Financial derivatives	-	4,390	7,942	3,536	15,868
Other than financial derivatives	-	50,715	1,600	1,726	54,041
Financial liabilities at amortised cost	577,673	65,819	19,421	13,200	676,113
Fair value adjustments of the hedged items in portfolio hedge	5,145	-	-	-	5,145
Derivatives used for hedging	-	2,683	6,264	2,915	11,862
Other liabilities (Note: 26)	-	2,926	-	-	2,926
Total carrying value	**582,818**	**126,533**	**35,227**	**21,377**	**765,955**

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2013:

(CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading					
Financial derivatives	-	7,278	5,988	1,771	15,037
Other than financial derivatives	7,184	168,263	1,589	657	177,693
Financial liabilities at amortised cost	524,084	86,165	22,103	12,767	645,119
Fair value adjustments of the hedged items in portfolio hedge	(57)	-	-	-	(57)
Derivatives used for hedging	-	2,833	4,535	1,971	9,339
Other liabilities (Note: 26)	-	3,445	-	-	3,445
Total carrying value	**531,211**	**267,984**	**34,215**	**17,166**	**850,576**

The maturity of contingent liabilities and commitments of CZK 145,269 m (2013: CZK 148,163 m) is less than one year. This represents the undiscounted cash flows of the Bank's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Bank is not managed based on the remaining contractual maturities of the financial instruments, as such the Bank's expected cash flows on these instruments vary significantly from this analysis. For example, undrawn loan commitments are not expected to be drawn down immediately (Note: 32).

38.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The Board of Directors has set limits on the level of risk that may be accepted. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a full linear VaR model for interest rate and foreign exchange rate risk. These calculations are based on historic scenarios derived from a two-year history. The Bank has no net position in FX options, nor any position in equity. A nominal technical limit of EUR 6 m is set for interest rate options, commodity derivatives and structured bonds; the position in these products, however is not material.

Standard VaR calculations are supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Bank. The Bank analyses scenarios, dependent and independent of the Bank’s position. Also, real historical scenarios are evaluated on a regular basis.

To enhance the system of risk management, the Bank also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Bank uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Bank applies VaR assumptions to estimate potential losses at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Bank uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The VaR model is back tested on a daily basis. Daily VaR (1 day holding period) is compared with theoretic profit or loss from holding previous day position. Daily VaR is also compared with real profit or loss made by trading book.

The Bank received a regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks in June 2007.

ČSOB calculate a Stress VaR to fulfil CRD 3 requirements for market risk capital. A one year historic stress period is used for determining of stress scenarios. These in combination with antithetic scenarios for the same periods are used for computation of stress VaR. All other assumptions are identical to the standard VaR measurement.

The tables below show potential gains or losses analysed using VaR 10D 99% model in 2014 and 2013:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2014	113	7	(3)	117
Average during the period	142	10	(6)	146
Highest	186	25	(28)	183
Lowest	109	3	(5)	107

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2013	119	10	(6)	123
Average during the period	134	6	(5)	135
Highest	210	27	(22)	215
Lowest	56	1	-	57

Market risk – Non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the BPV sensitivity. The Board of Directors has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing financial assets designated at fair value through profit or loss for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The sensitivity of equity is calculated by revaluing Available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The Bank’s investment portfolio consists of predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) as at 31 December 2014 due to revaluation of assets and liabilities that are measured at fair value on recurring basis:

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(16.1)	13.1	(101.3)	(123.3)	(227.5)
EUR	+ 10	(0.3)	1.7	(8.4)	(8.3)	(15.4)
USD	+ 10	0.0	(0.1)	(0.1)	0.0	(0.2)
CZK	- 10	16.1	(13.1)	101.3	123.3	227.5
EUR	- 10	0.3	(1.7)	8.4	8.3	15.4
USD	- 10	0.0	0.1	0.1	0.0	0.2

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	6.4	(0.1)	(59.7)	(211.1)	(264.4)
EUR	+ 10	0.3	(0.8)	29.0	66.3	94.8
USD	+ 10	0.0	(0.4)	(3.2)	(4.9)	(8.5)
CZK	- 10	(6.4)	0.1	59.7	211.1	264.4
EUR	- 10	(0.3)	0.8	(29.0)	(66.3)	(94.8)
USD	- 10	0.0	0.4	3.2	4.9	8.5

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) as at 31 December 2013 due to revaluation of assets and liabilities that are measured at fair value on recurring basis:

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(1.2)	(2.2)	7.9	(20.7)	(16.2)
EUR	+ 10	1.6	1.1	2.5	1.6	6.8
USD	+ 10	0.0	0.0	(0.3)	(0.1)	(0.4)
CZK	- 10	1.2	2.2	(7.9)	20.7	16.2
EUR	- 10	(1.6)	(1.1)	(2.5)	(1.6)	(6.8)
USD	- 10	0.0	0.0	0.3	0.1	0.4

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(1.4)	10.2	(135.5)	(138.0)	(264.7)
EUR	+ 10	3.4	0.2	25.6	98.6	127.8
USD	+ 10	0.0	(0.3)	(3.7)	(3.4)	(7.4)
CZK	- 10	1.4	(10.2)	135.5	138.0	264.7
EUR	- 10	(3.4)	(0.2)	(25.6)	(98.6)	(127.8)
USD	- 10	0.0	0.3	3.7	3.4	7.4

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Bank adopted a strategy under which the banking book has no open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Bank sets limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December 2014 and 2013:

	2014			2013		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	2	-	-	18	1	(1)

Sensitivity of the statement of income to currencies other than EUR is not significant.

Equity price risk

The Bank has no significant equity risk in investment portfolio.

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Bank's products is negligible, however, it is regularly monitored.

38.5 Operational risk

The Bank defines operational risk in line with Basel III as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. Operational risks include legal, compliance and tax risks. The impact of incidents on the Bank's reputation is taken into consideration when assessing the Bank's vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the ČSOB, as well as an assessment of the Bank's vulnerability in respect of potential risks that have not materialised yet. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses. The assessment involves ranking the risks and risk events in terms of their severity and anticipated frequency. The assessment is followed by decision of accountable manager, i.e. acceptance of risk or its mitigation by implementing appropriate control measures. Risk events that cannot be prevented may be also mitigated by business continuity arrangements and/or transfers of risk to third parties (e.g. by insurance) to the extent possible.

Operational Risk Management Governance

The basic objective is to make operational risk management a natural part of the decision making in business units. Operational risk management governance is promoted by the CRO and the Risk Function. Regular meetings focusing on operational risk management take place at ČSOB subsidiaries and at distribution entities and departments responsible for creating new products within the ČSOB Group.

Non-financial Risk Management Department (NFRD)

The NFRD is responsible for reporting in the non-financial risk management area, including operational risk management. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. NFRD covers also business continuity and information security areas. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Communication Unit, Legal Unit and Tax Unit.

Local Operational Risk Managers (the "LORMs")

LORMs are first line support for business managers in respect of operational risks. LORMs also act as business continuity coordinators, compliance coordinators and information risk coordinators. Beside frequent contacts, regular meetings of LORMs are organised by the NFRD every quarter for training and exchange of information.

Crisis Management

Apart from the regular operational risk management infrastructure, the Bank has also established a crisis management infrastructure. Major incidents within the Bank are resolved by the Crisis Management Committee with the involvement of the Board of Directors members. Additionally, the Bank has in place a procedure for resolving local incidents. This procedure is used for more explicit and structured situations, i.e. not complex crises.

Building Blocks of Operational Risk Management

Loss Data Collection

Loss events are registered into a loss database, which contains a full description of cases involving a higher level of loss. The quality of loss data is monitored on a daily basis, and data is reconciled regularly.

Detailed Risk Scan

The Detailed Risk Scan aims to identify and quantify operational risks in products, activities, processes and systems. This activity is forward-looking and allows future developments, e.g. an improvement in the control framework, to be taken into account. It consists of workshops organised and facilitated by the LORM, where business representatives and control function representatives discuss the key residual operational risks faced in order to reach a consensus on the adequate risk response (risk acceptance or mitigation).

Risk Scan

The Risk Scan is a structured risk self assessment organised as an interview based on uniform questionnaires. The goal of the exercise is to identify the key risks that are relevant for the top management. Such risks are likely to differ from the risks identified during the detailed risk scan involving business experts closer to the working floor. The results of the Risk Scan are also used to underpin the Economic Capital for Operational and Business risk.

Group Key Controls and Zero Tolerances

The Group Key Controls and Zero Tolerances are top down basic control objectives used to mitigate key & killer non-financial risks (including risks to reputation) that are inherent to the processes of the business entities. Each GKC contain the key & killer operational risks related to the involved business process.

Key Risk Indicators

Key risk indicators are measurable metrics or indicators used to track the exposure to loss or other difficulties. Key risk indicators are used for informing the management of the current level of risk exposure and/or the effectiveness of the controls in place.

39. CAPITAL

Capital Adequacy

Capital adequacy measures the financial strength and stability of an institution. It compares the amount of the capital held by a financial institution to the risk of possible decline in value of assets on its statement of financial position.

Capital adequacy (or solvency) risk is the risk that the capital base of the bank might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios and its active steering.

Capital targets and structure

Regarding the capital targets and structure, the Bank fully follows the KBC Group Capital Policy stating that fully owned subsidiaries shall: (i) hold the regulatory minimum capital (all capital in excess of the regulatory minimum must be held at the Group level), and (ii) build up the regulatory capital from equity.

Managing solvency

ČSOB reports its solvency calculated on the basis of IFRS balances taking into account all relevant regulatory requirements. Solvency targets were met throughout 2014 with sufficient buffers above the regulatory minimum standards, underpinning a very strong capital position of the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

In accordance with Basel II, Pillar 2 requirements, the Bank has an Internal Capital Adequacy Assessment Process (ICAAP) in place. In addition to the regulatory capital requirements, this process also uses an economic capital model to measure capital requirements based on aggregate group-wide risks, and to compare these requirements with the capital available to cover risks. The ICAAP examines both the current and future capital situation. To assess the latter situation, a three-year forecast is drawn up for required and available capital, both regulatory and economic, according to a basic scenario that takes account of anticipated internal and external growth, and according to various likely alternative scenarios. Basel III is currently changing the regulatory Pillar 2 practices mainly in the area of capital planning, stress testing and risk strategies.

The Basel III agreement and corresponding European CRD IV Directive and Regulation has introduced new, more stringent capital requirements for financial institutions. According to these requirements, the legal minimum tier-1 ratio, which stood at 4% under Basel II, increased to 6.0% (with a common equity ratio of 4.5%). On top of this, a so-called 'capital conservation buffer' (2.5% Common Equity Tier 1), and an extra charge for systemic risks of banks was applied. In addition, a 'countercyclical buffer' (of between 0% and 2.5% Common Equity Tier 1, to be determined by the national regulatory authority) may further be introduced from 2014 (first nonzero rates being implemented in Europe since 2015).The Bank incorporated major changes / ratios into the regular management of the risk and capital positions.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

No significant changes have been made to the objectives, policies and processes from the previous years.

The following table shows the capital and CAD ratio calculated under Basel III (2014) and Basel II (2013) for ČSOB:

(CZKm)	2014	2013
Tier 1 capital	53,856	48,241
Tier 2 capital	511	706
Deductible items of Tier 1 and Tier 2 [1)]	-	(23)
Total capital	**54,367**	**48,924**
Capital requirements	26,511	25,547
Risk weighted assets	**331,390**	**319,339**
Capital adequacy ratio	16.41%	15.32%

[(1)] Deductible items of Tier 1 and Tier 2, presented as a separate line of the total capital, is applicable for capital calculation under Basel II only. Basel III requires Tier 1 capital to be presented net of deductible items.

Report of the Board of Directors of Československá obchodní banka, a. s., on Relations between Related Parties

1. Controlled Entity

Československá obchodní banka, a. s. with its registered office at Praha 5, Radlická 333/150, postcode 150 57, Company ID No. 00001350, incorporated in the Commercial Register, Section B XXXVI, File 46, maintained at the Municipal Court in Prague (hereinafter referred to as "ČSOB" or the "Bank").

2. Controlling Entity

KBC Bank NV with its registered office at Havenlaan 2, B-1080 Brussels, Belgium is the sole shareholder of ČSOB.

KBC Group NV, which is ultimate controlling entity of ČSOB, is the sole shareholder of KBC Bank NV.

3. Structure of Relationship between Controlling Entity and Controlled Entity as well as between Controlled Entity and Entities Controlled by the same Controlling Entity

KBC Bank NV, a member of the financial bank-insurance group KBC Group, is regulated by the National Bank of Belgium. KBC Group focuses on its home markets of Belgium, the Czech Republic, Slovakia, Bulgaria, Hungary and Ireland and, to a limited extent, several other countries.

KBC Group shares are publicly traded on the Euronext Exchange in Brussels. There is no shareholder with a shareholding exceeding 20%.

A basic overview of ČSOB and KBC group companies is provided in Attachment 1 to this report or is available at www.kbc.com.

The Bank has relations mainly with the following related entities:

Company	Business Address	
Bankovní informační technologie, s.r.o.	Radlická 333/150, 150 57 Praha 5	Czech Republic
CBCB - Czech Banking Credit Bureau, a.s.	Na Vítězné pláni 1719/4, 140 00 Praha 4	Czech Republic
Centrum Radlická a.s.	Radlická 333/150, 150 57 Praha 5	Czech Republic
Cibank JSC	Tzar Boris III., bld. N 1, Sofia	Bulgaria
Českomoravská stavební spořitelna, a.s.	Vinohradská 3218/169, 100 17 Praha 10	Czech Republic
Československá obchodná banka, a. s.	Michalská 18, 815 63 Bratislava	Slovak Republic
ČSOB Advisory, a.s.	Radlická 333/150, 150 57 Praha 5	Czech Republic
ČSOB Asset Management, a.s., investment company	Radlická 333/150, 150 57 Praha 5	Czech Republic
ČSOB Factoring, a.s.	Benešovská 2538/40, 101 00 Praha 10 - Vinohrady	Czech Republic
ČSOB Leasing, a.s.	Na Pankráci 310/60, 140 00 Praha 4	Czech Republic
ČSOB Leasing, a.s.	Panónska cesta 11, 852 01 Bratislava	Slovak Republic
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	Radlická 333/150, 150 57 Praha 5	Czech Republic
ČSOB Poisťovňa a.s.	Vajnorská 100/B, 831 04 Bratislava	Slovak Republic
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	Masarykovo náměstí 1458, 532 18 Pardubice - Zelené předměstí	Czech Republic

Company	Business Address	
ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group	Radlická 333/150, 150 57 Praha 5	Czech Republic
ČSOB Stavebná Sporitel'na, a.s.	Radlinského 10, 813 23 Bratislava	Slovak Republic
Eurincasso, s.r.o.	Benešovská 2538/40, 101 00 Praha 10 - Vinohrady	Czech Republic
Hypoteční banka, a.s.	Radlická 333/150, 150 57 Praha 5	Czech Republic
KBC Asset Management NV	Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek)	Belgium
KBC Bank NV	Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek)	Belgium
KBC Bank NV (SA) branch in Poland	Chmielna 85/87, 00-805 Warsaw	Poland
KBC Fund Management LTD	Joshua Dawson House, Dawson street, Dublin 2	Ireland
KBC Group NV (legal entity)	Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek)	Belgium
KBC Group NV Czech Branch, organizational unit	Radlická 333/150, 150 57 Praha 5	Czech Republic
K & H BANK Zrt.	Lechner Ödön fasor 9, 1095 Budapest	Hungary
KBC Insurance NV	Professor Roger Van Overstraetenplein 2, 3000 Leuven	Belgium
KBC Participations Renta C	5 place de la Gare, L-1616 Luxembourg	Luxembourg
Merrion Properties, s.r.o.	Radlická 333/150, 150 57 Praha 5	Czech Republic
MOTOKOV a.s. in liquidation	Radlická 333/150, 150 57 Praha 5	Czech Republic
Patria Finance, a.s.	Jungmannova 745/24, 110 00 Praha 1	Czech Republic
Patria Corporate Finance, a.s.	Jungmannova 745/24, 110 00 Praha 1	Czech Republic
Patria Online, a.s.	Jungmannova 745/24, 110 00 Praha 1	Czech Republic
První certifikační autorita, a.s.	Podvinný mlýn 2178/6, 190 00 Praha 9	Czech Republic
Radlice Rozvojová, a.s.	Radlická 333/150, 150 57 Praha 5	Czech Republic

In the Czech Republic, KBC Group owns ČSOB Pojišťovna, a. s., a member of the ČSOB holding, with its registered office at Masarykovo náměstí 1458, postcode: 53 218 Pardubice, through KBC Verzekeringen NV (KBC Insurance) with its registered office at Professor Roer Van Overstraetenplein 2, Leuven, Belgium, and ČSOB.

As for the Czech Republic in 2014, KBC Group controlled, through KBC Securities, Patria Online, a.s., with its registered office at Jungmannova 745/24, postcode: 110 00 Praha 1. Patria Online owned the subsidiaries Patria Corporate Finance, a.s., and Patria Finance, a.s., which was active as a securities trader, both based at Jungmannova 745/24, postcode: 110 00 Praha 1. ČSOB became the sole shareholder of Patria Online, a.s., through acquisition of a 100% interest on 1 January 2015.

KBC Group has a branch in the Czech Republic – KBC Group NV Czech Branch, organizační složka (KBC IT CZ), with its registered office at Praha 5, Radlická 333/150, postcode 150 57, which has been providing information and communication services to the Bank in accordance with the strategy of the Group since 2009. KBC IT CZ has been expanding its range of services in the areas of back-office and supporting services, i.e., payments, financial markets and operational accounting services to KBC group since 2011.

4. Purpose of Controlling Entity Measures and Means of Control

KBC Group NV, respectively KBC Bank NV, controls ČSOB through decisions made by a single shareholder within the scope of competence of the General Meeting in line with the Act on Commercial Companies and Cooperatives.

The controlling entity also exercises its influence through its representatives in the governing bodies of ČSOB - namely the Supervisory Board and the Board of Directors. First and foremost, this means cooperation and coordination in the field of consolidated risk management, auditing, and compliance with the prudential rules that apply to banks and other financial institutions, and legal requirements.

5. Review of Activities Performed in the Accounting Period, Induced by the Interest of Controlling Entity or Its Controlled Entities

If not stated otherwise, no activities were performed in the accounting period upon inducement by the controlling entity or its controlled entities that would affect assets exceeding 10% of ČSOB equity, including common business transactions.

During the accounting period, ČSOB repeatedly accepted liabilities against KBC Bank NV, including short-term deposits determined for trading on the money market, the value of which exceeded 10% of the company's equity. The purpose of this activity was to improve the efficiency of the utilisation of the financial assets within the group. The outstanding obligations, described above, arose in the ordinary course of business and are subject to substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. The Bank incurred no damage from the fulfilment of these contracts.

6. Review of Mutual Agreements between Controlled Entity and Controlling Entity or among Controlled Entities

During the accounting period, ČSOB had various relations with the controlling entity as well as with other companies controlled by the controlling entity (hereafter referred to as the "related entities" for the purposes of the Related Parties Report) being based on common business activities.

The contractual relations were in the following areas:

BANKING SERVICES

Accounts, Deposit Products, Domestic and International Payments Services, Domestic and International Cash Management

In the accounting period, ČSOB concluded contracts or had concluded contracts from previous accounting periods for the provision of services relating to the maintenance of various types of accounts, current and term accounts, interbank deposits, accounts for payments of deposits intended to acquire or increase participation in a company, and for the provision of the following products and domestic and international payments services, i.e., Cash Management NightLine, Virtual Cash Pooling and Real One-Way Cash Pooling. The related entities paid or received fees for these services based on a standard price list. The contracts were concluded under standard business terms and conditions.

Payment Cards

In the accounting period, ČSOB concluded contracts or had concluded contracts from previous accounting periods for the issuing, accepting and processing of payment card transactions. The contracts were concluded under standard business terms and conditions.

Electronic Banking

In the accounting period, ČSOB concluded contracts or had concluded contracts from previous accounting periods on the basis of which it provided the following electronic banking products: ČSOB Linka 24, ČSOB Internetbanking, ČSOB Businessbanking, ČSOB MultiCash 24 and ČSOB Edifact 24. The contracts were concluded under standard business terms and conditions.

Cheques and Bills of Exchange

In the accounting period, ČSOB concluded contracts or had concluded contracts from previous accounting periods for the procurement of bills of exchange and their custody, and contracts for securing the bill-of-exchange programme. The contracts were concluded under standard business terms and conditions.

Credit Products and Guarantees

In the accounting period, ČSOB concluded contracts or had concluded contracts from previous accounting periods on the basis of which it provided the following credit products: overdrafts, commercial loans, revolving loans, special purpose loans, subordinated loans and current account overdrafts, and accepted and issued guarantees, confirmed or opened letters of credit, and/or bought back claims from letters of credit, and provided guarantees. The related entities paid contractual fees, remuneration and interest for these services. The contracts were concluded under standard business terms and conditions.

Investment Services

In the accounting period, ČSOB concluded contracts or had concluded contracts from previous accounting periods for the purchase and sale of investment instruments, ISDA contracts, custody contracts, contracts for the settlement of transactions with investment instruments, contracts for the administration of securities, depository contracts, agreements on the contact bank, and agreements on the authorization of fax instructions regarding settlement and administration of securities. The consideration provided by the related entities consisted of commissions and contractual fees. The contracts and agreements were concluded under standard business terms and conditions.

Mortgage Bonds and Bonds

In the accounting period, ČSOB concluded mandate contracts or had concluded mandate contracts from previous accounting periods for the procurement of an issue of mortgage bonds issued on the domestic market within the framework of a bond programme, and mandate contracts for the procurement of an issue of debentures, contracts for the subscription and purchase of mortgage bond/bonds, and contracts for the administration of the issue and arrangement of payments. The related entities paid contractual commissions for these services. The contracts were concluded under standard business terms and conditions.

Receivables

In the accounting period, ČSOB concluded contracts or had concluded contracts from previous accounting periods for the administration or assigning of receivables. The Bank provided contractual commissions to related entities for these services. The contracts were concluded under standard business terms and conditions.

OTHER RELATIONS

Insurance Contracts

In the accounting period, ČSOB concluded insurance contracts or had concluded insurance contracts from previous accounting periods. The consideration consisted of insurance and insurance compensation. The contracts were concluded under standard business terms and conditions.

Lease and Rent Contracts

In the accounting period, ČSOB concluded contracts or had concluded contracts from previous accounting periods for the rent/lease of non-residential areas, parking places and movable assets. The consideration consisted of contractual prices or the lease of certain items. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Employee Benefits

In the accounting period, ČSOB concluded cooperation agreements – employee benefits – or had such contracts concluded from previous accounting periods. The consideration consisted of the provision of employee benefits. The agreements were concluded under standard business terms and conditions.

Cooperation Agreements – Selling Products and Services

In the accounting period, ČSOB concluded cooperation agreements, framework, mandate and commission agent's contracts or had such contracts and agreements concluded from previous accounting periods whose subject was, in particular, cooperation in the areas of product sales, product sales agency, sales support and the use of technology for this purpose, consultancy, and opportunity-seeking. The consideration consisted of cooperation, contractual commissions, contractual fees or the sale of products. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Observance of Tax Obligations (VAT Grouping)

On 1 January 2010, ČSOB concluded agreement with certain of the entities controlled by the same controlling entity (ČMSS, ČSOB AM, ČSOB Penzijní společnost, ČSOB Pojišťovna, Hypoteční banka, KBC IT CZ) for cooperation on the common fulfilment of tax obligations (VAT) that was also valid and effective in the accounting period. The consideration consisted of the common fulfilment of tax obligations. The agreement was concluded under standard business terms and conditions.

Agreements on IT Services

In the accounting period, ČSOB concluded agreements or had concluded agreements from previous accounting periods for the provision of ICT services. The consideration consisted of contractual commissions. The contracts and agreements were concluded under standard business terms and conditions.

Agreements on Providing Services – Call Centre

In the accounting period, ČSOB concluded agreements or had concluded agreements from previous accounting periods for the provision of call centre services. The consideration consisted of contractual commissions. The contracts and agreements were concluded under standard business terms and conditions.

Agreements on Providing Services – Back Office

In the accounting period, ČSOB concluded agreements or had concluded agreements from previous accounting periods for the provision of services in the area of back-office and supporting processes, i.e., cooperation in risk management, development of models, management consulting, central procurement, providing services in the area of accounting and taxes, and processing of foreign payments. The consideration consisted of contractual commissions and consultations. The contracts and agreements were concluded under standard business terms and conditions.

Agreements on Providing Services – Facilities Management

In the accounting period, ČSOB concluded agreements or had concluded agreements from previous accounting periods for the provision of services in the area of facilities management, i.e., accounting and assets administration, food vouchers and catering, accommodation, postal services, documents archiving, telephone exchange or fleet management, and parking administration. The consideration consisted of contractual commissions. The contracts and agreements were concluded under standard business terms and conditions.

Agreements on Providing Services – Processing of Financial Reporting

In the accounting period, ČSOB concluded agreements or had concluded agreements from previous accounting periods for the provision of services in the area of the processing of financial reports for external users, especially for the Czech National Bank. The consideration consisted of contractual commissions. The contracts and agreements were concluded under standard business terms and conditions.

Agreements on Providing Services – Other Supporting Services

In the accounting period, ČSOB concluded agreements or had concluded agreements from previous accounting periods for cooperation and the provision of services in the area of internal audit and compliance, administrative support in the area of finance and accounting, human resources management including labour-law relations and utilization of employees, and administrative support. The consideration consisted of services and contractual commissions. ČSOB also concluded agreements on personal data processing or the transmission of information, the maintenance of confidentiality agreements, etc. The contracts and agreements were concluded under standard business terms and conditions.

Other

Sale of Teradata Server and S-Cube Software

On 9 April 2014, ČSOB sold Teradata Viewpoint Server 9155-F602 to KBC IT CZ for a price based on an appraisal. The agreement was concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of this agreement.

On 22 April 2014, ČSOB sold the S-Cube software to KBC IT CZ for a price based on an appraisal. The agreement was concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of this agreement.

DIVIDENDS AND OTHER MEASURES

On 14 April 2014, KBC Bank NV, being the sole shareholder within the scope of competence of the General Meeting, decided on the distribution of 2013 profit so that profit (dividends) to the value of CZK 8.109 bn were paid to the shareholder.

Within the accounting period, ČSOB similarly received revenue in the form of dividends from the companies BANIT, ČMSS, ČSOB Factoring, Hypoteční banka, ČSOB Advisory, ČSOB Leasing, ČSOB Pojišťovna, ČSOB AM, První certifikační autorita, and CBCB.

In the accounting period, ČSOB further adopted a resolution of the sole shareholder/partner on behalf of subsidiaries where the Bank is the sole shareholder/partner. These were the approval of the year-end financial statements, settlement of profit and the pay-out of dividends, election of Board members and their remuneration, a change to the Articles of Association, approval of the status of certain subsidiaries, and an increase/decrease in share capital and/or share premium.

7. Assessment of Incurred Damage for Controlled Entities

There was no damage incurred from contractual and other relationships between ČSOB and the controlling entity.

8. Evaluation of Relationship between Controlling Entity and Controlled Entity as well as between Controlled Entity and Entities Controlled by the Same Controlling Entity

The common synergy within the ČSOB group and KBC Group respectively provides positive effects in terms of effective cost management, human resources, and support for process configuration to ensure compliance with the company strategy. The cooperation also supports risk reduction for certain transaction risks such as risks connected with providing sensitive information to third parties.

The Bank provides banking services to its subsidiaries, associates and joint ventures, such as loans, overdrafts, interest-bearing deposits and current accounts, as well as other services.

The outstanding balances of assets and liabilities with KBC Bank NV and the entities under common control principally comprise the fair value of derivative financial instruments, debt instruments and repo transactions.

The mutual cooperation between companies in KBC group and the ČSOB group, as well as other companies controlled by ČSOB, supports the building of a common market position and allows an expansion of the range of financial services offered to their clients in the area of the product portfolio, including mortgages and building savings loans, asset management, collective investment, pension fund products, leasing, factoring and insurance products.

9. Accounting Period

This report describes relations for the accounting period from 1 January 2014 to 31 December 2014.

10. Conclusion

The Board of Directors of ČSOB states that this Report was prepared within the stated period and in line with Section 82 of the Act on Commercial Companies and Cooperatives. While processing the report the Board of Directors exercised due professional care, and the content of the Report reflects the purpose of the legal provisions in the Act on Commercial Companies and Cooperatives in relation to the ownership structure of ČSOB.

This Report was submitted for review by the Supervisory Board of ČSOB.

In Prague, 25 March 2015

Československá obchodní banka, a. s.

On behalf of the Board of Directors

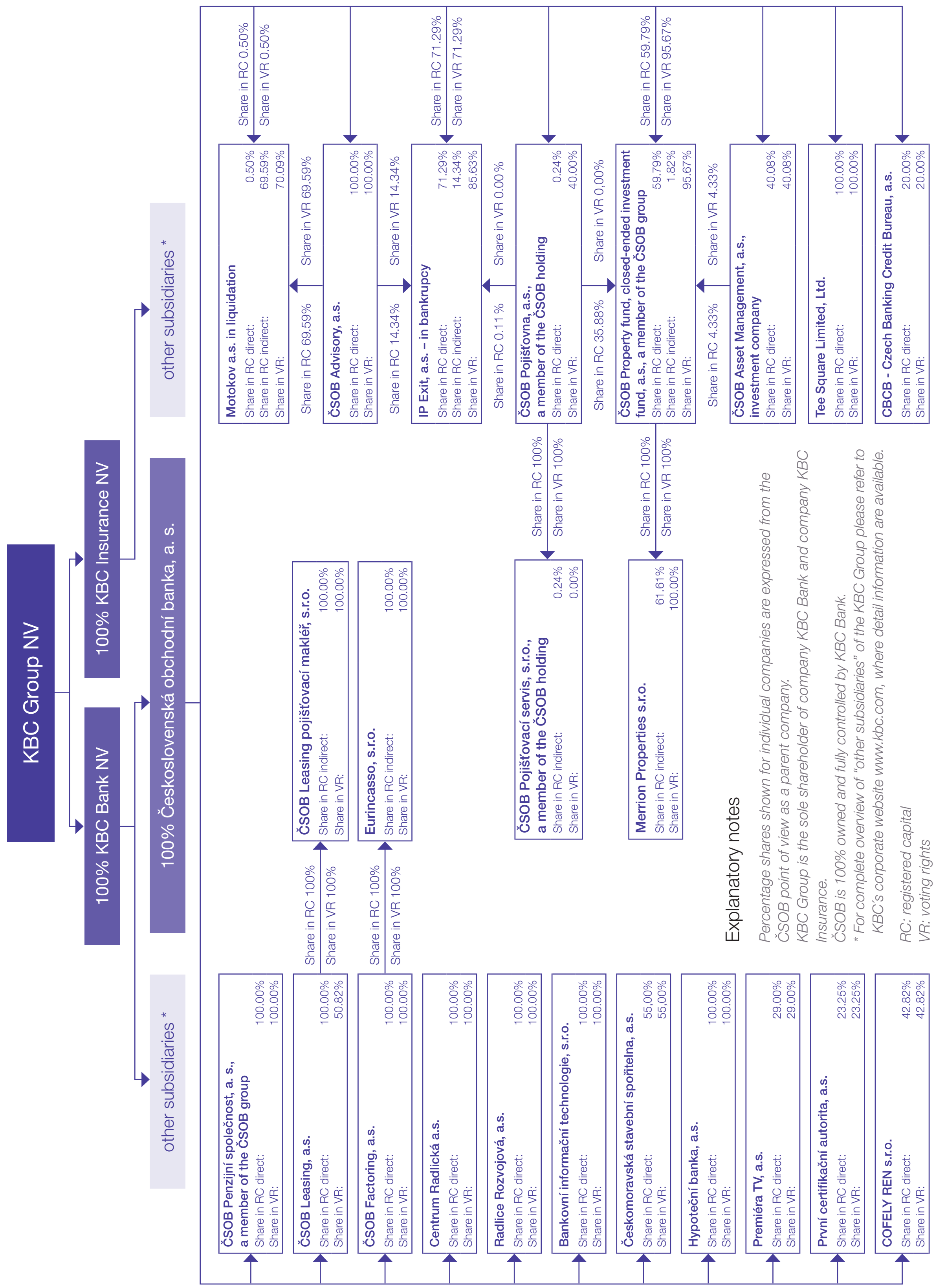
John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

Appendix to the Related Parties Report

Overview of Companies of the KBC Group and the ČSOB Group

(as at 31 December 2014)



Explanatory notes

Percentage shares shown for individual companies are expressed from the ČSOB point of view as a parent company.

KBC Group is the sole shareholder of company KBC Bank and company KBC Insurance.

ČSOB is 100% owned and fully controlled by KBC Bank.

** For complete overview of "other subsidiaries" of the KBC Group please refer to KBC's corporate website www.kbc.com, where detail information are available.*

RC: registered capital

VR: voting rights

ČSOB Securities

Shares

Shares and Share Capital of ČSOB

	as at 31 December 2014
ISIN	CZ0008000288
Class	Ordinary shares
Type	Bearer shares
Edition	Book-entered
Number of shares	292,750,001
Nominal value	CZK 20
Total issue volume	CZK 5,855,000,020
Amount of share capital	**CZK 5,855,000,020**
Paid up in full	100%

KBC Bank NV, with its registered address at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium, **is the sole shareholder of ČSOB**.

ČSOB shares are not publicly tradable on any official regulated market in either an EU member state, or an EEC member state.

ČSOB has not issued any convertible bonds or priority bonds as defined by Section 286 of the Act No. 90/2012 Coll., on Commercial Companies and Cooperatives. In 2014, ČSOB neither held any own shares, nor issued stock certificates.

Rights Attached to ČSOB Shares

Rights and obligations of a shareholder are stipulated by legal regulations, in particular by the Act on Commercial Companies and Cooperatives and the Articles of Association of ČSOB.

Shareholder rights attached to ČSOB shares include in particular:

a) The right to obtain a share in the company's profit (dividend) approved by the General Meeting for distribution according to the company's economic results.

b) The right to ask the Board of Directors to convene an Extraordinary Meeting of Shareholders to discuss proposed matters. This right only pertains to a shareholder or shareholders who hold shares with a total nominal value exceeding 1% of the share capital.

c) The right to attend the General Meeting of Shareholders. At a General Meeting, shareholders have the right to

1. vote;
2. request and receive explanation to matters related to the company and controlled persons, should such explanation be necessary to assess a topic discussed by the General Meeting; and
3. put forward proposals and counter-proposals.

d) The right to obtain a share in the liquidation balance when the company is dissolved trough liquidation.

Voting rights attached to ČSOB shares are unlimited. One share confers one vote.

Bonds and Investment Certificates

(outstanding)

In the Czech Republic, ČSOB is an issuer of bonds and mortgage bonds issued under the **ČSOB's bond issuance program**. The program was approved by the Securities Commission in November 2003 (including joint issue terms and conditions for a previously non-determined number of bond issues) with a maximum amount of CZK 30 bn of outstanding bonds and 10-year tenure.

By 31 December 2014, ČSOB issued the following bond issues under the bond issuance program in the Czech Republic:

Issue Name		ISIN	Issue Date	Volume of Bonds Issued (Nominal Value)	
Mortgage bond ČSOB 4.60%/2015		CZ0002000706	15. 11. 2005	CZKm	1,300
Bond ČSOB VAR/2018		CZ0003701799	22. 12. 2008	CZKm	10
Bond ČSOB Inflace I/2015		CZ0003702292	10. 3. 2010	CZKm	170
Bond ČSOB koš akcií/2015	Tranche no. 1	CZ0003702441	27. 10. 2010	CZKm	121.7
Bond ČSOB 3M PRIBOR/2016	Tranche no. 1	CZ0003702540	2. 3. 2011	CZKm	149
Bond ČSOB Inflace II/2016	2 Tranches	CZ0003702789	17. 3. 2011	CZKm	630
Bond ČSOB Měny II/2016	Tranche no. 1	CZ0003702821	5. 5. 2011	CZKm	280
Bond ČSOB koš akcií II/2016	Tranche no. 1	CZ0003702839	9. 6. 2011	CZKm	111.3
Bond ČSOB likvidní IV/2017	3 Tranches	CZ0003703050	2. 2. 2012	CZKm	2,360.16
Bond ČSOB 3M PRIBOR II/2017	Tranche no. 1	CZ0003703183	29. 3. 2012	CZKm	210
Bond ČSOB likvidní VI/2017	2 Tranches	CZ0003703472	6. 8. 2012	CZKm	2,000

The bond issuance program was closed. Any issue of bonds or any bond programe are not currently prepared.

By 31 December 2014, ČSOB issued the following investment certificate issues under the certificate issuance program (public or non public) in the Czech Republic:

Issue Name		ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
ČSOB Investment certificate VI.	Tranche no. 1	CZ0000300264	30. 10. 2013	EURm	4.121
ČSOB Investment certificate IV. credit		CZ0000300249	1. 11. 2013	CZKm	500.00
ČSOB Investment certificate VIII.	Tranche no. 1	CZ0000300298	16. 12. 2013	CZKm	189.65
ČSOB Investment certificate IX.	Tranche no. 1	CZ0000300306	19. 2. 2014	CZKm	135.61
ČSOB Investment certificate X.	Tranche no. 1	CZ0000300314	12. 3. 2014	USDm	4.983
ČSOB Investment certificate XI.	Tranche no. 1	CZ0000300322	19. 3. 2014	CZKm	134.5
ČSOB Investment certificate XII.	Tranche no. 1	CZ0000300330	16. 4. 2014	CZKm	175.47
ČSOB Investment certificate XIII.	Tranche no. 1	CZ0000300348	16. 4. 2014	CZKm	124.92
ČSOB Investment certificate XIV.	Tranche no. 1	CZ0000300355	28. 5. 2014	CZKm	134.45
ČSOB Investment certificate XV.	Tranche no. 1	CZ0000300363	28. 5. 2014	CZKm	75.10
ČSOB Investment certificate XVI.	Tranche no. 1	CZ0000300371	25. 6. 2014	CZKm	107.55
ČSOB Investment certificate XVII.	Tranche no. 1	CZ0000300389	25. 6. 2014	CZKm	93.05
ČSOB Investment certificate XVIII.	Tranche no. 1	CZ0000300397	20. 8. 2014	CZKm	129.34
ČSOB Investment certificate XIX.	Tranche no. 1	CZ0000300405	20. 8. 2014	CZKm	131.80
ČSOB Investment certificate XX.	Tranche no. 1	CZ0000300413	24. 9. 2014	CZKm	160.62
ČSOB Investment certificate XXI.	Tranche no. 1	CZ0000300439	15. 10. 2014	CZKm	199.67
ČSOB Investment certificate XXII.	Tranche no. 1	CZ0000300462	26. 11. 2014	CZKm	138.4
ČSOB Investment certificate XXIII.	Tranche no. 1	CZ0000300488	20. 11. 2014	USDm	2.822

Issue Name		ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
ČSOB Investment certificate XXIV.	Tranche no. 1	CZ0000300504	17. 12. 2014	CZKm	156.79
ČSOB Investment certificate XXV.	Tranche no. 1	CZ0000300512	17. 12. 2014	CZKm	114.27
ČSOB Investment certificate XXVI.	Tranche no. 1	CZ0000300520	17. 12. 2014	CZKm	166.68
ČSOB Investment certificate XXVII.	Tranche no. 1	CZ0000300538	17. 12. 2014	CZKm	159.47

In the first four months 2015, ČSOB issued the following certificates issues under the certificate issuance program (non public) in the Czech Republic:

Issue Name		ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
ČSOB Investment certificate XXVIII.	Tranche no. 1	CZ0000300561	25. 2. 2015	CZKm	154
ČSOB Investment certificate XXIX.		CZ0000300587	15. 4. 2015	USDm	5.894
ČSOB Investment certificate XXX.		CZ0000300579	15. 4. 2015	CZKm	169.35
ČSOB Investment certificate XXXI.		CZ0000300595	22. 4. 2015	CZKm	40.23
ČSOB Investment certificate XXXII.		CZ0000300603	22. 4. 2015	CZKm	66.77

The Bond ČSOB VAR/2018 bond is listed at the Regulated Market of the Prague Stock Exchange; trading started on 22 December 2008. The remaining bonds, mortgage bonds and investment certificates are unlisted.

The bond issuance program's prospectus, amendments thereto and pricing supplements and the prospectus of investment certificates as well as the prospectus of the Bond ČSOB VAR/2018 are available at ČSOB's website www.csob.cz.

The purpose of the issuance of bonds and of investment certificates by ČSOB is mainly to enlarge the offer of investment products for the Bank's clients.

Activity of ČSOB

ČSOB is active as a universal bank in the Czech Republic.

Legislation Governing ČSOB

As a legal entity subject to the Czech law, ČSOB follows the applicable legislation in force in the territory of the Czech Republic. Its activities are regulated primarily under the Banking Act, the Capital Market Undertakings Act and by the Corporations Act. **A single banking licence** granted to ČSOB in accordance with the Banking Act by the decision of the CNB of 28 July 2003, reference number 2003/3350/520, is of fundamental importance for ČSOB's business activities. In addition, ČSOB holds a certificate of registration in the register of insurance brokers and independent loss adjusters of insured accidents confirming that it was entered in the register as a tied insurance broker under number 038614VPZ on 20 March 2006.

Main Areas of Activities

ČSOB's Scope of Business is defined in the Articles of Association of ČSOB (in the part III. Scope of Business).

ČSOB, being **a universal bank**, carries out banking transactions and renders financial services according to the generally binding legal regulations of the Czech Republic regulating the domestic and foreign activities of banks. In particular, **it accepts deposits from the public and provides loans**.

In addition to these basic services, ČSOB is authorized to carry out the following activities according to the applicable Czech legal regulations:

- Investment in securities on the Bank's own account,
- Financial leasing,
- Payments and clearance,
- Issuance and administration of payment instruments,
- Provision of guarantees,
- Issuance of letters of credit,
- Provision of collection services,
- Provision of all investment services according to a special law,
- Issuance of mortgage bonds,
- Financial brokerage,
- Provision of depository services,
- Exchange office services (purchase of foreign exchange),
- Provision of banking information,
- Trading in foreign exchange values and gold on the Bank's own account or on a client's account,
- Rental of safe-deposit boxes,
- Activities directly related to the activities mentioned above, and
- Activities carried out for other parties if they relate to the running of the company and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the company.

ČSOB uses **outsourced ICT services** provided by *KBC Group NV Czech Branch, organizační složka,* Company Reg. No. 28516869, registered seat at Radlická 333/150, 150 57 Prague 5 (hereinafter KBC IT CZ).

Companies of the ČSOB group (for example Hypoteční banka, ČSOB Asset Management, ČSOB Penzijní společnost, ČSOB Leasing, ČSOB Factoring and also ČSOB Insurance) also use outsourced ICT services provided by KBC IT CZ.

Significant Contracts

Out of the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

ČSOB is unaware of any agreements in which it is a contracting party and that come into effect, are amended, or the efficiency of which terminates in consequence of any changes in the control circumstances implied by an offer for takeover.

On 1 September 2005, ČSOB and Česká pošta, s.p. (the "Czech Post Office") entered into the Agreement on the Provision of Services, which governs the cooperation between ČSOB and the Czech Post Office with respect to the distribution of ČSOB products in the network of post offices in the Czech Republic under the PSB brand. The Agreement on the Provision of Services is concluded for a fixed period and shall be effective until the end of 2017.

Trademarks, Licenses, Patents

Being aware of the ever-growing importance of intellectual property as a vital and integral part of the modern society, ČSOB pays extraordinary attention to the intellectual property rights and their protection.

ČSOB is the applicant/owner of more than a hundred **trademarks** registered with the trademark authorities established to protect industrial or other intellectual property rights and uses the trademarks for product and service identification when performing its business activities.

ČSOB is a holder of many **licenses**, mainly software products licenses, to support ČSOB's business activities.

ČSOB is not a **patent** applicant/owner.

Governmental, Legal or Arbitration Proceedings

which may have, or have had in the recent past, significant effects on ČSOB's and / or the ČSOB group's financial position or profitability

Information on Court Disputes

Information on court disputes are available in Notes 27 and 33 of the Notes to the Separate Financial Statements for the year 2014 according to EU IFRS and in Notes 29 and 35 of the Notes to the Consolidated Financial Statements for the year 2014 according to EU IFRS.

The most significant ČSOB's court dispute (against ČSOB) as at 31 December 2014, is shown in the following table including the dispute amount (without accessories).

Counterparty of the Dispute	Liability (CZKm)
ICEC-HOLDING, a.s.	11,893

According to the Bank, this legal dispute does not constitute any risk, given its absolute unreasonableness. In addition, the legal dispute has the risk of any potential defeat covered by the CNB's indemnity issued in connection with the sale of the IPB enterprise, according to the Bank.

Other legal disputes shown in the ČSOB Annual Report 2013 (Additional Information section) were closed in the first half of 2014.

Expenses on Research and Development

In 2014, ČSOB had outlays of CZK 124 m for research and development (2013: CZK 135 m and also Staff expenses in 2013: CZK 81 m). 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.

Other Information

Remuneration Charged by Auditors for 2014

Information in accordance with Section 118 (4) (k) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

Type of Service (CZKths; excl. VAT)	ČSOB	Consolidated ČSOB Unit
Statutary audit of annual financial statements	18,135	28,506
Other assurance services	5,624	5,624
Tax advisory	0	0
Other non-audit services	0	0
Training / consultation	13	13
Total	**23,772**	**34,143**

Contribution to the Securities Traders Guarantee Fund

Information in accordance with Section 16 (1) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

As a securities trader, ČSOB contributes to the Guarantee Fund, which ensures the guarantee system from which compensation is paid to the clients of a securities trader that is not able to fulfil its obligations to its clients.

Contribution to the Securities Traders Guarantee Fund for 2014 (CZKths)	ČSOB	Consolidated ČSOB Unit*
Basis for calculation of the contribution	1,059,218	1,059,218
The contribution	21,184	21,184

** Contribution of ČSOB AM (CZK 1,689 ths) is not included in the total amount of the contribution of the consolidated ČSOB Unit, since the company is included in the Consolidated Financial Statements of the ČSOB group using the equity method of consolidation in 2014.*

Information Published within this Annual Report

Information	Reference [1]
Important Events and Significant Changes in 2014	Report of the Board of Directors Managing and Supervisory Bodies Corporate Governance Policy Note 3 [2]
New Products and Services Introduced in 2014	Report of the Board of Directors
Description of Markets where ČSOB Competes	Company Profile Report of the Board of Directors
Profit Distribution	Note 13
Activities Undertaken in the Area of Environmental Protection [3]	Corporate Social Responsibility
Information on Entities Included into the ČSOB Consolidated Financial Statements as at 31 December 2014	Companies of the ČSOB group Note 3 [2]
Expected Economic and Financial Situation of ČSOB in 2015	Report of the Board of Directors

1) The content refers to another section of this Annual Report or to a note in Notes to the Separate Financial Statements for the year 2014 according to EU IFRS (unless stated otherwise).
2) The content refers to a note in Notes to the Consolidated Financial Statements for the year 2014 according to EU IFRS.
3) Together with this Annual Report, ČSOB also publishes the ČSOB Social Responsibility Report 2014.

Annex to Additional Information

Information according to Annex 14 of Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Events after the Reporting Period

Chapter	Part
Companies of the ČSOB Group	Companies of the ČSOB Group
Corporate Governance	Managing and Supervisory Bodies, ČSOB's Organisation Chart
Additional Information	Bonds and Investment Certificates
Notes to the Consolidated Financial Statements for the year 2014	Events after the Reporting Period (Note 39)
Notes to the Separate Financial Statements for the year 2014	Events after the Reporting Period (Note 37)

Information on the Publication of the ČSOB Annual Report

ČSOB will publish its Annual Report 2014 on its **Internet website at www.csob.cz**.

The **Czech National Bank** will add the ČSOB Annual Report 2014 to the collection of deeds of the **Register of Companies** pursuant to Section 21a of the Accounting Act.

Information in accordance with Section 99 of Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Annual reports and other obligatory information are available (by the date of release of this Annual Report) on ČSOB's Internet website in the section ČSOB – O nás – **Povinně uveřejňované informace**:
http://www.csob.cz/cz/Csob/O-CSOB/Povinne-informace/Stranky/default.aspx.

Annex to Additional Information

Information according to Annex 14 of Decree No. 163/2014 Coll.,

on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Information about Capital and Capital Requirements pursuant to Article 437 (1) (a) of Regulation (EU) 575/2013

(CZKths)		the Bank 31. 12. 2014	Regulated Cons. Unit 31. 12. 2014
Items from Statement of Finacial Position	**Total Shareholders' Equity**	**76,614,275**	**85,375,170**
	Share capital	5,855,000	5,855,000
	Share premium	14,672,666	15,508,552
	Accumulated Other comprehensive income	6,229,417	6,912,176
	Reserve funds	18,686,648	18,686,648
	Retained earnings for the previous periods	17,962,741	24,814,927
	Own shares	0	0
	Net profit for the period	13,207,803	13,597,866
	Non-controlling interest	0	0
Adjustments to CET1	**Total Adjustments to CET1**	**(22,758,229)**	**(25,271,372)**
	Gains / (losses) on hedging instruments (Cash Flow Hedging)	(3,201,630)	(3,179,992)
	Additional value adjustment	(224,887)	(205,652)
	Goodwill	(2,283,269)	(2,202,159)
	Other intangible assets, net of tax	(37,845)	(710,749)
	Insufficient coverage of expected credit losses (lack of provissions)	(755,008)	(1,642,770)
	Unusable profit	(13,207,803)	(13,597,866)
	Non-controlling interest	0	0
	Other transitional adjustments to CET 1	(3,027,788)	(3,732,185)
Tier 2 Capital	**Total Tier 2 Capital**	**511,111**	**748,833**
	IRB Excess of provisions over expected losses eligible	511,111	748,833
	Total Capital	**54,367,157**	**60,852,631**
	Tier 1 (T1) Capital	**53,856,046**	**60,103,798**
	Common Equity Tier 1 (CET1) Capital	**53,856,046**	**60,103,798**
	Tier 2 (T2) Capital	**511,111**	**748,833**

Information about Capital and Capital Requirements pursuant to Article 438 (c) to (f) of Regulation (EU) 575/2013

(CZKths)			the Bank 31. 12. 2014	Regulated Cons. Unit 31. 12. 2014
In the case of institutions that calculate the exposure values according to part three title II chapter 2.8% of the exposure value for each category of exposure indicated in Article 112 of Regulation (EU) 575/2013	Exposures to central governments or central banks	Article 438 (c)	0	0
	Exposures to regional governments or local authorities		0	0
	Exposures to public sector entities		0	0
	Exposures to multilateral development banks		0	0
	Exposures to international organisations		0	0
	Exposures to institutions		0	11,981
	Exposures to corporates		0	125,141
	Retail exposures		0	204,702
	Exposures secured by mortgages on immovable property		0	113,784
	Exposures in default		0	13,926
	Exposures associated with particularly high risk		0	0
	Exposures in the form of covered bonds		0	0
	Items representing securitisation positions		0	0
	Exposures to institutions and corporates with a short-term credit assessment		0	0
	Exposures in the form of units or shares in collective investment undertakings		0	0
	Equity exposures		3,148,972	30,134
	Other items		0	286,422
Capital requirements calculated according to Article 92 (3) (b) and (c) of Regulation (EU) 575/2013	For position risk	Article 438 (e)	294,155	267,161
	For large exposures exceeding the limits set in Articles 395 to 401, if the institution is permitted to exceed these limits		0	0
	For currency risk		0	50
	For settlement risk		0	0
	For commodity risk		50,621	50,621
Capital requirements calculated according to part three title III chapters 2, 3 and 4 of Regulation (EU) 575/2013 and made available separately	Capital requirement pursuant to title III chapter 2	Article 438 (f)	3,916,866	4,570,899
	Capital requirement pursuant to title III chapter 3		0	0
	Capital requirement pursuant to title III chapter 4		0	0
In the case of institutions that calculate the exposure values according to part three title II chapter 3.8% of the exposure value for each category of exposure indicated in Article 147. In the case of the retail exposure category, this requirement is used for each category of exposure that corresponds to differing correlation according to Article 154 (1) to (4) of Regulation (EU) 575/2013.	Exposures to central governments or central banks	Article 438 (d)	114,579	114,579
	Exposures to institutions		4,638,875	1,152,207
	Exposures to corporates		9,373,917	9,277,967
	Retail exposures		1,488,689	8,220,092
	Equity exposures		0	0
	Items representing securitisation positions		0	0
	Other assets not having the character of a credit liability		1,770,069	1,900,184
In the case of the equity exposures category this requirement is used for	Equity exposures traded on regulated markets			
	Equity exposures not traded on regulated markets in sufficiently diversified portfolios and other exposures		286,542	125,885
	Exposures that in the area of capital requirements are subject to transitional supervision rules		0	0
	Exposures that in the area of capital requirements are subject to provisions relating to retention of legal effects		0	0
	Each of the approaches indicated in Article 155		0	0
** Risk exposure for Credit valuation adjustment*			*382,122*	*382,122*
** Risk exposure amount for Position, foreign exchange and commodities risks under internal models*			*1,045,779*	*1,045,779*

** This items was added for observance of required reporting CNB.*

Capital Ratios

	the Bank	Regulated Cons. Unit
	31. 12. 2014	31. 12. 2014
Capital ratio for Equity capital Tier 1	16.25%	17.24%
Capital ratio for Tier 1 capital	16.25%	17.24%
Capital ratio for Total capital	16.41%	17.45%

Ratios Indicators

		the Bank
		31. 12. 2014
Return on average assets (ROAA)		1.35%
Return on average Tier 1 capital (ROAE)		24.48%
Assets per employee*	CZKths	126,023
Administrative costs per employee*	CZKths	1,932
Profit after tax per employee*	CZKths	1,975

** According to CNB's methodology (Registered number of employees).*

Statement of the Supervisory Board of ČSOB

The Supervisory Board has performed its tasks in compliance with a legal regulation, ČSOB's Articles of Association and the Supervisory Board's Rules of Conduct. The Board of Directors has submitted regular reports on ČSOB's activities and its financial situation to the Supervisory Board.

The Separate Financial Statements of the Bank and Consolidated Financial Statements of the Bank and its subsidiaries (the "ČSOB group") have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The Separate Financial Statements were audited by Ernst & Young Audit, s.r.o. The auditors have opined that the Separate Financial Statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The auditors have also opined that the Consolidated Financial Statements present fairly, in all material respects, the financial position of the ČSOB group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Supervisory Board has reviewed the 2014 Separate Annual Financial Statements and has accepted the results of the audit of the 2014 Separate Annual Financial Statements and has recommended to the General Meeting to approve them.

In Prague, 9 April 2015

Pavel Kavánek
Chairman of the Supervisory Board

Decision of the Sole Shareholder of ČSOB

Rozhodnutí jediného akcionáře při výkonu působnosti valné hromady

ve smyslu ustanovení § 12 zákona č. 90/2012 Sb., zákona o obchodních korporacích

KBC Bank NV, se sídlem v Bruselu, Havenlaan 2, PSČ 1080, Belgické království (dále jen „**Jediný akcionář**"), společnost založená a existující podle práva Belgického království, zapsaná v Rejstříku právnických osob Brusel pod číslem 0462.920.226,

jako jediný akcionář společnosti **Československá obchodní banka, a. s.**, se sídlem Radlická 333/150, PSČ 150 57 Praha 5, Česká republika, IČO 000 01 350, zapsané v obchodním rejstříku vedeném Městským soudem v Praze, oddíl BXXXVI, vložka 46 (dále jen „**Společnost**"), tímto rozhoduje takto:

(a) schvaluje řádnou nekonsolidovanou účetní závěrku Společnosti k 31. prosinci 2014 a řádnou konsolidovanou účetní závěrku Společnosti k 31. prosinci 2014 sestavené podle Mezinárodních standardů účetního výkaznictví ve znění přijatém Evropskou unií;

(b) bere na vědomí:

(i) zprávu představenstva Společnosti o podnikatelské činnosti Společnosti a o stavu jejího majetku za rok 2014, a

(ii) zprávu o kontrolní činnosti dozorčí rady Společnosti v roce 2014 a o přezkoumání řádné účetní závěrky sestavené k 31. prosinci 2014; a

(c) schvaluje rozdělení nekonsolidovaného čistého zisku Společnosti za rok 2014 uvedeného v řádné nekonsolidované účetní závěrce Společnosti k 31. prosinci 2014 v celkové výši 13 207 802 885,04 Kč následujícím způsobem:

(i) čistý zisk Společnosti za rok 2014 uvedeného v řádné nekonsolidované účetní závěrce Společnosti k 31. prosinci 2014 v celkové výši 13 207 802 885,04 Kč se rozděluje mezi akcionáře;

Jedinému akcionáři bude vyplacen podíl na zisku ve výši 45,12 Kč na akcii. Nárok na výplatu podílu na zisku

Decision of the Sole Shareholder in Exercising the Powers of the General Meeting

in accordance with Sec. 12 of the Act No. 90/2012 Coll., the corporations act

KBC Bank NV, with its registered office at Brussels, Havenlaan 2, Post Code 1080, Belgium (hereinafter referred to as the "**Sole Shareholder**"), a company founded and organised under the Belgian law, registered in the Register of Legal Persons under number 0462.920.226,

as a sole shareholder of **Československá obchodní banka, a. s.**, with its registered office at Prague 5, Radlická 333/150, Postal Code 150 57, the Czech republic, having Identification Number: 000 01 350, registered with the Commercial Register maintained by the Municipal Court in Prague, Section BXXXVI, Insert No. 46 (hereinafter referred to as the "**Company**"), hereby decides as follows:

(a) approves regular separate financial statements of the Company for the year ended on 31 December 2014 and regular consolidated financial statements of the Company for the year ended on 31 December 2014 prepared in accordance with IFRS as adopted by the EU, and

(b) takes knowledge of:

(i) Company´s Board of Directors report on Company´s business activity and state of its assets for the year of 2014, and

(ii) Company´s Supervisory Board Report on its control activities during the year of 2014 and review of Company´s regular financial statements as of the day of 31st December 2014; and

(c) approves distribution of the statutory net profit for the year 2014 as stated in the regular separate financial statements of the Company for the year ended on 31 December 2014 in the total amount of CZK 13 207 802 885.04 as follows:

(i) the statutory net profit of the Company for the year 2014 as stated in the regular separate financial statements of the Company for the year ended on 31 December 2014 in the amount of CZK 13 207 802 885.04 shall be distributed to the shareholders.

The Sole shareholder shall be paid the share of profit in the amount of CZK 45.12 per share. The claim for share vzniká okamžikem tohoto rozhodnutí. Podíl na zisku musí být vyplacen do 30 dnů ode dne přijetí tohoto rozhodnutí.

of profit is due when this decision is adopted. The share of profit shall be paid no later than 30 days from the claim is due.

V případě rozporu mezi oběma jazykovými verzemi je rozhodující verze česká.

In case of any discrepancy between both language versions, the Czech one shall prevail.

V Bruselu dne 9. dubna 2015

Brussels, on the day of April 9, 2015

KBC Bank NV

Jméno: **Christine Van Rijsseghem**
Výkonný ředitel

Jméno: **Johan Tyteca**
Secretary of the Board of Directors and Group Secretary

KBC Bank NV

Name: **Christine Van Rijsseghem**
Executive Director

Name: **Johan Tyteca**
Secretary of the Board of Directors and Group Secretary

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2014

hereby declare that, to their best knowledge, the ČSOB Annual Report 2014 gives a true and fair account of ČSOB and its consolidation unit's financial situation, business activities and business results achieved in the previous financial year as well as the outlook for the future trends in the financial situation, business activities and business results.

In Prague, 24 April 2015

Československá obchodní banka, a. s.

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Československá obchodní banka, a. s.:

I. We have audited the consolidated financial statements of Československá obchodní banka, a. s., and its subsidiaries (or "the Bank") as at 31 December 2014 presented in the annual report of the Bank on pages 60 - 171 and our audit report dated 20 March 2015 is presented in the annual report of the Bank on pages 58 - 59. We have also audited the separate financial statements of Československá obchodní banka, a. s. (or "the Bank") as at 31 December 2014 presented in the annual report of the Bank on pages 174 - 279 and our audit report dated 20 March 2015 is presented in the annual report of the Bank on pages 172 - 173 (both referred to further as "financial statements").

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

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report of the Bank on pages 1 - 53 and 280 - 297 is consistent with that contained in the audited financial statements as at 31 December 2014. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Bank. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting information presented in the annual report consistent, in all material respects, with the financial statements described above.

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

Jan Zedník, Auditor
License No. 2201

Douglas Burnham
Partner

24 April 2015
Prague, Czech Republic

ABBREVIATIONS

Abbreviation	Business Company
ČSOB the Bank	Československá obchodní banka, a. s.
PSB	Poštovní spořitelna (Postal Savings Bank; part of ČSOB)
ČSOB group	group of companies of the ČSOB group (not a legal entity)

Abbreviation	Business Company
BANIT	Bankovní informační technologie, s.r.o.
Bausparkasse Schwäbisch Hall	Bausparkasse Schwäbisch Hall AG
CBCB	CBCB - Czech Banking Credit Bureau, a.s.
Centrum Radlická	Centrum Radlická a.s.
CNB	Czech National Bank
CZSO	Czech Statistical Office
ČMSS	Českomoravská stavební spořitelna, a.s.
ČSOB Advisory	ČSOB Advisory, a.s.
ČSOB AM / ČSOB Asset Management	ČSOB Asset Management, a.s., investment company
ČSOB Factoring	ČSOB Factoring, a.s.
ČSOB Leasing	ČSOB Leasing, a.s.
ČSOB Leasing pojišťovací makléř	ČSOB Leasing pojišťovací makléř, s.r.o.
ČSOB PF Stabilita	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group
ČSOB PS / ČSOB Penzijní společnost	ČSOB Penzijní společnost, a. s., a member of the ČSOB group
ČSOB Pojišťovna	ČSOB Pojišťovna, a. s., a member of the ČSOB holding
ČSOB Pojišťovací servis	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding
ČSOB Property fund	ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group
ČSOB SK	Československá obchodná banka, a. s. (Slovak Republic)
Hypoteční banka	Hypoteční banka, a.s.
IPB	Investiční a Poštovní banka, a.s.
KBC Bank	KBC Bank NV
KBC Group	KBC Group NV (legal entity)
KBC group	group of companies of the KBC Group NV
KBC IT CZ	KBC Group NV Czech Branch, organizational unit
KBC Insurance / KBC Verzekeringen	KBC Insurance NV (i.e. KBC Verzekeringen NV)
KBC Lease Holding	KBC Lease Holding NV
KBC Participations Renta C	KBC Participations Renta C SA
KBC Securities	KBC Securities NV
Merrion Properties	Merrion Properties s.r.o.
MF CR	Ministry of Finance of the Czech Republic
Motokov	MOTOKOV a.s. in liquidation
Patria Corporate Finance	Patria Corporate Finance, a.s.
Patria Direct	Patria Direct, a.s.
Patria Finance	Patria Finance, a.s.
Patrina Online	Patrina Online, a.s.
Property LM	Property LM, s. r. o. in liquidation
Property Skalica	Property Skalica, s.r.o.
Radlice Rozvojová	Radlice Rozvojová, a.s.
Patria group	group of companies of parent company Patria Online, a.s. (not a legal entity)
Transformed fund / Transformed pension fund	Transformovaný fond Stabilita ČSOB Penzijní společnosti, a. s., a member of the ČSOB group

Financial Calendar for 2015

ČSOB Group Unaudited Financial Results Releases

(In accordance with EU IFRS)

Financial Results		Date of Release
as at 31 December 2014	4Q / FY 2014	12 February 2015
as at 31 March 2015	1Q 2015	12 May 2015
as at 30 June 2015	2Q / 1H 2015	6 August 2015
as at 30 September 2015	3Q / 9M 2015	16 November 2015
as at 31 December 2015	4Q / FY 2015	18 February 2016

Note: This schedule is indicative only; terms might be subject to change during the year.

CONTACT DETAILS

Investor Relations

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The 2014 ČSOB Annual Report was released in electronic version at www.csob.cz on 28 April 2015.