ANNUAL REPORT 2015

Československá obchodní banka, a. s.

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
Data box	8qvdk3s
Telephone	+420 224 111 111
Internet address	https://www.csob.cz
E-mail	info@csob.cz
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 a mathematical basis from non-rounded figures.
Data for the years 2015, 2014 and 2013 are adjusted for the effect of the joint venture and associated companies.

KEY FIGURES

Consolidated, EU IFRS	2015	2014	2013
Financial Statements Figures			
Balance sheet at the year end *(CZKm)* [9]			
Total assets	956,325	865,639	962,954
Loans and receivables	579,448	506,635	475,543
Deposits received from other than credit institutions	621,927	599,143	591,619
Debt securities in issue	166,492	27,928	31,018
Shareholders' equity [1]	90,541	85,372	80,249
Statement of income *(CZKm)* [9]			
Operating income	32,542	31,443	31,202
Operating expenses	15,687	14,981	14,808
Impairment of loans and receivables (incl. provisions)	983	927	1,206
Profit before tax	16,461	16,178	15,900
Profit for the year [1]	14,010	13,604	13,658
Ratios *(%)*			
Return on average equity (ROAE) [2, 9]	16.4	16.4	18.2
Return on average assets (ROAA) [2, 9]	1.49	1.40	1.53
Cost / income ratio [2, 9]	48.2	47.6	47.5
Capital adequacy ratio – the Bank [3]	18.5	16.4	15.3
Capital adequacy ratio – the ČSOB group [3]	19.4	17.5	15.6
Leverage ratio [4]	5.25	5.15	5.46
Net stable funding ratio [4]	134.9	135.9	135.7
Loan-to-deposit ratio [2, 9]	79.9	76.4	75.9
Return on assets – the Bank [9]	1.59	1.57	1.56
Return on assets – the ČSOB group [9]	1.47	1.57	1.42
General Information (as at 31 December 2015)			
Number of employees – the ČSOB group [5]	7,453	7,406	7,241
Number of clients – the Bank (in millions) [6]	2.831	2.855	2.947
Number of branches – the Bank [7]	316	319	319
Number of ATMs	1,062	1,047	1,006

ČSOB's Credit Rating [8] (as at 31 December 2015)

Rating Agency	Long-term Rating	Outlook	Short-term Rating	Long-term Rating valid since
Moody's	A2	stable	P-1	20 June 2012
Standard & Poor's	A	negative	A-1	1 October 2014

1) Attributable to equity holders of the Bank.
2) As at the year end; for definition please refer to page 28.
3) According to the CNB methodology; based on Basel III (CRR/CRD IV); as at the year end. End of period regulatory capital (ratios) does not reflect retained earnings until shareholder's approval of the audited financial statements in the following year.
4) According to Basel III. For definitions, please refer to page 28.
5) Full-time equivalent employees; for details please refer to the chapter About us – Company profile.
6) Due to methodological change 2014 figure was restated, thus 2013 figure is not fully comparable.
7) Includes ČSOB branches and Era financial centers, i.e. without approximately 3,100 post offices.
8) Credit ratings as of the date of this Annual Report are part of the Report of the Board of Directors.
9) Figures for 2013 have been restated due to methodological changes (change in ČMSS's consolidation method since 2014).

OPENING STATEMENT

Dear ladies and gentlemen,

2015 was a crucial year for the ČSOB group. The whole banking industry was learning to cope under the unforeseen condition of zero interest rates, many traditional banking services are being commoditized and banks are looking for opportunities in new areas. ČSOB, as the only banking-insurance group with a complex insurance product offering in the Czech Republic, has been very well-prepared for this moment and, as an outcome, we achieved excellent results and made significant progress towards reaching our goal of becoming the reference on the market.

For ČSOB, the past year chiefly involved transforming retail banking and introducing innovations unique on the market. The transformation, which clients registered mainly thanks to the introduction of new products such as Plus Konto and Smart key, was also supported by the start of modernising the branch network. At the same time, we launched a new “family” communication concept, which people can now see in all our advertising campaigns. As far as innovations are concerned, we made significant progress mainly in the sphere of electronic channels, where we launched a completely new website focusing on our clients’ needs, began communicating with ČSOB clients via social networks and added the opportunity of arranging some of the insurance products using smartbanking.

We have lived in a dynamic age and are now closer to our clients than ever before thanks to transforming our retail banking concept.

The success achieved in 2015 proves that we have set out in the right direction and that clients appreciate our products and services. As a result of their support, we were top of the banking market in key areas – outstanding volume of total loans provided, outstanding volume of mortgages, mutual funds and leasing. Furthermore, the number of clients actively using our services has increased year-on-year, while the quality of our credit portfolio remains excellent just like last year.

One of the pillars of our corporate culture is long-term sustainable profit growth which directly reflects the concept of corporate sustainability and responsibility (CSR) adhered to across the whole KBC Group. CSR at ČSOB – especially, but not solely, in the sense of community investment, philanthropy and employee engagement – has always represented a key component of the corporate philosophy. This approach has gradually flourished following CSR trends and perspectives. In 2015, the principles of sustainability and responsible business within our CSR strategy have been further developed so as to better respond to the expectations of our stakeholders – our shareholders, clients, employees, management, partners in public administration, business, as well as in the non-profit sector, and, last but not least, the general public. At ČSOB we believe that the CSR strategy of a successful company mirrors the values and beliefs of each and every one in the company – all of them contribute to fulfillment of the principles of responsible business and our position as a responsible company. We dare to be a leader in corporate responsibility and sustainability.

We made enormous progress in 2015 but we still have a lot to do. In 2016, we will continue to concentrate on increasing our clients' comfort and introducing unique innovations. Therefore, in 2016, they will be able to pay in shops using mobile phones thanks to the new ČSOB mobile wallet, sign all documents at branches electronically, pay off mortgages more flexibly and insure themselves against the risks lurking on the internet. We will also introduce a major innovation for our corporate clients – a completely new internet banking platform.

Ladies and gentlemen, hereby, I would like to thank all of our employees for their excellent work and our clients for their trust, both of which I greatly appreciate.

John Arthur Hollows
Chairman of the Board of Directors

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CZECH ECONOMY

General Economic and Market Indicators

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

The Czech economy fared surprisingly well in 2015. Economic growth exceeded the 4% mark although the end of the year was affected by extraordinary events, which temporarily slowed down the performance of the economy. The main contributors to last year's GDP acceleration included investment and household consumption. Both private and public investments, financed from EU Funds, contributed to the significant acceleration of investment activity.

Confidence in the Czech economy among households increased in 2015, the evidence of which was not only increased consumption, i.e., record-breaking figures from the domestic retail sector, but also improved demand for housing investment. This – also because of the mortgage boom – led to a recovery of the real estate market, whether in terms of transactions or in terms of a moderate increase in real estate prices.

The willingness of businesses to invest continued to improve last year. The prospects for the domestic as well as European economies improved. Business profits rose as did the availability of bank loans, supported by improving sentiment, growing liquidity and falling interest rates. Domestic businesses and, eventually, also households received a strong stimulus, as fuel and energy prices fell significantly.

The development of the supply side of the economy was characterised by a boom in manufacturing industry – notably passenger car production – accompanied by a construction output recovery, encouraged by public orders. Positive trends could also be seen in most service sectors, especially trade and transport, telecommunications and tourism.

The economic upturn largely helped improve the labour market situation, making the Czech Republic the country with the second lowest second unemployment in the EU as a whole. Despite the rapid decrease in unemployment, neither wage growth acceleration nor an increase in inflationary pressures occurred in the Czech economy. Therefore, the CNB left its base interest rate unchanged throughout the year 2015 and did not even change its exchange rate commitment, which compelled the central bank to intervene against an appreciation of the Czech currency from July onward.

The foreign exchange interventions, which the CNB carried out almost every month since July, increased the amount of foreign exchange reserves by approximately EUR 9 bn and, at the same time, led to a significant rise in free liquidity on the financial market, i.e. to a decline in government bond yields for short and medium-term maturities into negative territory. This debt service reduction helped achieve the best public budget result since 1995.

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

Indicator [1]	Measurement Unit	2015	2014	2013	2012	2011
Nominal GDP	CZKbn	4,472	4,261	4,077	4,042	4,023
Real GDP growth	% change, Y / Y	4.2	2.0	(0.5)	(0.9)	2.0
Real GDP per capita	CZKths	400.5	385.1	378.1	380.2	384.1
Real GDP growth per capita	% change, Y / Y	4.0	1.8	(0.5)	(1.0)	2.2
Inflation rate (CPI)	%, year end	0.1	0.1	1.4	2.4	2.4
Unemployment rate	%, average	5.1	6.1	7.0	7.0	6.7
General government budget balance / Nominal GDP	%	(0.4)	(2.0)	(1.3)	(4.0)	(2.7)
General government debt	CZKbn	1,836.2	1,819.1	1,840.4	1,805.4	1,604.0
General government debt / Nominal GDP	%	41.1	42.7	45.1	44.7	39.9
Exports of goods and services [2]	% change, Y / Y	6.2	13.0	1.7	7.6	10.2
Imports of goods and services [2]	% change, Y / Y	6.4	12.8	0.6	6.4	9.1
Trade balance / Nominal GDP [2]	%	4.7	5.2	4.1	3.1	1.9
Interest rate (three month PRIBOR) [2]	%, average	0.3	0.4	0.5	1.0	1.2
CZK / EUR exchange rate [2]	average	27.3	27.5	26.0	25.1	24.6

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

REPORT OF THE BOARD OF DIRECTORS

Highlights and Main Events

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

The Year 2015 for ČSOB: Net profit growth, excellent loan quality, investments in digital services

Balanced growth of loans, deposits and assets under management, combined with strong performance of financial markets were the main factors of the net profit growth in 2015. The ongoing growth of mortgages, SME / corporate loans and leasing were the main factors of the loan portfolio increase. With CZK 51 bn of newly sold mortgages, 2015 was a record high year in the history of ČSOB. On the deposit side, the growth was fully driven by current accounts. Despite the growth in business volumes, ČSOB managed to keep excellent loan portfolio quality with the non-performing loans (NPL) decreasing to 3.64%, the NPL ratio remains the lowest for over 6 years.

Key Figures of the ČSOB Group in 2015

- In 2015, the ČSOB group's **net profit** attributable to the owners of the parent according to EU IFRS came in at **CZK 14.0 bn** (+3% year on year).
- **Credit portfolio** (including ČMSS) increased to **CZK 582 bn** (+6% year on year), mainly thanks to mortgages, SME / corporate loans and leasing. **Group deposits** (including ČMSS, without repo operations with institutional clients) grew to **CZK 700 bn** (+5% year on year).

The ČSOB group closely manages credit risk and maintains strong capital and liquidity positions as reflected by the following 2015 year-end figures:

- **Credit costs** increased in 2015 in absolute terms. The credit cost ratio (CCR) remained stable year on year at **18 bps**.
- The **loan to deposit** ratio reached **79.9%** and the **Tier 1** ratio increased notably to **19.1%**.
- In May 2015, a **dividend per share of CZK 45.12** was distributed from the non-consolidated net profit for the year 2014; the total amount was CZK 13.2 bn.

Share Capital

On 16 December 2015, KBC Bank as ČSOB's sole shareholder decided to increase the share capital of ČSOB by CZK 20 from current CZK 5,855,000,020 to CZK 5,855,000,040 – one piece of common uncertificated bearer share with a nominal value of CZK 20 was subscribed, the issue price of the subscribed share is CZK 5,420,000,000.

Recorded by an entry in the Commercial Register on 21 December 2015.

For more details please refer to the Separate Financial Statements for the year 2015 (Note 28) and to the Consolidated Financial Statements for the year 2015 (Note 30).

Changes in Ownership Interests

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

For more details please refer to the Separate Financial Statements for the year 2015 (Note 18) and to the Consolidated Financial Statements for the year 2015 (Note 3).

Insourcing ICT

With effect from 31 December 2015, ICT (selected activities and processes, including a number of employees, assets and liabilities related to the ICT function) were reintegrated from KBC Group Czech Branch back to ČSOB. There is no change in the scope of ICT services provided to the ČSOB group. ICT insourcing assumes mainly a lower administrative burden and higher flexibility in solving the requests of internal clients.

For more details please refer to the Separate Financial Statements for the year 2015 (Note 18) and to the Consolidated Financial Statements for the year 2015 (Note 3).

Changes in ČSOB's Managing and Supervisory Bodies

As of 1 January 2015, Tomáš Kořínek was appointed as a member of ČSOB's Board of Directors and Martin Jarolím was appointed as a member of ČSOB's Supervisory Board.

On 31 March 2015, Koen Wilmots ended his term in office as a member of ČSOB's Board of Directors.

On 1 January 2015, Marko Voljč ended his term in office as a member of ČSOB's Supervisory Board.

On 15 April 2015, Jan Gysels ended his term in office as a member of ČSOB's Supervisory Board and as a member of ČSOB's Audit Committee.

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

Innovation Leadership in 2015

Innovations Improving Clients Comfort

- ČSOB simplified navigation of clients' financial needs in different life situations thanks to the **redesigned csob.cz website**.
- ČSOB provides more secure internet banking, improved clients comfort, and simpler usage of internet banking thanks to **new cell phone application *Smart OTP***. The application allows confirmation of online payments, clients no longer need to rewrite the SMS code confirming the payment.
- ČSOB improved clients comfort also thanks to introducing **paperless operations** and **biometric signatures** (as of 31 December 2015, almost 51,000 biometrically signed documents). In 2016, paperless operations and biometric signatures will be introduced to all ČSOB retail branches. Implementation at ČSOB Pojišťovna and ČMSS branches is also expected in 2016.
- In the branch network, ČSOB has further increased the number of the **insurance specialists** from 55 in 2014 to 77 in 2015 and by introducing sales standards in the bank-insurance, ČSOB has also enhanced the insurance offer by other bank advisors. ČSOB also created a new insurance sales team in Client Call Center.
- Clients can quickly and simply arrange **insurance in smartbanking** and besides ČSOB branch network newly also in Era financial centers.
- More public transport passengers can enjoy **contactless payments at ticket machines / validators** (besides Brno or Liberec, also in Pilsen or Prague-Kutna Hora line).

Innovations Improving Retail Product Portfolio

- Since August 2015, ČSOB offers a payment card for pocket money, **new *COOL karta*, a prepaid card without a specific agreement**, paperwork or bank account. The card owner can wire money to the card as needed. The card can be used as a safe way to pay purchases in stores as well as to make online payments.
- ČSOB offers the opportunity to invest in a new range of flexible funds. ***ČSOB Flexibilní portfolio* and *ČSOB Flexibilní plán***, which are unparalleled on the Czech market and combine an algorithm (a system for calculating the optimal distribution of the fund's portfolio) and recommendations from analysts, thus reducing the adverse effects of emotions on investment decisions.
- The fans of selected sport clubs can use a range of benefits thanks to **sport club-branded cards**.
- ČMSS newly added to its products' offer **property and liability insurance** *(Pojištění majetku a odpovědnosti)* in three different variants.
- ČSOB has announced a new life insurance product ***ČSOB Kvarteto***. This enables investors to take advantage of the benefits of a quartet of Portfolio Pro type funds (one of the most popular funds in the ČSOB range) at the same time. Each of them adapts its investment strategy to the current market situation.
- As of June 2015, ČSOB Pojišťovna started to offer a new product ***Our Home*** *(Náš domov)* for household and buildings insurance, which won the award of the Czech business daily Hospodářské noviny in the category Insurance innovator 2015. Our Home is a modern household and building insurance product, which provides comprehensive home protection for any possible damage. In addition, this insurance includes, for example, assistance with locked doors or assistance in the event of breakdown of domestic electrical appliances.
- In January 2015, Hypoteční banka launched a new service ***Bezpečné financování*** *(Secure financing)* – bank guaranteed transfer of the property financed by mortgage. Thanks to the success of this product, Hypoteční banka won second place in the Zlatá koruna award.

Improving Entrepreneurs / Companies Product Portfolio

- ČSOB introduced a ***Remote Banker*** service for SME clients to save their time and to allow them to focus more on their businesses.
- Since April 2015, ČSOB offers outgoing foreign payments in over 100 less-standard currencies eliminating foreign exchange risk for corporate clients thanks to ***FX4CASH service***.
- In March 2015, ČSOB launched a unique new project ***Hledá se obchod*** *(Gap in the market)* which invites residents to inform entrepreneurs what shops / services they are missing in their neighborhoods. ČSOB is prepared to assist entrepreneurs with the expansion of their businesses. In 2015, more than 28,000 proposals and suggestions from public were registered.

Awards

On the competitive Czech banking market, the quality of ČSOB's products and services was acknowledged by various international and local awards.

- ČSOB was voted as the **Best bank in the Czech Republic for 2015** by international magazines **The Banker**, **Euromoney** and **Global Finance**.
- ČSOB Private Banking was awarded the **Best Private Bank in the Czech Republic for 2015** by **The Banker / Private Wealth Management** and **Euromoney**.
- The quality of ČSOB's products and services was proved by Czech business daily **Hospodářské noviny**. ČSOB was awarded the **Best Bank 2015 in the Czech Republic** among 21 retail banks operating in the Czech market.

Other Awards

- The Czech financial advisory company Fincentrum in the competition Bank of the year 2015 named ČSOB the **Private Bank of 2015** and the **Bank without Barriers**; Hypoteční banka was awarded first place in the category **Mortgage of the year** with the product ***Australian mortgage***.
- MasterCard recognized ČSOB for 2015 of winning two categories – the **Issuer 2015** and the **Acquirer 2015** in the Czech Republic.
- VISA Europe awarded ČSOB the **Best Acquirer in 2015** in the Czech Republic.
- ČSOB's Client Center is among the **best call centers** in the Czech Republic according to the Dimension Data's research in 2015.
- Sodexo Employer of the year for 2015 selected ČSOB the second **Best employer above 5,000 employees in Prague** and the fourth in the Czech Republic (overall ranking regardless of industry).
- In the TOP Responsible Company 2015 award, ČSOB was awarded Golden certificate for **Responsible Reporting**, Silver certificate for **TOP Responsible Large Company** and Silver certificate for **Community Project**.
- In the 13th Zlatá Koruna award, Hypoteční banka ranked second in the **Mortgages category** with the product ***Secure financing*** and ČSOB Leasing ranked second in the category **Business loans** with the product ***HIT Kredit***.
- In the Hospodářské noviny award, ČSOB Pojišťovna won in three categories – the **Most Client-friendly non-life insurance company** (1st place), **Insurance innovator** with the insurance ***Our home*** (1st place) and the **Best life insurance company** (3rd place).
- In the Finparáda Financial product of the year 2015 competition, ČSOB Asset Management was awarded the first place in the category **Guaranteed funds** with structured fund ***Global Partners ČSOB Sport Event Winners 1***.
- Patria won several awards in 2015, including:
  - The **Best Investment Bank** in the Czech Republic by news portal Business Worldwide.
  - The **Best M&A Advisory Firm** in the Czech Republic by magazine Corporate LiveWire.
  - The **Best Corporate Finance Firm** in the Czech Republic by magazine Acquisition International and by Finance Monthly Global Awards publication.

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

The Board of Directors' Assessment of 2015 and Expectations for 2016

The GDP for 2015 was by 4.2% higher than in the previous year, which was the highest annual growth in the last eight years. Growing household consumption together with higher investment activity helped accelerate the growth of the economy which started in 2013. According to the ČSOB group's macroeconomic outlook, the GDP for 2016 is expected to grow by 2.5% year on year.

In 2015, the ČSOB group continued to bring simple, transparent and user-friendly solutions in order to meet clients' expectations towards financial services providers. Besides, the continuation of the very low interest rate environment, increased regulatory pressure and tougher competition in selected areas (e.g. mortgages) were in focus throughout the whole year.

The year 2015 was successful for the ČSOB group, which has achieved a strong growth of client business. The ČSOB group reported year-on-year higher net profit in 2015. The loan portfolio increased, mainly thanks to mortgages, SME / corporate loans and leasing. The group deposits increase was fully driven by current accounts. Total assets under management also increased. While the loan portfolio expanded in 2015, credit risk remained under control. The credit cost ratio remained stable year on year. Impairments on loans and receivables slightly picked up. The NPL (non-performing loans) ratio decreased with improvement reported in all segments.

The Board of Directors expects several circumstances of 2015 to persist in 2016, namely the low interest rate environment, increased regulatory pressure both from regulatory changes introduced in previous years (such as the regulation of interchange fees for card-based payment transactions) as well as from newly introduced regulations (particularly with regards to the transposition of the Bank Recovery and Resolution Directive to the Czech regulatory framework) and from the introduction of new and tougher competition in selected areas.

Servicing retail and SME clients continues to be core to the business of the ČSOB group also in 2016. In addition, the ČSOB group will aim to continue accommodating the needs of its corporate clients. The ČSOB group will further endeavor to maintain solid profitability via business volumes growth and efficient cost control while sticking to its focus on asset quality. Strong capital and liquidity positions of the ČSOB group allow the growth of the credit portfolio faster than its group deposits.

The year 2016 will be focused primarily on servicing ČSOB's clients via a more proactive offering of complete and relevant solutions to their life situations. ČSOB will continue to provide face-to-face services to clients who require it. ČSOB will continue to bring new products into the digital sphere. The aim of ČSOB is that clients should be able to interact with ČSOB by all possible means including branches, internet, mobile applications and telephone and all these means need to be interconnected. To achieve this, the ČSOB group will continue working in the background on more effective operations and manage costs carefully.

Strategy of the ČSOB Group and its Business Model

The ČSOB group aims to become the reference in banking and insurance through putting client in the centre and achieving sustainable growth, driven by the PEARL culture.

The ČSOB group is one of the three largest financial services groups in the Czech Republic and the market leader in mortgages, building savings, asset management, private banking and leasing. The ČSOB group serves our clients through multiple brands and distribution channels. The ČSOB group operates a portfolio of businesses that have a different stage of maturity and market position.

The ČSOB group has the ambition to deliver strong and sustainable performance. To reach this goal, the management continuously evaluates strategic choices and manages the ČSOB group's business portfolio. Key resources (human capital, equity, liquidity and IT create capacity) are allocated to areas of the best fit with this ambition. The ČSOB group: (i) cultivates its market positions, driven by value creation and through-the-cycle portfolio view; (ii) makes structural changes in its business to get closer to its clients and to make its operating model more effective and efficient; and (iii) builds capabilities which are critical for future success.

As a response to both external and internal challenges, and in particular the trend of digitalization and commoditization of traditional banking and insurance products and services, the ČSOB group is transforming the business model to better serve the needs of clients and at the same time lift the core capabilities to sustain the position over the long term. The goal is to build an environment integrating banking and insurance products and services that will delight clients with an extraordinary experience:

- Clients will be constantly in the centre of everything the ČSOB group does. They will be empowered to choose the services they need and like and ČSOB will be able to help to solve their life situations;
- Clients will be enabled to interact with the bank through seamlessly integrated omnichannel;
- In its environment, the ČSOB group will gradually integrate also services beyond the traditional banking and insurance services and products (such as client identity management or secured digital archive).

Corporate social responsibility is an integral part of ČSOB's corporate philosophy. The support is focused on four areas: responsible business, education, diversity and regions.

The PEARL culture is the foundation of the ČSOB group's business strategy. It is guided by five imperatives: Performance, Empowerment, Accountability, Responsiveness and Local embeddedness.

Financial Results

All financial figures hereinafter were drawn from ČSOB's 2015 audited, consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated.

Financial Ratios

	2015 (%)	2014 (%)	Y/Y change (pp)
Return on average equity (ROAE)	16.4	16.4	0.0
Return on average assets (ROAA)	1.49	1.40	0.09
Net interest margin	3.01	3.17	(0.16)
Cost / income ratio	48.2	47.6	0.6
Credit cost ratio	0.18	0.18	0.0

	31. 12. 2015 (%)	31. 12. 2014 (%)	Y/Y change (pp)
Loan-to-deposit ratio	79.9	76.4	3.5
Capital adequacy ratio*	19.4	17.5	1.9
Leverage ratio*	5.25	5.15	0.10
Net stable funding ratio*	134.9	135.9	(1.0)

** Calculation is based on Basel III rules* *Note: pp = percentage point.*

For definitions and glossary of financial ratios please refer to the end of the Report of the Board of Directors.

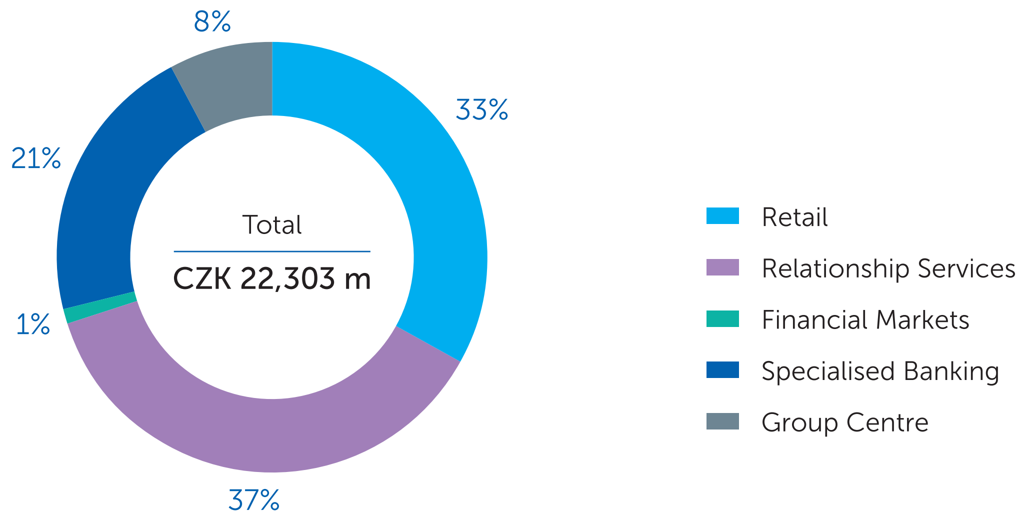
Consolidated Statement of Income

(CZKm)	2015	2014	Y/Y change (%)
Interest income	25,580	26,841	(4.7)
Interest expense	(3,277)	(3,969)	(17.4)
Net interest income	**22,303**	**22,872**	**(2.5)**
Fee and commission income	9,827	9,106	7.9
Fee and commission expense	(3,436)	(3,127)	9.9
Net fee and commission income	**6,391**	**5,979**	**6.9**
Dividend income	8	8	0.0
Net gains from financial instruments at fair value through profit or loss	2,652	1,700	56.0
Net realized gains on available-for-sale financial assets	326	214	52.3
Other net income	862	670	28.7
Operating income	**32,542**	**31,443**	**3.5**
Staff expenses	(7,007)	(6,880)	1.8
General administrative expenses	(8,063)	(7,416)	8.7
Depreciation and amortization	(617)	(685)	(9.9)
Operating expenses	**(15,687)**	**(14,981)**	**4.7**
Impairment losses	(1,081)	(975)	10.9
of which Impairment on loans and receivables (including provisions)	(983)	(927)	6.0
Share of profit of associates	687	691	(0.6)
Profit before tax	**16,461**	**16,178**	**1.7**
Income tax expense	(2,472)	(2,557)	(3.3)
Profit for the year	**13,989**	**13,621**	**2.7**
Attributable to:			
Owners of the parent	14,010	13,604	3.0
Non-controlling interests	(21)	17	n/a

Discussion of the Statement of Income Main Items

With a 69% share, **net interest income** (NII) was the largest part of the operating income. The ČSOB group generated 2.5% lower NII in 2015 compared to 2014, mainly due to lower NII in Specialised banking and the Retail segment. Improving business volumes were thus offset by a declining net interest margin. The **net interest margin** (NIM) dropped to 3.01% in 2015 from 3.17% in 2014; the decline was influenced by lower margins on loans, especially on mortgages, and continuing lower reinvestment yields.

Net Interest Income by Reported Segments



Of the reporting segments, the highest contribution came from the Relationship Services segment which represents 37% of consolidated NII; the NII in this segment increased 4.1% year on year thanks to the growth in business volumes. The ČSOB Retail segment, making up 33% of the consolidated NII, decreased 1.0% year on year due to declining margins. The NII of the ČSOB Specialised Banking segment, which represents 21% of consolidated NII, decreased by 7.5% year on year.

The **net fee and commission income** (NFCI) represented 20% of operating income. In 2015, NFCI increased by 6.9% year on year. The year-on-year increase stemmed mainly from higher demand for asset management products and increased domestic payments.

Other net income increased by 29% year on year in comparison to the lower base in 2014 due to the deconsolidation of Transformed pension fund.

Staff expenses represented 45% of the ČSOB group's operating expenses in 2015. The item includes wages and salaries, variable compensation and social security charges. The largest part (71%) were wages and salaries which increased by 1.8% year on year due to the inclusion of Patria. Adjusted for the Patria consolidation impact, staff expenses would remain flat as savings from lower average number of employees were offset by the restructuring reserve and severance payments.

General administrative expenses (GAE) contributed 51% to the ČSOB group's operating expenses in 2015. The item includes IT related expenses, marketing, deposit insurance premium, the contribution to the Securities Trader Guarantee Fund and other miscellaneous expenses. GAE increased by 8.7% year on year to CZK 8.1 bn.

IT related expenses represent the largest part of **GAE** (42%). This item showed an increase of 10.1% year on year. Other major items of GAE showed various development in 2015: building-related expenses increased (13% of GAE; +3.3% year on year), deposit insurance grew approximately in line with group deposits (12% of GAE; +7.2% year on year) and marketing expenses increased (7% of GAE; +4.0% year on year).

Impairment losses comprise 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 increased by 10.9% year on year.

This growth was a result of an increase in impairments on loans and receivables (by 6.0%; including provisions) and impairments on other assets (by more than 100%). The former was due to the increase in portfolio impairments. The latter was impacted by impairments on tangible and intangible assets.

As a result of the trends described above, the **net profit for 2015 attributable to owners of the parent equaled CZK 14,010 m**, i.e. 3% higher than the figure for 2014.

More details are available in the Consolidated Financial Statements for the year 2015: Net interest income (Notes 5 and 6), Net fee and commission income (Note 7), Other net income (Note 9), Staff expenses (Note 10), General administrative expenses (Note 11) and Impairment losses (Note 12).

Consolidated Statement of Financial Position

(Excerpt)

(CZKm)	2015	2014	Y/Y change (%)
Financial assets held for trading	29,494	50,626	(41.7)
Available-for-sale financial assets	59,961	56,121	6.8
Held-to-maturity investments	136,433	144,074	(5.3)
Financial assets at fair value through profit or loss	15	3,327	(99.5)
Loans and receivables	579,448	506,635	14.4
Total assets	**956,325**	**865,639**	**10.5**
Financial liabilities held for trading	29,970	69,624	(57.0)
Deposits at amortised cost received from other than credit institutions	621,927	599,143	3.8
Total liabilities	**865,606**	**780,059**	**11.0**
Total equity	90,719	85,580	6.0
Total liabilities and equity	**956,325**	**865,639**	**10.5**

Discussion of the Statement of Financial Position Items

The total consolidated assets of ČSOB increased by 10.5% year on year. Loans and receivables, the largest item thereof with a 61% share, increased by 14.4% year on year (over half of the increase is due to reverse repo operations with CNB). Loans and receivables are discussed in detail in the Business Results section below.

The development of the securities portfolios (24% of total assets in aggregate) was varied in 2015:

- Financial assets held for trading comprised 3% of total assets and declined by 41.7% year on year mainly due to the lower bond portfolio and reverse repo operations with Czech National Bank.
- Held-to-maturity investments (HTM; 14% of total assets) decreased by 5.3% year on year mainly due to maturity of Czech government bond.
- Available-for-sale financial assets (AFS; 6% of total assets) increased 6.8% year on year.
- Financial assets at fair value through profit or loss (less than 1% of total assets) decreased by 99.5% year on year mainly due to maturity.

Further discussion of the portfolios can found in the Consolidated Financial Statements for the year 2015, 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 2015 and 2014.

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.

Consolidated Capitalization and Risk Weighted Assets of the ČSOB Group

(CZKm, unless indicated otherwise)	2015	2014	Y/Y change (%)
Tier 1 capital = Core Tier 1 capital	67,036	60,104	11.5
Tier 2 capital	1,102	749	47.1
Deductible items of Tier 1 and Tier 2	0	0	-
Total capital	**68,138**	**60,853**	**12.0**
Capital requirement on credit and settlement risk	22,394	21,959	2.0
Capital requirement on market risk	1,220	1,364	(10.6)
Capital requirement on operational risk	4,523	4,571	(1.1)
Total capital requirement	**28,137**	**27,894**	**0.9**
Risk weighted assets	351,718	348,670	0.9
Tier 1 ratio = Core Tier 1 ratio (in %)	19.1	17.2	1.9 pp
Capital adequacy ratio (in %)	19.4	17.5	1.9 pp

Calculation is based on Basel III rules.

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

Credit Rating

Events related to ČSOB's credit ratings between 1 January 2015 and the date of this Annual Report.

In 2015, ČSOB was using the service of the following rating agencies:

- **Moody's Investor Service Ltd** ("Moody's") and
- **Standard and Poor's Rating Services LLC** ("S&P").

Both rating agencies were registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies. While choosing rating agencies, ČSOB proceeded according to the obligations laid down by the article 8d of the described regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

In accordance with obligation set in the article 8d of the Regulation on credit rating agencies, ČSOB has considered appointing a rating agency with a market share below 10%. In the final decision, with regards to the position of ČSOB on the Czech market and the market know-how of the considered rating agencies, ČSOB has decided to use the services of the aforementioned rating agencies.

No debt securities issued by ČSOB had a credit rating assigned.

Rating of ČSOB in 2015 and 2016

Moody's agency

- On 17 March 2015, following the publication of Moody's new methodology, the long-term rating of ČSOB was affirmed at A2 and the outlook changed to stable from negative.

S&P agency

- On 2 November 2015, S&P rating was affirmed at A with negative outlook, based on ČSOB's strong capital position, sound competitive position and stable deposit funding.
- On 2 December 2015, S&P published its conclusions regarding the implicit government support uplift and the application of the Additional Loss Absorbing Capacity (ALAC) approach which was introduced into its methodology. Based on it, the rating of ČSOB was again affirmed at A with a negative outlook.
- On 3 March 2016, S&P published a review of government support and Additional Loss-Absorbing Capacity and affirmed ČSOB rating at A with a negative outlook.

Business Results

Main Factors Influencing the Financial and Business Results 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 represent the principal drivers for the development of the ČSOB group's business and thus its results of operations and financial condition.

1. The current economic recovery has not been capable of healing the structural weaknesses present in many European economies. In the short-term however, strong growth of the Czech economy creates an opportunity for the banking industry:
    - **Real GDP** growth in the Czech Republic may have a positive impact on the ČSOB group.
    - The increase in the **volume of imports and exports** may have a positive impact on the ČSOB group.
    - A fall in **unemployment** may cause a decrease in loan losses and thus have a positive impact on the ČSOB group.
    - The long-term **structural deficit of government finance** 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 ČNB's repo rates at historical lows, the net interest margin continues to suffer.
3. With the change of **credit quality** of loans and receivables, both on-balance sheet and off-balance sheet, required provisioning ratios may be altered should the recovery ratio or the value of available collateral also be impacted.
4. Significant amounts held in the **securities portfolio** may have to be revalued as a result of relevant changes in e.g. liquidity, volatility, pricing information, business climate, credit rating changes, regulatory actions or unanticipated changes in the competitive environment.
5. **Competition**: EU legislation allows banks from other EU member states to easily enter the Czech banking market, thus possibly intensifying the competitive environment.

ČSOB Group Market Position

1st

Total Loans[1)]	**19.9%**	↑
Building savings loans[1)]	47.0%	↑
Building savings deposits[1)]	37.5%	↑
Mortgages[1)]	28.9%	↓
Mutual funds[1)]	25.7%	↓
Leasing[2)]	17.2%	↑

2nd

Total Deposits[1)]	**19.0%**	↓
Equity trading (Patria)[5)]	19.8%	↓

3rd

Pension funds[3)]	13.9%	↑
SME/corporate loans[1)]	15.8%	↑
Consumer lending[1), 4), 7)]	9.6%	→
Factoring[2)]	23.2%	↑

4th

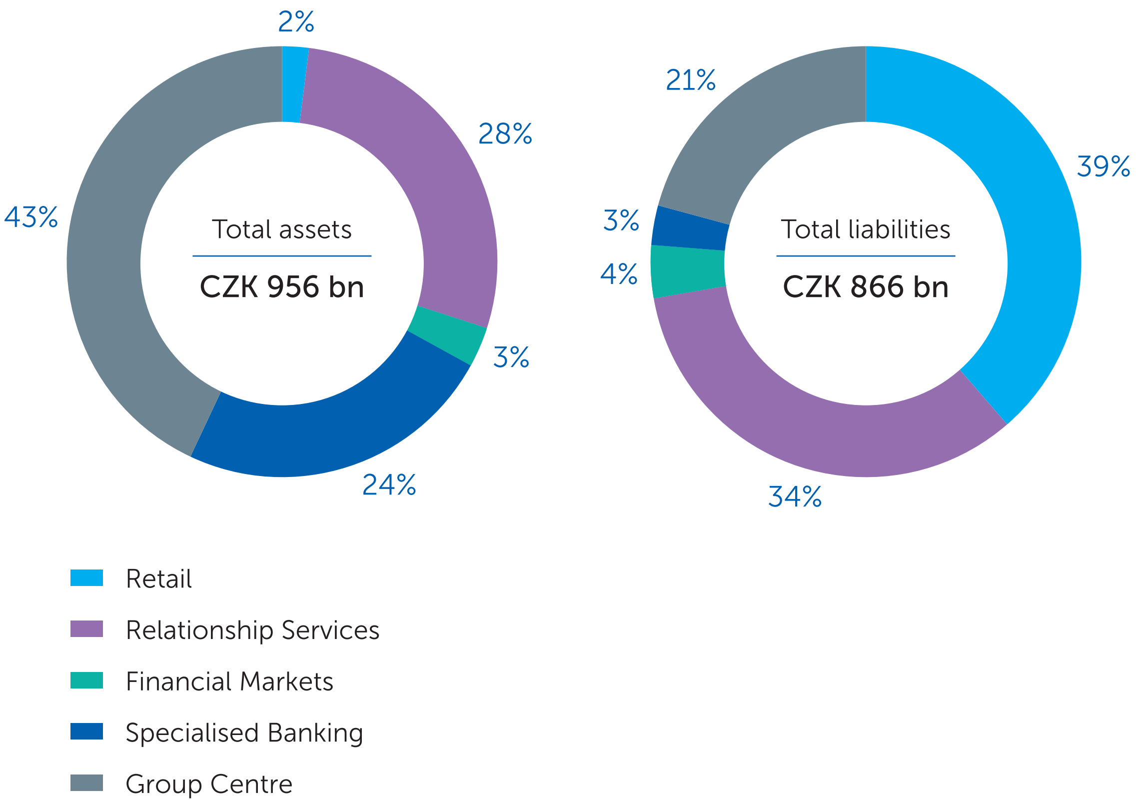
Insurance[6)] – combined	**6.8%**	↑
Non-life insurance[6)]	6.8%	↑
Life insurance[6)]	6.9%	↑

Market shares as at 31 December 2015.
The ranking is ČSOB's estimate. Arrows show year on year change.
Market position in the insurance reflects combined position of the insurers belonging to the same business group.

1) Outstanding at the given date (including ČMSS).
2) New business in the year to the given date.
3) Number of clients at the given date.
4) Retail loans excluding mortgages and building savings loans.
5) Equity trading volumes.
6) New business in the year according to gross written premium.
7) Due to change in market data, ČSOB market share declined by ca. 1.8pp (non-purpose part of mortgage loans is as of March 2015 reported within mortgages and new market participant has been included into market statistics as of June 2015). Split of the decline between above mentioned effects is ca 60:40.

Segment View

The ČSOB group has **five segments**, which are the group's strategic business units: **Retail, Relationship Services, Financial Markets, Specialised Banking** and **Group Centre**. The strategic business units are managed separately based on the group's management and internal reporting structure.



Retail

The ČSOB Retail segment represented 2% of ČSOB's assets and 39% of ČSOB's liabilities as at 31 December 2015.

This segment focuses on client's deposits, consumer loans, overdrafts, payment solutions including payment cards and other transactions and balances with retail clients. Retail clients comprise private individuals and entrepreneurs. The former include affluent (with financial assets up to CZK 10 m) as well as all categories of mass customers.

In 2015, the group's segment reporting was modified following the change of the organisational structure of the ČSOB group. Mortgages, building savings, building savings loans, pension funds, mutual funds and asset management are newly included in the Specialised Banking segment and private banking clients are reported as part of the Relationship Services segment.

As at 31 December 2015, the ČSOB group had approximately 2.7 million retail clients in the Czech Republic.

Retail clients benefit from ČSOB's **wide sales network** of 230 predominantly shared retail / SME branches, 75 PSB branches (Era Financial Centers) and approximately 3,100 PSB outlets of the Czech Post network.

Most Notable Events and Trends

- The increase in **deposits**, fully driven by current accounts as saving and term deposits decreased due to the continued low interest rate environment.
- **Consumer loans** outstanding volume ended up 5.2% above the 2014 year end level thanks to competitive pricing and successful marketing campaigns focused on loan refinancing. The increase was fully driven by cash loans, while credit cards and overdrafts decreased year on year.
- The **market share** of consumer lending remained stable year on year at 9.6%, i.e. the third position on the market.
- The increase of **payment card usage** by 13.1% year on year.
- The number of dedicated **insurance advisors** at the bank branches increased to 77 at the end of the year 2015.

Retail: Key Volumes (CZKm)	2015	2014	Y/Y change (%)
Credit portfolio – consumer loans	20,333	19,324	5.2
of which credit cards and overdrafts	3,066	3,385	(9.4)
of which cash loans	15,466	14,063	10.0

Relationship Services

The ČSOB Relationship Services segment comprised 28% of assets and 34% of liabilities of the ČSOB group as at 31 December 2015.

The Relationship Services segment includes SME, corporate and private banking clients. In the 2014 Annual Report, the private banking clients were a part of the Retail segment while SME and corporate clients were part of the SME / Corporate segment. The Relationship Services segment contains clients' deposits, loans, overdrafts, leasing, payment solutions including payment cards and other transactions and balances with clients.

SME clients include small and medium sized enterprises with an annual turnover of less than CZK 300 m, housing cooperatives and municipalities. Corporate clients include domestic companies with an annual turnover of greater than CZK 300 m, local subsidiaries of international corporations, and selected institutional clients, including financial and public sector institutions. With the regards to the corporate clients, ČSOB (similarly to KBC) principally targets mid-sized corporations and seeks to combine local market expertise, products and standards of service customary in developed markets. Private banking clients include private individuals with financial assets above CZK 10 m.

As at 31 December 2015, the ČSOB group had approximately 4,000 corporate, 130,000 SME and 6,000 private banking clients in the Czech Republic.

The ČSOB group has a sales network of **11 regional branches** devoted to serving corporate clients. In addition, the ČSOB group also has a specialized branch servicing the Financial and Public Sector. SME clients benefit from a wide coverage of 230 predominantly shared retail / SME branches as well as 75 PSB branches (Era Financial Centers) are available mainly for cash transactions.

The ČSOB group provides its SME and corporate clients with a **wide range of financial services**, from traditional account and payment management services and classic forms of investment and working capital financing, to solutions for managing clients' 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 clients**. This range comprises both regular banking products tailored to meet the requirements of institutional clients, and specialized services in the areas of cash management, custody of securities, and fund depository services.

Most Notable Events and Trends

- **The volume of the corporate credit portfolio** reached CZK 145.1 bn at the end of 2015 (up 6.2% year on year) and have grown continuously since late 2010. The major year on year loan growth was recorded in the following sectors: real estate, energy and telecommunications. The risk profile of the credit portfolio further improved.
- Major **year on year loan growth** was recorded in areas of **specialized finance**, e.g. Project finance, Syndicated loans and Real estate finance, complemented with growth in plain vanilla loans as well as credit replacing bonds.
- **SME volumes** increased by 4.2% year on year driven by higher volume of investment loans.
- The ČSOB group's **market share** of SME / corporate loans grew to 15.8% at the end of 2015.
- **ČSOB Leasing** further strengthened its market leading position with very strong new sales. The credit portfolio increase was driven mainly by machinery & equipment financing in cooperation with the SME / corporate segment.
- The provision of new loans to clients was in many cases accompanied by an agreement on the protection of the interest rate exposure with positive effect on interest rate derivative business.

Relationship Services: Key Volumes (CZKm)	2015	2014	Y/Y change (%)
Credit portfolio – corporate	145,051	136,595	6.2
Credit portfolio – SME	81,072	77,786	4.2
Credit portfolio – factoring	4,483	4,044	10.9
Credit portfolio – leasing	33,147	27,405	21.0

Financial Markets

The ČSOB Financial Markets segment represented 3% of ČSOB group's assets and 4% of its liabilities as at 31 December 2015.

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 client-driven activities for retail, SME, corporate, private banking and institutional clients, while trading is a support business for sales activities.

Specialised Banking

The ČSOB Specialised Banking segment represented 24% of ČSOB group's assets and 3% of its liabilities as at 31 December 2015.

The Specialised Banking segment started to be reported as a separate segment in 2015. This segment contains mortgages, building savings, building savings loans, pension funds, mutual funds and asset management.

Most Notable Events and Trends

- Increasing real estate prices and ongoing low interest rates contributed to the 12.2% year on year growth of the mortgage market (measured by total outstanding portfolio). The ČSOB group's credit portfolio of **mortgages** increased by 7.8% in the same period. The year 2015 was the record high, ČSOB reached new sales (newly drawn mortgages) in the total amount of CZK 51 bn, a 22.7% increase year on year, while the total market increased 28.5% year on year. All mortgages provided via various distribution channels are booked in Hypoteční banka. During 2015, more than 27,000 mortgages were granted and the average size of a new mortgage was CZK 1.9 m and the interest rate is most frequently fixed for 5 years.
- The portfolio of **building savings loans** declined year on year as clients in general preferred mortgages to building savings loans in the continuous low interest rate environment. As a result, the credit portfolio of building savings loans declined 1.6% year on year and however ČMSS managed to strengthen its leading position in 2015.
- Ongoing very low interest rates on saving products confirm that investing into mutual funds with a variety of risk profiles is for clients a viable alternative to effectively increase the value of their savings in the long-term. **Assets under management** (AUM) ended up 6.8% above the 31 December 2014 level.

Specialised Banking: Key Volumes (CZKm)	2015	2014	Y/Y change (%)
Credit portfolio – mortgages	231,532	214,754	7.8
Credit portfolio – building savings loans (55%)	65,986	67,061	(1.6)
AUM – Outstanding volume (CZKm)	143,070	134,018	6.8
of which structural / capital protected funds	19,326	20,199	(4.3)
of which other mutual funds	65,030	54,100	20.2
of which other management assets	51,658	51,790	(0.3)

Group Center

The Group Center comprised 43% of ČSOB group's assets and 21% of its liabilities as at 31 December 2015.

The segment consists of positions and results of Asset Liability Management (ALM), the ČSOB group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the Relationship Services and Specialised Banking segment, the results of the reinvestment of free equity of ČSOB, items not directly attributable to other segments and eliminations.

Insurance

As at 31 December 2015, ČSOB Pojišťovna reached a 6.9% market share in life gross written premium and a 6.8% market share in non-life gross written premium (according to the Czech Insurance Association's methodology).

ČSOB Pojišťovna provides its clients with a wide range of insurance products, including single and regular premium life insurance as well as car (for individuals and corporate clients), house, accident, travel and industrial insurance. As at 31 December 2015, ČSOB Pojišťovna had over 1.1 million clients, comprising of individuals and business entities (including SME's as well as corporates). Insurance products are mainly distributed through the internal agent network, ČSOB group's branches and external brokers.

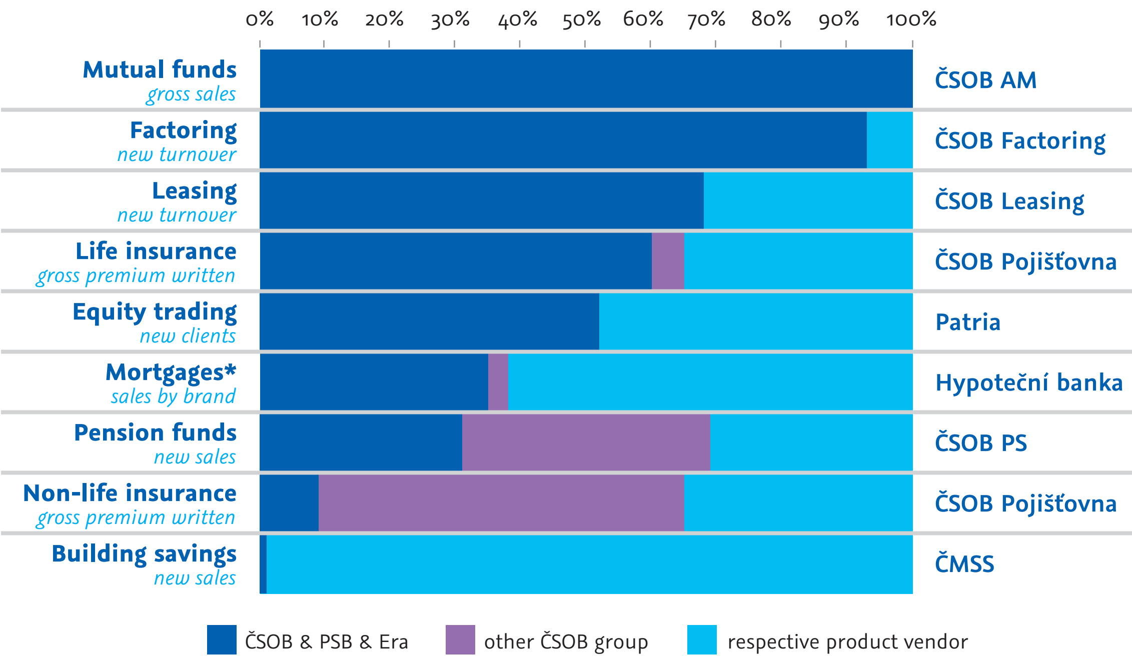
ČSOB Pojišťovna is rated by Standard & Poor's Rating Services. In October 2015, the Agency confirmed ČSOB Pojišťovna A- rating with a stable outlook and thus upheld the rating from the previous year.

Insurance: Key Volumes (CZKm)	2015	2014	Y/Y change (%)
Single life insurance	3,964	1,761	125.1
Regular life insurance	2,658	2,655	0.1
Life insurance total	**6,622**	**4,416**	**50.0**
Non-life insurance total	**4,903**	**4,645**	**5.5**
Total	**11,525**	**9,061**	**27.2**
Amount of benefits paid to clients	9,012	8,910	1.1
Number of cases settled	207,163	209,848	(1.3)

ČSOB Group Synergies

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

New Production in 2015 – Shares of Distribution Channels per Product Type



The chart shows the volumes distributed in 2015 by the companies of the ČSOB group.
Distribution by third parties is included in the figures for the respective product vendors.

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

Definitions and Glossary of Financial Ratios

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.*

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.*

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).*

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

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 (excluding 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.*

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 (including ČMSS) 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 (excluding repo operations with credit institutions). In line with system of internal managerial reporting of liquidity.*

Capital adequacy ratio and Tier 1 ratio *– end of period regulatory capital (ratios) does not reflect profit for the current year until shareholder's approval of the audited financial statements for the period in the following year.*

Leverage ratio *is defined as the Tier 1 capital (the numerator) divided by the non-risk value of assets (the denominator).*

Net stable funding ratio *is defined as the 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.*

ABOUT US

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 the 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 its 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. (hereinafter referred to as "ČSOB" or the "Bank") is operating in the Czech Republic as a **universal bank**. ČSOB is a wholly-owned subsidiary of the Belgian KBC Bank NV (since 1999, since 2007 fully). KBC Bank is a part of the integrated bank-insurance group KBC Group NV. 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.

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 main recognized brands – ČSOB (branches), Era (Financial centers) and Poštovní spořitelna (Postal Savings Bank – PSB; outlets of the Czech Post network). ČSOB offers to its clients a **wide range of banking products and services**, including the products and services of the entire ČSOB group.

The ČSOB group consists of the Bank and entities related with the Bank. ČSOB's financial group includes strategic companies in the Czech Republic controlled directly or indirectly by ČSOB, or KBC, which offer financial services, namely Hypoteční banka, ČSOB Pojišťovna, ČMSS, ČSOB Penzijní společnost, ČSOB Leasing, ČSOB Asset Management, ČSOB Factoring and Patria group.

The ČSOB group's (Business Unit Czech Republic) product portfolio 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.

With total assets of CZK 956 bn as at 31 December 2015 and a total net profit of CZK 14.0 bn in 2015, **the ČSOB group is one of the top three banking groups in the Czech Republic**. As at 31 December 2015, the ČSOB group had CZK 700 bn of group deposits (including ČMSS and excluding repo operations) and a loan portfolio of CZK 582 bn (including ČMSS).

ČSOB Group in Figures

Distribution Platform	31. 12. 2015	31. 12. 2014
Retail / SME branches and advisory centers	**763**	**762**
ČSOB retail / SME branches	230	232
Era Financial centers	75	76
ČMSS advisory centers[1)]	338	338
Hypoteční banka centers	29	28
ČSOB Pojišťovna branches	91	88
Leasing branches	**10**	**10**
ČSOB corporate branches	**11**	**11**
PSB outlets of the Czech Post network	**ca. 3,100**	**ca. 3,100**
ATMs (the Bank)[2)]	**1,062**	**1,047**
Clients (the Bank only; in millions)	**2.831**	**2.855**[3)]
Internet banking – users (in millions)	**1.538**	**1.514**
– transactions (in millions)	**49.718**	**47.584**

1) As of 30 June 2015, ČMSS advisory centers include also ČMSS advisory touch-points; figures for 2014 has been restated.
2) Including ATMs of cooperating banks.
3) 2014 figure was revised (methodological change).

Employees (FTEs)	31. 12. 2015		31. 12. 2014	
	Including ICT[4)]	Excluding ICT	Restated	Annual Report 2014
Employees of the ČSOB group (FTEs)[1)]	8,203[2)]	7,453[2)]	7,552[2)]	7,406
of which the Bank	7,099[3)]	6,349[3)]	6,491[3)]	6,424

1) Excluding employees of the joint venture and associated companies.
2) Patria group FTEs and employees in Program for parents were included in the ČSOB group employees; figures for 2014 has been restated.
3) Employees in Program for parents were included newly; figures for 2014 has been restated.
4) As of 31 December 2015, 750 employees from the KBC Group were included – insourcing of ICT.

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

KBC Group Profile

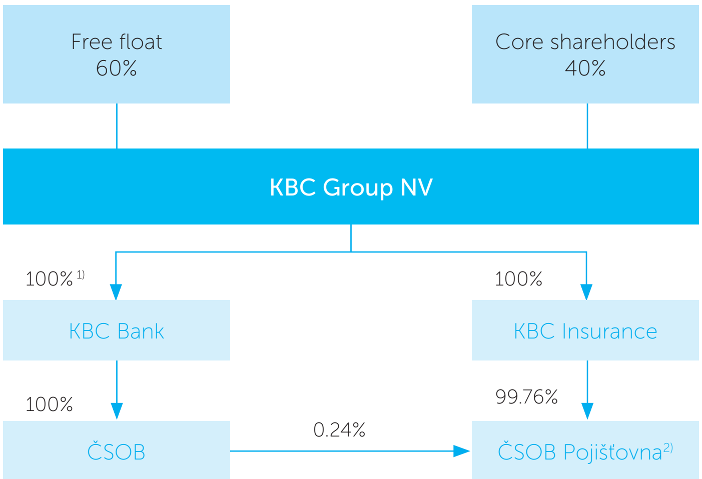
ČSOB is a wholly-owned subsidiary of KBC Bank NV, whose shares are held (directly or indirectly) by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

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 2015, the KBC Group served approximately 10 million clients in its five home markets and Ireland, and employed approximately 38,000 employees, roughly half of which in Central and Eastern Europe.

The majority of KBC Group's shares is traded publicly on the Euronext Exchange in Brussels. The minority of KBC Group's shares is held (inter alia) by KBC Group's core shareholders: KBC Ancora, Cera or MRBB (a farmers association).

The Simplified Scheme of the KBC Group

(as at 31 December 2015)



Percentages in the chart denote the ownership interest.
1) One share is held by KBC Insurance.
2) Voting rights in ČSOB Pojišťovna: 40% ČSOB, 60% KBC Insurance.

For an overview of companies of the KBC group please refer to KBC's corporate website www.kbc.com (section About us – Our structure).

KBC Group in Figures

		31. 12. 2015	31. 12. 2014
Total assets	EURbn	252.4	245.2
Loans and advances to customers	EURbn	128.2	124.6
Deposits from customers and debt securities	EURbn	170.1	161.8
Net profit, group share	EURm	2,639	1,762
Common equity ratio, group level (Basel III, fully loaded)	%	14.9	14.3
Cost / income ratio, banking	%	55	58

Long-term ratings (as at 31 January 2016)

	Fitch	Moody's	S & P
KBC Bank	A-	A1	A
KBC Insurance	A	-	A-
KBC Group	A-	Baa1	BBB+

Annual reports and other information about KBC are available at 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 its shareholder KBC Group NV (ID No. 90031317). 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 the management of business.

ČSOB follows the legislation applicable on the territory of the Czech Republic which protects against abuse of position of the 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 departments 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 2015.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2015 please refer to the chapter Companies of the ČSOB group.

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

Corporate Social Responsibility

It is ČSOB's ambition to be a socially responsible company with activities that have a positive impact on society and developments in the Czech Republic. ČSOB strives to be seen as an inspiring and innovative company in accordance with its values and the principles of transparency, client focus and sustainability.

The ČSOB social responsibility and sustainability strategy – based particularly on the expectations of its shareholders, clients, employees, partners in various authorities, profit as well as non-profit sectors and the general public – is used to reflect this ambition.

With the goal of being a successful institution in the long term perspective, ČSOB creates and supports a culture based on cooperation and responsibility. In addition to concentrating on traditional banking and insurance services, which it wants to simplify and use to meet the needs and expectations of clients as much as possible, it makes sure it continues to strengthen its position as a socially responsible bank. With the new management model, ČSOB strives to ensure that the principles of responsibility and sustainability are closely intertwined with its business strategy and are reflected in the voluntary commitments in which it engages over and above its mandatory obligations.

ČSOB's Corporate Social Responsibility Priorities

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 disadvantaged children and youth)

Diversity
(support of equal opportunities and employing the disabled)

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

In addition to ČSOB's already established corporate social responsibility priorities, which are reflected primarily in its approach to philanthropy – investments in communities and the involvement of employees – the company management has made a commitment to engage in four areas of socially responsible and sustainable business. These include entrepreneurship, environmental responsibility, financial literacy, and longevity. The ČSOB's Board of Directors' members have committed themselves to fulfilling these areas with the aim of identifying and implementing objectives for the given area and monitoring their performance so that ČSOB's business complies with sustainable growth principles without exception.

Social responsibility is a result of the way ČSOB conducts its business:

- ČSOB is a bank that takes down communication barriers with the visually and hearing impaired and in the approach to people with disabilities,
- ČSOB is a bank that creates useful applications and runs projects making the lives of non-profit organizations easier and connecting them – safely, fast and online – with their supporters,
- ČSOB is an employer whose employees like to volunteer – individually or in teams – using their own hands or their expertise and who directly initiate various philanthropic activities or produce innovations in the field of responsible business,
- ČSOB is a bank which values the expertise, interest and initiative of its employees – we welcome and bring to life ideas for embedding CSR values into our products and services.

Partner Organisations from the Non-Governmental Sector

ČSOB's long-term partners include Výbor dobré vůle – Nadace Olgy Havlové (Committee of Good Will – the Olga Havel Foundation), Nadace VIA (VIA Foundation), Nadační fond Mathilda (Mathilda Endowment Fund), 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), Česká asociace paraplegiků (Czech Association of Paraplegics) and many others. 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 2015

ČSOB's corporate social responsibility (CSR) activities also earned it numerous awards in 2015.

The Czech financial advisory company **Fincentrum** named ČSOB its **Bank Without Barriers**.

In the 2015 TOP Responsible Company competition:

- ČSOB was awarded the Gold Certificate for Responsible Reporting;
- ČSOB received an award for its socially responsible approach to business and an award for its Era Helps the Regions grant programme, through which ČSOB helps connect individual donors with philanthropic support for interesting projects in the regions.

Short Presentation of Selected CSR Activities in 2015

In 2015, ČSOB was involved in supporting philanthropic projects and initiatives addressing investment into society through a total of CZK 49.4 m.

Responsible Approach to Business

Sustainability, good reputation and loyalty of both clients and employees are the results of professional work, compliance with the rules of economic competition and the code of ethics, and introduction of innovations based on the needs of the most important people – our clients. The key initiative in promoting this culture – the Anti-Corruption Programme – includes rules and policies to prevent corrupt practices and conflicts of interest. Also, ČSOB does not finance weapons trading and does not support trade with countries that seriously violate human rights. It offers products and supports initiatives further developing philanthropy and cultivating the business environment. It also concentrates on providing services that remove barriers in communication and contact between clients and ČSOB.

Good Will Card

The Good Will Card – a special World Elite MasterCard debit contactless payment card is offered to ČSOB Private Banking clients. When the card is used, 0.6% of each transaction goes to charity. The card was already being used by over 600 clients in 2015 and thanks to them the Bank distributed more than CZK 1.9 m among fourteen Czech non-profit organisations during the year.

Support for Social Enterprises

In 2015, together with the P3 – People, Planet, Profit, o.p.s. organisation, ČSOB opened the third year of its grant programme Stabilisation of Social Enterprises, comprising financing and expert consultation for enterprises that fulfil the conditions to be defined as a social enterprise. It distributed a total of CZK 840 ths among the six winning enterprises that employ people with physical, mental or combined disabilities.

Responsible Environmental Approach

ČSOB consistently focuses on the economic use of energy and resources, and in 2015 recorded another modest improvement in the majority of the monitored items. It is still, however, experiencing setbacks in its efforts to reduce waste.

Year	Water consumption (m^3)	Electricity consumption (Gj)	Paper consumption (t)	Waste production (t)	Direct CO_2 emissions (t)	Indirect CO_2 emissions (t)
2013	132,007	134,990	1,179	2,144	3,458	21,470
2014	128,336	137,688	1,133	1,962	6,856	21,205
2015	125,906	133,010	1,025	1,965	5,960	19,696

In 2015, ČSOB carried out a technology-energy audit at several of its buildings in preparation for 2016, when it will undergo ISO 50001 certification. The audit focused on the technologies used for heating, preparing hot water, ventilation, air conditioning, lighting and wiring, and concluded with recommendations that will lead to improved efficiency and overall savings.

Philanthropy

Education Programme

ČSOB has long supported education and improving the financial literacy of the Czech public – adults, children and young people. In 2015, the sixth year of the ČSOB Education Programme was held in support of projects addressing financial literacy. Newly, the grant programme supported initiatives focusing on safety in the online environment. A total of 17 projects were selected over two grant rounds to share CZK 2 m.

ČSOB Help Fund

2015 was the fifth year of the ČSOB Help Fund providing financial help for any Bank employee who has in his/her immediate or close family someone who needs a contribution towards rehabilitation aids for children and adults, neuro-rehabilitation in special facilities, personal assistance for children and students with disabilities, or education of a child with disability.

Last year, the Fund contributed a total of CZK 1,019 ths to 57 children and adults with disabilities. The figures since the Fund was established are 269 supported people by more than CZK 4.5 m.

Era Helps the Regions

The Era Helps the Regions programme focuses on support and development for individual donors and – through grants – inspires the general public to become involved. In 2015, individual donors contributed almost CZK 3 m on the www.erapomaharegionum.cz portal, with another CZK 3 m being donated by Era. This meant that more than CZK 5.9 m was sent to 80 projects and local initiatives throughout the Czech Republic. The most successfully fundraising organisation was Společnost přátel starého Nepomuka (Society of Friends of Old Nepomuk), which raised CZK 287 ths for a new altar for the Church of St. John of Nepomuk in Zelená Hora.

Employee Engagement

Blue Life Academy

The Blue Life Academy is an intensive development programme for non-profit organisations implemented by ČSOB together with expert volunteers who are also employees of the ČSOB group or partner organisations and contractors. Thirty nine NGOs took part in the Academy in the second year of the programme, which focused on internal resources and communication, marketing and PR. 43 speakers, 18 consultants and 19 coaches shared their knowledge and experience with them.

Matching Fund

ČSOB perceives individual donorship as a key area to further focus on as part of its corporate social responsibility initiatives. In mid-2015, employees were offered the option of taking active part in the Together with ČSOB matching fund. The idea is to support employees in their philanthropic efforts and to connect planned charitable events with sympathetic colleagues throughout the bank. In 2015, 23 projects were initiated and supported through the matching fund. Employees contributed CZK 323 ths to a variety of projects and ČSOB matched this sum with another CZK 277 ths. In the end, the projects received CZK 600 ths altogether.

Diversity

ČSOB supports equal opportunities, higher involvement of women in management, enables to work people with disabilities and supports work life balance.

Equal Opportunities – Women Support

In 2015, ČSOB has opened new development project **Womentoring**, in within all the members of ČSOB's Board of Directors can surrender their knowledge to 9 chosen women – managers. Since 2012, ČSOB has been focused on professional and personal development of women managers within the platform **The Gold Fish**.

Support of Employment People with Disabilities

In 2015, ČSOB continued in internal campaign **Fandím OZP** (I Cheer for the Disabled) oriented to employ people with disabilities. The main topic have been events to introduce various forms of disabilities. ČSOB has also started preparing internal stays for people with disabilities to provide their adaptation to the new working environment.

Work Life Balance

ČSOB strives to help its employees to reconcile work and personal life via **a wide range of supporting activities and services**. They vary from flexible working hours and part-time jobs to possibility to work from home and also shared work places. ČSOB's initiative in favour of shared work places was awarded by Fleximetr, a prize introduced by the Ministry of Labour and Social Affairs in 2015.

Within the **Program for Parents**, ČSOB keeps on supporting mothers and fathers on parental leave. It concentrates on maintaining their contact with work and on supporting earlier return of parents to work. In 2015, nine workshops were held focusing on new life's role and on adaptation to return back to work. In 2015, 90 parents within the Program have worked in the ČSOB group.

More information can be found in the ČSOB Group Social Responsibility Report 2015 and on the website www.csob.cz/csr.

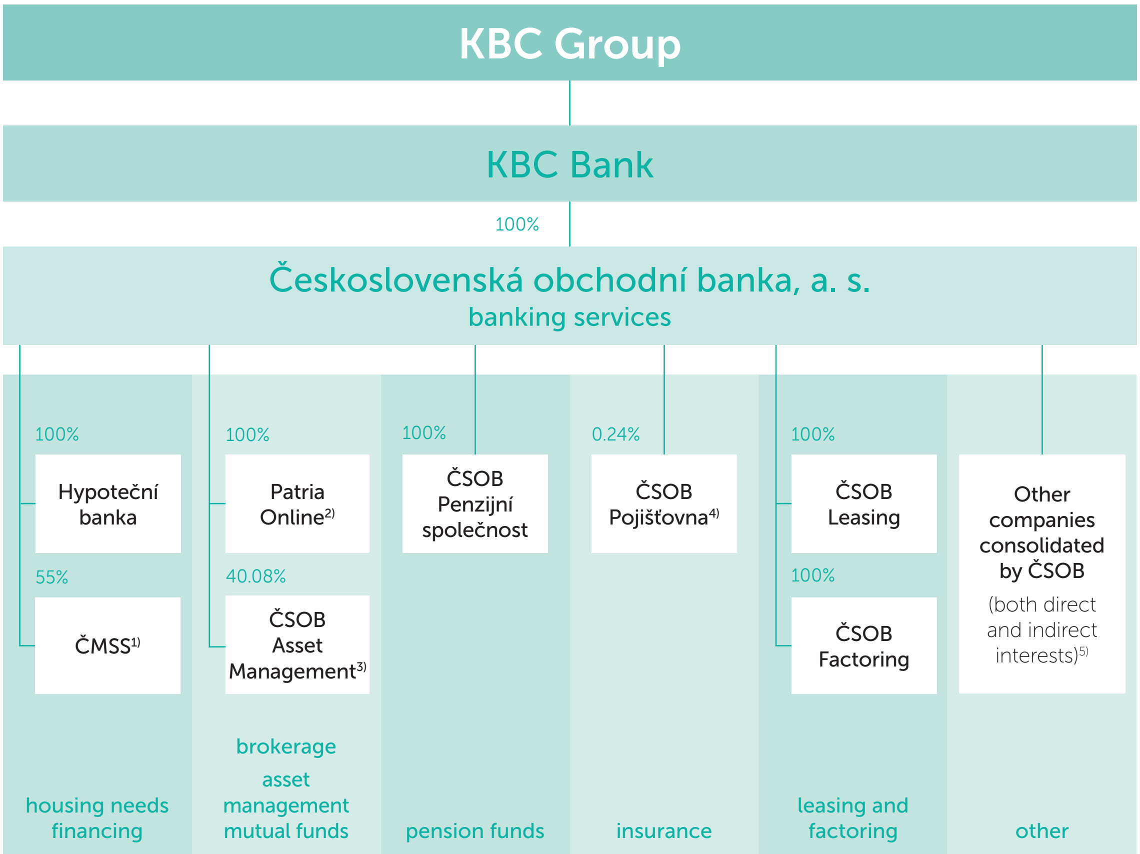
COMPANIES OF THE ČSOB GROUP

ČSOB Group

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

As at 31 December 2015, ČSOB had ownership interests in 30 legal entities and, in addition to ČSOB, other 26 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, securities brokerage, asset management, mutual fund, pension funds, insurance, leasing and factoring.



Percentages show ČSOB's ownership interests on company's equity as at 31 December 2015.
Percentages on company's voting rights are stated in this part of ČSOB Annual Report 2015.

1) 45% of shares owned by Bausparkasse Schwäbisch Hall; consolidated in ČSOB by an equity method.
2) Effective as of 1 January 2015, Patria Online (includes Patria Finance and Patria Corporate Finance) has become a part of the ČSOB group.
3) 59.92% of shares owned by KBC Participations Renta C; consolidated in ČSOB by an equity method.
4) 99.76% of shares owned by KBC Insurance; consolidated in ČSOB by an equity method.
5) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report 2015.

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 5,076,336 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

Indicator		2015	2014
Total assets*	CZKm	236,195	222,353
Loans and advances to customers*	CZKm	228,340	211,380
Total equity*	CZKm	33,647	30,619
Profit for the year after tax*	CZKm	2,990	3,078
Total volume of new mortgage loans (according to the Ministry of Regional Development; CZ)	CZKm	51,221	41,762

** EU IFRS, audited.*

Branches	29	28
Agents and brokers	4,010	3,720

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 2015, Hypoteční banka provided about 27,200 mortgage loans with a total volume of CZK 51 bn (maximal in the bank history) and maintained its position as the market leader for new mortgage loans with a market share of 27.8% (new sales).

Hypoteční banka was awarded the first place in the competition Bank of the year 2015 in the category *Mortgage of the year* with the *Australian mortgage* product.

Hypoteční banka ranked among six successful projects in the world in the international competition EFMA with the new design of its branches called *Living room*.

Českomoravská stavební spořitelna, a.s.

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

ČMSS
Na těchto základech můžete stavět

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

Indicator*		2015	2014
Total assets	CZKm	153,215	165,013
Volume of loans and bridging loans (Retail)	CZKm	117,378	119,613
Volume of client deposits	CZKm	141,980	153,482
Total equity	CZKm	9,748	9,851
Profit for the year after tax	CZKm	1,104	1,160

** EU IFRS, audited.*

Advisory centers*	338	338
Tied agents	1,970	2,150

** As of 30 June 2015, ČMSS advisory centers include also ČMSS advisory touch-points; figures for 2014 have been restated.*

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

In 2015, ČMSS achieved the total target amount of CZK 78.5 bn (i.e. market share of 50.3%) and concluded new construction loans and bridging loans of CZK 24.3 bn (i.e. market share of 53.2%).
According to methodology of MF CR.

Patria Online, a.s.

Date of establishment:	27. 10. 1994
Business activities:	Creation of web pages in electronic form, automated data processing, conversion of media into electronic form and their further distribution
Identification number	61859273
Registered capital:	CZK 101,000 ths
Shareholders:	100% ČSOB

Contact

Address:	Jungmannova 745/24 110 00 Praha 1
Telephone:	+420 221 424 178
Fax:	+420 221 424 204
E-mail:	info@patria.cz
Internet:	www.patria.cz

Indicator		2015	2014
Consolidated profit for the year after tax (Patria group)	CZKm	357	171

EU IFRS, unaudited.

Number of orders realized through personal brokers and the online trading platform WebTrader (Patria Finance)	120,500	118,600
Number of clients (Patria Finance)	22,000	20,100

The main activity of Patria Online is providing information on financial and capital markets through the Internet platform www.patria.cz. The subsidiaries, Patria Finance and Patria Corporate Finance, provide investment banking services in the areas of securities trading and mergers and acquisitions of companies. Patria Finance services also include investment research, both for the CEE region and the developed markets of Western Europe and the USA. Securities trading and brokerage is offered through the Internet portal www.patria-direct.cz.

In 2015, securities trading focused dominantly on stock markets. The subsidiary, Patria Finance (the securities trader), serves more than 22,000 clients with the volume of AUM exceeding CZK 44 bn.

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

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

Indicator		2015	2014
Total assets managed by ČSOB AM [1]	CZKm	199,772	185,691
Total assets in funds distributed by the ČSOB group [1, 2]	CZKm	99,173	89,438
Market share (according to methodology of AKAT) – total assets in funds [3]		25.7%	28.0%

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) Market share of 2014 has been restated according to methodology of AKAT.

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

In 2015, ČSOB AM created more than 30 funds of which more than two thirds are structured. The offer for retail clients was extended besides other by new Flexible funds, for ČSOB Private Bank clients new funds focused on alternative subjects (e.g. volatility or currency investment) were introduced. ČSOB AM was awarded the first place in the category *Guaranteed funds* with structured fund *Global Partners ČSOB Sport Event Winners 1* in the Finparáda Financial product of the year 2015 competition.

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

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

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

Indicator		2015	2014
Funds registered in favour of participants of the Transformed fund Stabilita	CZKm	39,245	36,061
– of which contributions of participants	CZKm	30,920	28,395
Participant funds in pension funds	CZKm	205	110
Participant funds in participation funds	CZKm	1,594	717
Profit for the year after tax*	CZKm	82	34

** EU IFRS, audited.*

Customers	650,000	667,000

Since 1994, ČSOB PS belongs among the most important and stable pension funds managers. Trusted by nearly 650,000 clients who have entrusted us with more than CZK 41 bn.

ČSOB PS provides pension insurance through the Transformed fund and offers pension savings through pension funds (closed on 31 December 2015) and supplementary pension savings through various participations funds with different investment strategy.

In the twenty one-year history of the Transformed fund the average annual return on investment was 4.2% (the average for the years 1994–2014).

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

Indicator		2015	2014
Total assets*	CZKm	40,120	40,372
Total equity*	CZKm	4,804	4,873
Profit for the year after tax*	CZKm	716	747
Gross written premium life insurance	CZKm	6,623	4,416
Gross written premium non-life insurance	CZKm	4,903	4,645

** EU IFRS, audited.*

Branches	91	88
Customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations	1,104,000	1,094,000

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 2015, ČSOB Pojišťovna posted a net profit of CZK 716 m mainly thanks to good business results. Gross written premium reached CZK 11.5 bn. Market share increased by 0.4% to 6.8% in 2015.

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:	100% 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

Indicator		2015	2014
Total assets [1)]	CZKm	35,374	28,831
Amounts due from clients (gross) [1)]	CZKm	33,163	27,423
Total equity [1)]	CZKm	8,254	5,906
Profit for the year after tax [1)]	CZKm	533	495
Volume of new leasing business [2)]	CZKm	18,376	13,424

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

Branches	10	10

ČSOB Leasing is a universal leasing company with many years of business experience and a leader of the leasing market in the Czech Republic.

In 2015, ČSOB Leasing provided to its clients the highest amount of finance in the non-banking sector in the Czech Republic – CZK 18.4 bn which is 37% higher than in 2014. Operating leasing increased by 130% year-on-year and reached the amount higher than CZK 4 bn.

The company achieved excellent results also in financial leasing (CZK 3.9 bn) and entrepreneurial loans (CZK 9.9 bn) where ČSOB Leasing ranks the first position on the market.
According to methodology of ČLFA.

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

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

Indicator		2015	2014
Total assets*	CZKm	4,186	3,781
Amounts due from clients (gross)*	CZKm	4,483	4,044
Total equity*	CZKm	882	739
Profit for the year after tax*	CZKm	99	76
Turnover of receivables	CZKm	31,737	30,576

** EU IFRS, unaudited.*

ČSOB Factoring has been providing factoring services to its clients for almost twenty five years. Thanks to the quality of service the market share has exceeded 23% in 2015.

In 2015, the volume of receivables assigned to ČSOB Factoring increased by 3.8% and reached CZK 31.7 bn.

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

Companies of the ČSOB Group

(as at 31 December 2015)

Legal Entity				Share of ČSOB in:						
ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital	Registered Capital: Total	Registered Capital: Direct	Registered Capital: Indirect	Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS
			CZK	%	%	%	%		Y/N

Controlled Companies

ID No.	Business Name of Legal Entity / Business Activities	Registered Office	Registered Capital CZK	Total %	Direct %	Indirect %	Voting Rights %	Indirect Share of ČSOB via	Cons. EU IFRS Y/N
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 and related services	Praha 10, Benešovská 2538/40	70,800,000	100.00	100.00	none	100.00	none	Y
63998980	**ČSOB Leasing, a.s.** Leasing	Praha 4, Na Pankráci 310/60	3,050,000,000	100.00	100.00	none	100.00	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, a.s.[2]** Real estate services, administration and maintenance of real estate	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	5,076,336,000	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
61859273	**Patria Online, a.s.** Creation of web pages in electronic form, automated data processing, conversion of media into electronic form and their further distribution	Praha 1, Jungmannova 745/24	101,000,000	100.00	100.00	none	100.00	none	Y
26455064	**Patria Finance, a.s.** Securities trader	Praha 1, Jungmannova 745/24	150,000,000	100.00	none	100.00	100.00	Patria Online	Y
25671413	**Patria Corporate Finance, a.s.** Brokerage activities in financial consulting	Praha 1, Jungmannova 745/24	1,000,000	100.00	none	100.00	100.00	Patria Online	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	10,180,422	100.00	100.00	none	100.00	none	Y

Legal Entity				Share of ČSOB in:						
ID No.	Business Name of Legal Entity	Business Activities	Registered Office	Registered Capital	Registered Capital			Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS
					Total	Direct	Indirect			
				CZK	%	%	%	%		Y/N
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
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
28985362	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[3)]	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[4)]	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.[5)] – 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 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%.
3) 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%.
4) Shares in registered capital: ČSOB 0.24%, KBC Insurance 99.76%; shares in voting rights: ČSOB 40%, KBC Insurance 60%.
5) 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 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%.

ČSOB Property fund, a.s. (CZ; ID No.: 27924068): The business name of company and its business activities changed (the original business name ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group; original business activities – collective investment) – erased of an entry in the Register of Companies on 31 December 2015).

Hypoteční banka, a.s. (CZ; ID No.: 13584324): In December 2015, registered capital was increased from CZK 5,076,335,500 to CZK 5,076,336,000 – erased of an entry in the Register of Companies on 11 January 2016. Shares in registered capital and shares in voting rights: ČSOB 100%.

CORPORATE GOVERNANCE

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, 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 2015

First Name and Surname	Position	Membership since	The Beginning of Current Term in Office [1]	Termination of Membership
John Arthur Hollows	Chairman since 2. 5. 2014	1. 5. 2014	1. 5. 2014	–
Marek Ditz	Member	1. 1. 2013	1. 1. 2013	–
Petr Knapp	Member	20. 5. 1996	21. 5. 2014 [2]	–
Petr Hutla	Member	27. 2. 2008	28. 2. 2013 [2]	–
Jiří Vévoda	Member	8. 12. 2010	9. 12. 2015 [2]	–
Tomáš Kořínek	Member	1. 1. 2015	1. 1. 2015	–
Koen Wilmots	Member	8. 12. 2010	8. 12. 2010	31. 3. 2015

1) The term in office of the members of the Board of Directors lasts four years.
2) Elected to a new term in office.

ČSOB's Top Management

In 2015, 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.

ČSOB's Top Management in 2015

First Name and Surname	Position and Area of Responsibility
John Arthur Hollows	Chief Executive Officer
Marek Ditz	Senior Executive Officer, Specialized Banking and Insurance
Petr Knapp	Senior Executive Officer, Relationship Services
Petr Hutla	Senior Executive Officer, Retail
Jiří Vévoda	Senior Executive Officer, Finance Management
Tomáš Kořínek	Senior Executive Officer, Group Risk Management

Until 9 March 2015, Koen Wilmots served as a member of ČSOB's Top Management (for more information please refer to page 59 of this Annual Report).

For a description of areas of responsibility managed by ČSOB's Board of Directors (Top Management) as at 31 December 2015 please refer to ČSOB's Organisation Chart, page 66 of this Annual Report. Descriptions of work and decision-making processes are given in Corporate Governance chapter 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.

ČSOB's Supervisory Board in 2015

First Name and Surname	Position	Membership since	The Beginning of Current Term in Office[1]	Termination of Membership
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[3]	–
Franky Depickere	Member	1. 6. 2014	1. 6. 2014	–
Christine Van Rijsseghem	Member	1. 6. 2014	1. 6. 2014	–
Martin Jarolím	Member	1. 1. 2015	1. 1. 2015	–
Marko Voljč	Member	29. 6. 2010	29. 6. 2010	1. 1. 2015
Jan Gysels	Member	14. 2. 2013	14. 2. 2013	15. 4. 2015

1) The term in office of the members of the Supervisory Board lasts four years.
2) Co-opted.
3) Elected to a new term in office.

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 2015

First Name and Surname	Position		Membership since	Termination of Membership
Martin Jarolím	Chairman[1)]	Member of ČSOB's Supervisory Board (since 1. 1. 2015)	1. 6. 2014	–
Pavel Kavánek	Member	Chairman of ČSOB's Supervisory Board (since 30. 6. 2014; member since 1. 5. 2014)	1. 6. 2014	27. 1. 2016[2)]
Petr Šobotník	Independent member[3)]	Not a member of any ČSOB body	1. 2. 2011	–
Jan Gysels	Member	Member of ČSOB's Supervisory Board (from 14. 2. 2013 to 15. 4. 2015)	5. 4. 2013	15. 4. 2015

1) Chairman from 9 April 2015 to 7 April 2016.
2) Since 27 January 2016, Ladislav Mejzlík has been an independent member of ČSOB's Audit Committee.
3) Chairman since 7 April 2016.

Changes in ČSOB's Managing and Supervisory Bodies in 2015 and 2016

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

On 30 December 2014

- Tomáš Kořínek was elected a member of ČSOB's Board of Directors with effect from 1 January 2015.
- Marko Voljč was recalled 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 recalled from ČSOB's Board of Directors with effect from 31 March 2015.
- Jan Gysels was recalled from ČSOB's Supervisory Board with effect from 15 April 2015.
- Jan Gysels was recalled from ČSOB's Audit Committee with effect from 15 April 2015.

On 1 December 2015

- Jiří Vévoda was re-elected as a member of ČSOB's Board of Directors for his second tenure with effect from 9 December 2015.

On 27 January 2016

- Pavel Kavánek was recalled from ČSOB's Audit Committee with effect from 27 January 2016.
- Ladislav Mejzlík was elected a member of ČSOB's Audit Committee with effect from 27 January 2016.

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 does not 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
Česká republika

Introducing Members of Managing and Supervisory Bodies

ČSOB's Board of Directors

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 the KBC Group. From September 2009 to April 2010, he was the CEO of 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 the KBC Group responsible for the Business Unit Czech Republic.

Membership in bodies of other companies:
- Member of the Executive Committee of the 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

Specialised Banking and Insurance

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 responsible for 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 in: Hypoteční banka (CZ) and ČSOB Advisory (CZ)
- Deputy Chairman of the Supervisory Board of ČMSS (CZ)
- Member of the Supervisory Board in: ČSOB Asset Management (CZ), Patria Online (CZ), Patria Finance (CZ) and Patria Corporate Finance (CZ)
- Chairman of the Audit Committee of ČMSS (CZ)
- Member of the Audit Committee of ČSOB Pojišťovna (CZ)

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), Patria Finance (CZ) and Patria Corporate Finance (CZ)
- Member of the Board of Directors of the Prague Economic Chamber (CZ)
- Member of the Board of Trustees of the University of Chemistry and Technology, Prague (CZ)

PETR HUTLA

Born on 24 August 1959

Member of the Board of Directors

Retail

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 ČSOB Pojišťovna (CZ)
- Member of the Board of Directors in: the Czech Technical University in Prague (CTU; CZ), the Czech Transplant Foundation (CZ) and the Nadační fond Moderní léčba arytmií (endowment fund; 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. As of 8 December 2010, he has become a member of ČSOB's Board of Directors. Firstly Mr. Vévoda acted as the Senior Executive Officer responsible for HR and Transformation and afterwards he was responsible for Products and Staff Functions. Between January 2013 and June 2014, Mr. Vévoda acted as the Chief Risk Officer, since 1 July 2014, he has been appointed as the Chief Finance Officer.

Membership in bodies of other companies:

- Member of the Supervisory Board in: Hypoteční banka (CZ), ČSOB Leasing (CZ) and ČMSS (CZ)

TOMÁŠ KOŘÍNEK

Born on 10 June 1967

Member of the Board of Directors

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 an Executive Director responsible for Group Risk Management. Since 1 January 2015, he has been a member of ČSOB's Board of Directors and appointed as the Chief Risk Officer.

Membership in bodies of other companies:

- Chairman of the Audit Committee of Hypoteční banka (CZ)

ČSOB's Supervisory Board

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 the KBC Group responsible for the Business Unit Czech Republic. Since September 2015, Mr. Kavánek has been an investor and a non-executive director in Decipher Lab Ltd. (GB).

Since 1 May 2014, he has been a member of ČSOB's Supervisory Board (and its Chairman since 30 June 2014).

From 1 June 2014 to 27 January 2016, he was 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.

Since February 2007, he has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
- Member of the Board of Directors of Intercoop Europe (Switzerland)

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) and CBC Banque (Belgium)
- Chairman of the Risk and Compliance Committee in: KBC Group (Belgium), KBC Bank (Belgium) and KBC Assurances (Belgium)
- Member of the Nomination Committee of the KBC Group (Belgium)
- Member of the Remuneration Committee of CBC Banque (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 Executive Committee of the KBC Group 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 Executive Committee of the KBC Group (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 ot the Remuneration and Nomination Committee of Bank Ireland (Ireland)

MARTIN JAROLÍM

Born on 16 March 1972

Member of the Supervisory Board

He graduated from the 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 the 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 he was its Chairman from 9 April 2015 to 7 April 2016).

Membership in bodies in other companies:
- Member of the Board of Directors (a non-executive director) in: K&H Bank (Hungary) and KBC Bank Ireland (Ireland)
- 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. From 2007 to 2014, he was the President of the Czech Chamber of Auditors. At present, Mr. Šobotník is an independent consultant (Šobotník & Partners).

Since 1 February 2011, he has been an independent member of ČSOB's Audit Committee (and its Chairman since 7 April 2016).

Membership in bodies of other companies:
- Representative of the Czech Republic in FEE – Ethics Working Party (since 2004)
- Member of the Supervisory Committee of the Czech Chamber of Auditors (since November 2014)
- Chairman of the Audit Committee of Český Aeroholding (since February 2014; CZ)
- Member of the Audit Committee in: Skanska (since 2010; CZ) and ČEPRO (since December 2015; CZ)
- Member of the Supervisory Board of the Nadační fond Českého rozhlasu (Czech Radio Endowment Fund; CZ)

LADISLAV MEJZLÍK

Born on 1 May 1961

Independent member of the Audit Committee

He graduated from the University of Economics in Prague (UEP).

Since 1984 Ladislav Mejzlík is working at the Faculty of Finance (UEP), where he was the Head of the Department of Financial Accounting and Auditing in 2006 and in 2014 was elected as the dean of the Faculty of Finance and Accounting. Mr. Mejzlík was licensed as an auditor in 1993 and he was elected as a member of the Executive Board of Chamber of Auditors of the Czech Republic (CA CR). In 2007 and in the years 2010-2014 he was elected twice as the First Vice President of CA CR. Mr. Mejzlík is representing the Faculty of Finance and Accounting of UEP in the National Accounting Council since 2005, and in 2004 he was elected as the National Representative for the Czech Republic in the European Accounting Association Board of Representatives. Mr. Mejzlík is professionally focused on the use of information and communication technology in accounting and auditing, and on the regulation and harmonization of accounting internationally, especially on the implementation of IFRS.

Since 27 January 2016, he has been an independent member of ČSOB's Audit Committee.

Membership in bodies of other companies:
- Member of the scientific committee at the UEP, the Faculty of Finance of UEP and the Faculty of Economic Informatics of Economic University in Bratislava
- Member of the Chamber of Auditors of the Czech Republic (since 1993)
- Member of the European Accounting Association (since 1994)
- Member of the American Accounting Association (since 2005)

Termination of Membership in ČSOB's Managing and Supervisory Bodies in 2015

KOEN WILMOTS
Born on 24 July 1964

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 started working in the banking sector since 1992 when he joined Kredietbank. He worked for ČSOB from 1999 to March 2015. 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, he was a member of ČSOB's Board of Directors.

MARKO VOLJČ
Born on 5 December 1949

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.

JAN GYSELS
Born on 28 September 1960

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, then as the General Manager, Banking Communities Support in the KBC Group. At present, he works for KBC Bank as director PBR, Private Banking – Zetel Centrum.

From 14 February 2013 to 15 April 2015, he 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.

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 sets basic rules of the Bank's governance in compliance with Czech law and in line with 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 of ČSOB, 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 of ČSOB 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 2015, ČSOB's Board of Directors had six members and worked in the following composition: John Arthur Hollows (Chairman), Marek Ditz, Petr Knapp, Petr Hutla, Jiří Vévoda and Tomáš Kořínek.

Personnel changes in ČSOB's Board of Directors during the year 2015 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 a quorum if more than half of its members are present at the meeting. Any decision should 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. These meetings are governed by the committee's rules of procedure.

Board of Directors Committees in 2015

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.
Chairman of the Committee: Tomáš Kořínek

Credit Sanctioning Committee (CSC)

The Committee decides approvals / non-approvals of credit exposure of the ČSOB group.
Chairman of the Committee: Jiří Vévoda

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.
Chairman of the Committee: John Arthur Hollows

Public Affairs Committee (PAC)

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

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.
Chairman of the Committee: John Arthur Hollows

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.
Chairman of the Committee: John Arthur Hollows

Other Committees

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.

EXCO – Executive Committee for Retail Clients

The aim of the Committee is to review financial and business performance of Retail division in line with the 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 department, ČSOB Asset Management, ČSOB Penzijní společnost, Patria group 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 in accordance with the powers delegated by ČSOB's Board of Directors and the ČSOB group strategic plan.

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. The members of the Supervisory Board are elected and removed by the General Meeting.

At the end of 2015, ČSOB's Supervisory Board had five members and worked in the following composition: Pavel Kavánek (Chairman), Hendrik Soete, Christine Van Rijsseghem, Franky Depickere and Martin Jarolím.

Personnel changes in ČSOB's Supervisory Board during the year 2015 are described in the chapter Managing and Supervisory Bodies.

In compliance with its plan of work, the Supervisory Board held **four meetings in 2015** where it discussed issues falling under its responsibility according to law and 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 submitted materials. In compliance with its powers and based on the Audit Committee recommendation, the Supervisory Board selects an external auditor prior the official appointment by the General Meeting of shareholders.

The external 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 meetings are governed by the Articles of Association of ČSOB and by its rules of procedure.

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 of ČSOB. ČSOB's Supervisory Board established the Nomination and Remuneration Committee for remuneration, nomination and personal issues. Another advisory committee is the Risk and Compliance Committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee submits recommendations to the Supervisory Board as to the election of suitable candidates to the position of member(s) of ČSOB's Board of Directors and member(s) of statutory bodies of other entities controlled by ČSOB ("Controlled Subsidiaries"), submits recommendations to the Supervisory Board as to removal of current member(s) of the ČSOB Board of Directors and member(s) of statutory bodies of the Controlled Subsidiaries. The Nomination and Remuneration Committee also proposes a remuneration policy for the members of ČSOB's Board of Directors and member(s) of statutory bodies of the Controlled Subsidiaries including fixed as well as variable parts, submits proposals to ČSOB's Supervisory Board with respect to appointment to offices in committees of the Supervisory Board and recommendations to the Supervisory Board as to principles of remuneration of the head of the internal audit.

In 2015, the Nomination and Remuneration Committee was composed of the following members (all of whom were members of ČSOB's Supervisory Board): Christine Van Rijsseghem (Chairman), Pavel Kavánek and Martin Jarolím (since 1 January 2015).

The Nomination and Remuneration Committee held **four meetings in 2015**.

Risk and Compliance Committee

The Risk and Compliance 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 supervises the proper functioning of the Compliance and Risk Management departments.

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. The constitution of a quorum of the Risk and Compliance Committee and majority necessary to adopt a decision follow the same principles as in the case of the Board of Directors.

In 2015, the Risk and Compliance Committee worked in the following composition: Christine Van Rijsseghem (Chairman), Martin Jarolím, Pavel Kavánek, Jan Gysels (until 15 April 2015) – members of ČSOB's Supervisory Board – and Petr Šobotník (independent member of ČSOB's Audit Committee).

The Risk and Compliance Committee held **four meetings in 2015**.

Audit Committee

The authority and responsibilities of ČSOB's Audit Committee are determined by the Articles of Association of ČSOB and the Audit Committee's Rules of Procedure. In particular, the Audit Committee monitors the compilation of the financial statement and the process of external 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 members are elected by the General Meeting from among the members of the Supervisory Board or third parties 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 Audit Committee's 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. Constitution of a quorum of the Audit Committee and majority necessary to adopt a decision follow the same principles as in the case of the Board of Directors.

In 2015, the Audit Committee worked in the following composition: Martin Jarolím (Chairman), Pavel Kavánek, Jan Gysels (until 15 April 2015) and Petr Šobotník (independent member).

The Audit Committee held **four meetings in 2015**.

Personnel changes in ČSOB's Audit Committee are described in the chapter Managing and Supervisory Bodies.

Internal Control Mechanisms to Minimize Financial Reporting Process Risks

A number of tools in several areas are used to ensure the true and fair representation of transactions in the company's accounting records and the 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, the 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, 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 controls 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 (IFRS). Monitoring 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 valuation financial assets or principles of creation of allowances and provisions, are described in Note 2 to the Separate Financial Statements for the year 2015 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statements for the year 2015 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 a part of the operational risk management, please refer to Note 38.5 to the Separate Financial Statements for the year 2015 prepared in accordance with EU IFRS and to Note 40.5 to the Consolidated Financial Statements for the year 2015 prepared in accordance with EU IFRS.

The majority of financial statements are generated automatically using the data from the central data warehouse, reconciled to the General Ledger balances.

The consolidated financial statements are submitted to ČSOB's Supervisory Board regularly and both the consolidated and separate financial statements are subject to external audit review.

The effectiveness and efficiency of internal controls is evaluated by internal auditors. A report on the financial results is submitted to ČSOB's Audit Committee semi-annually.

ČSOB Organisation Chart

(as at 31 December 2015)

Chief Executive Officer
John Arthur Hollows

- Internal Audit
- Communication
- Projects and Enterprise Architecture
- Human Resources Management
- Information Risk Management
- Information Technology

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

Retail – **Petr Hutla**, Senior Executive Officer
- Strategic Partnerships
- Client Services
- Retail Design
- Retail Business Support
- Digital Service and Channels[2)]
- Products and Integration
- Customer Insight Services and Data[1)]

Finance Management – **Jiří Vévoda**, Senior Executive Officer
- Finance
- Credits
- Asset and Liabilities Management
- Strategy and Development
- Data, Operations and Procurement

Group Risk Management – **Tomáš Kořínek**, Senior Executive Officer
- Market and Liquidity Risk Management
- Non-financial Risk Management
- Credit Risk Management
- Data Management
- Legal
- Compliance

1) The department was canceled and it was integrated into Digital Service and Channels department with effect from 1 January 2016.
2) The department was renamed on Digital and Data Change Zone with effect from 1 March 2016.

FINANCIAL PART

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

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

(CZKm)	Note	2015	2014
Interest income	5	25,580	26,841
Interest expense	6	(3,277)	(3,969)
Net interest income		**22,303**	**22,872**
Fee and commission income		9,827	9,106
Fee and commission expense		(3,436)	(3,127)
Net fee and commission income	7	**6,391**	**5,979**
Dividend income		8	8
Net gains from financial instruments at fair value through profit or loss and foreign exchange	8	2,652	1,700
Net realised gains on available-for-sale financial assets		326	214
Other net income	9	862	670
Operating income		**32,542**	**31,443**
Staff expenses	10	(7,007)	(6,880)
General administrative expenses	11	(8,063)	(7,416)
Depreciation and amortisation	22, 23	(617)	(685)
Operating expenses		**(15,687)**	**(14,981)**
Impairment losses	12	(1,081)	(975)
Share of profit of associates and joint ventures	19	687	691
Profit before tax		**16,461**	**16,178**
Income tax expense	13	(2,472)	(2,557)
Profit for the year		**13,989**	**13,621**
Attributable to:			
Owners of the parent		14,010	13,604
Non-controlling interests		(21)	17

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

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

(CZKm)	Note	2015	2014
Profit for the year		**13,989**	**13,621**
Exchange differences on translating foreign operation		-	(2)
Net (loss) / gain on cash flow hedges		(729)	782
Net gain / (loss) on available-for-sale financial assets		283	(1,303)
Share of other comprehensive income of associates and joint ventures		(17)	211
Income tax benefit / (expense) relating to components of other comprehensive income		83	(26)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	31	**(380)**	**(338)**
Total comprehensive income for the year, net of tax		**13,609**	**13,283**
Attributable to:			
Owners of the parent		13,639	13,279
Non-controlling interests		(30)	4

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

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

(CZKm)	Note	2015	2014
ASSETS			
Cash and balances with central banks	15	117,287	72,076
Financial assets held for trading	16	29,494	50,626
Financial assets designated at fair value through profit or loss	16	15	3,327
Available-for-sale financial assets	17	59,961	56,121
Held-to-maturity investments	17	136,433	144,074
Loans and receivables	18	579,448	506,635
Fair value adjustments of the hedged items in portfolio hedge		957	1,654
Derivatives used for hedging	20	11,900	13,967
Current tax assets		96	69
Deferred tax assets	13	152	100
Investment in associates and joint ventures	19	4,970	4,992
Investment property	21	-	284
Property and equipment	22	7,662	6,796
Goodwill and other intangible assets	23	5,323	2,913
Non-current assets held-for-sale	24	363	515
Other assets	25	2,264	1,490
Total assets		**956,325**	**865,639**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	26	29,970	69,624
Financial liabilities at amortised cost	27	812,205	686,136
Fair value adjustments of the hedged items in portfolio hedge		4,062	5,145
Derivatives used for hedging	20	10,774	11,987
Current tax liabilities		170	196
Deferred tax liabilities	13	2,162	2,280
Other liabilities	28	5,727	3,955
Provisions	29	536	736
Total liabilities		**865,606**	**780,059**
Share capital	30	5,855	5,855
Share premium		20,929	15,509
Statutory reserve		18,687	18,687
Retained earnings		38,517	38,397
Available-for-sale reserve	30	3,944	3,732
Cash flow hedge reserve	30	2,609	3,192
Foreign currency translation reserve	30	-	-
Shareholders' equity		90,541	85,372
Non-controlling interests, presented within equity		178	208
Total equity		**90,719**	**85,580**
Total liabilities and equity		**956,325**	**865,639**

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

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

	Attributable to equity holders of the parent					Non-	Total
(CZKm)	Share capital (Note: 30)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 30)	controlling interest	Equity
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**
At 1 January 2015	**5,855**	**15,509**	**18,687**	**38,397**	**6,924**	**208**	**85,580**
Profit for the year	-	-	-	14,010	-	(21)	13,989
Other comprehensive income for the year	-	-	-	-	(371)	(9)	(380)
Total comprehensive income for the year	-	-	-	14,010	(371)	(30)	13,609
Increase of Share capital and Share premium	-	5,420	-	-	-	-	5,420
Dividends paid (Note: 14)	-	-	-	(13,208)	-	-	(13,208)
Acquisition of business under common control (Note: 3)	-	-	-	(682)	-	-	(682)
At 31 December 2015	**5,855**	**20,929**	**18,687**	**38,517**	**6,553**	**178**	**90,719**

[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 21 April 2016 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 2015

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

(CZKm)	Note	2015	2014
OPERATING ACTIVITIES			
Profit before tax		16,461	16,178
Adjustments for:			
Change in operating assets	33	(6,951)	108,762
Change in operating liabilities	33	(15,027)	(84,544)
Non-cash items included in profit before tax	33	2,130	5,804
Net gains from investing activities		(73)	(271)
Income tax paid		(2,467)	(3,086)
Net cash flows (used in) / from operating activities		**(5,927)**	**42,843**
INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		(6,589)	(6,753)
Maturity / disposal of investment securities		12,763	7,326
Purchase of property, equipment and intangible assets		(2,167)	(1,129)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		1,260	870
Purchase of investment property		-	(20)
Proceeds from disposal of investment property		2	-
Dividends from associates and joint ventures		692	822
Acquisition of subsidiary, net of cash acquired (Note: 3)		(283)	-
Reintegration of information and communication services (Note: 3)		(1,136)	-
Proceeds from disposal of subsidiary, associate and joint venture companies		-	92
Net cash flows from investing activities		**4,542**	**1,208**
FINANCING ACTIVITIES			
Repayment of bonds		(4,918)	(309)
Issue of bonds		2,541	4,853
Increase of share capital and share premium		5,420	-
Dividends paid	14	(13,208)	(8,109)
Net cash flows used in financing activities		**(10,165)**	**(3,565)**
Net (decrease) / increase in cash and cash equivalents		**(11,550)**	**40,486**
Cash and cash equivalents at the beginning of the year	33	55,920	15,434
Net (decrease) / increase in cash and cash equivalents		(11,550)	40,486
Cash and cash equivalents at the end of the year	33	**44,370**	**55,920**
Additional information			
Interest paid		(3,732)	(4,715)
Interest received		26,584	28,033
Dividends received (other than from associates and joint ventures)		8	8

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015

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.

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.

Annual Improvements to IFRSs (2010 - 2012 and 2011 – 2013 Cycle), issued in December 2013 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 2015

The following standards, amendments and interpretations have been issued and are effective after 1 January 2015. 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, which is designated at fair value through profit or loss, caused by changes in its own credit quality are recognised in other comprehensive income, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

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 receivables, 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 trade and lease receivables and contract 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) does not yet have a set effective date. 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 2018. 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.

Annual Improvements to IFRSs (2012 - 2014 Cycle), issued in 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 January 2016.

IFRS 16 Leases. The standard is effective for annual periods beginning on or after 1 January 2019 and hasn't been endorsed by EU yet. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group is currently assessing the impact that IFRS 16 will have on the financial statements.

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.

(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 acquisition 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.

The pooling of interest method of accounting is used to account for the business combination of entities or businesses under common control. It means a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination.

The assets and liabilities of the combining entities are reflected at their carrying amounts and no new assets and liabilities are recognised at the date of combination. No new goodwill is recognised as a result of the combination.

Any difference between the consideration paid and the carrying amounts of assets and liabilities acquired is reflected through equity.

The income statement reflects the results of the combining entities only since the date, when the control was obtained by the Group.

(18) Intangible assets

Intangible assets include software, licences, customer relationship and other intangible assets. A core system is a large-scale software application that performs important strategic group objectives.

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.

The amortisation of 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:

Core systems	8 years
Other 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.

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 27 companies. Ownership of the Group (%) in significant companies was as follows:

Name	Abbreviation	Country of incorporation	% 2015	% 2014
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
ČSOB Property fund, a.s.	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
Patria Corporate Finance, a.s.	Patria CF	Czech Republic	100.00	-
Patria Finance, a.s.	Patria Finance	Czech Republic	100.00	-
Patria Online, a.s.	Patria Online	Czech Republic	100.00	-
Radlice Rozvojová, a.s.	Radlice Rozvojová	Czech Republic	100.00	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

On 19 December 2014, a share purchase agreement was concluded between ČSOB and KBC Securities NV for the purchase of 100% shares and 100% voting rights of Patria Online, a.s. (member of KBC Group). The acquisition of Patria Online, which has full control over Patria Finance and Patria Corporate Finance, 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 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.

The Patria sub-group was included into the consolidated financial statements of the Group using the pooling of interest method.

Set out below is an analysis of the financial effect of the business combination of the Patria sub-group 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	4,310
Tax assets	26
Property and equipment	12
Other assets	356
Total assets	**4,781**
LIABILITIES	
Financial liabilities at amortised cost	3,248
Tax liabilities	9
Provisions	10
Other liabilities	404
Total liabilities	**3,671**
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.

Loans and receivables mainly consist of cash deposited on current and short term accounts in credit institutions. 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	897
Cash paid	(1,180)
Net cash flow on acquisition	**(283)**

In accordance with the Group strategy, information and communication services were reintegrated from KBC Group Czech Branch back to ČSOB in 2015 (Note: 38). An agreement to acquire a part of business was concluded between ČSOB and the KBC Group and became effective in December 2015. According to the agreement, selected activities and processes of the KBC Group Czech Branch, including a number of employees (Note: 10), assets and liabilities related to the ICT function, were acquired by the Bank on 31 December 2015. Such a transfer represents a purchase of a part of the business by the Bank. The sales price which represents future net cash outflow from the Group was determined on the basis of an independent expert appraisal and amounted to CZK 955 m. The difference between the purchase price of the business and carrying amount of the transferred assets and liabilities reached the amount of CZK 612 m and has been recognised in the Group's Equity.

The acquisition was included into the consolidated financial statements of the Group using the pooling of interest method.

Set out below is an analysis of financial effect of the acquisition into the financial statements of the Bank as at 31 December 2015:

Assets acquired and liabilities assumed

(CZKm)	31.12.2015
ASSETS	
Deferred tax assets (Note: 13)	144
Property and equipment (Note: 22)	504
Goodwill and other intangible assets (Note: 23)	2,317
Other assets	135
Total assets	**3,100**
LIABILITIES	
Financial liabilities at amortised cost	2,738
Other liabilities	19
Total liabilities	**2,757**
Total identifiable net assets	**343**
Decrease of Retained earnings	612
Cash consideration (Note: 28)	**955**

The cash consideration was not settled as at 31 December 2015. There is no contingent consideration resulting from the transaction. Included in Financial liabilities at amortised cost are cash equivalents in the amount of CZK 1,136 m.

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 a total of 95.67% of the voting rights in ČSOB Property fund, Merrion Properties 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 the management of the Transformed fund. This company is entitled to up to 15% of the profits of the Transformed fund in addition to 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 the 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, the position of 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
Interest income	406
Interest expense	45
Net interest income	**451**
Fee and commission income	(150)
Fee and commission expense	-
Net fee and commission income	**(150)**
Dividend income	2
Net gains from financial instruments at fair value through profit or loss and foreign exchange	(93)
Net realised gains on available-for-sale financial assets	-
Other net income	(227)
Operating income	**(17)**
Operating expenses	**-**
Impairment losses	-
Profit before tax	**(17)**
Income tax expense	33
Profit for the year	**16**

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
Cash and cash equivalents at the beginning of the year	**359**
Net cash flows from operating activities	(359)
Net cash flows from investing activities	-
Net cash flows from financing activities	-
Cash and cash equivalents at the end of the year	**-**

4. SEGMENT INFORMATION

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

The Group has five 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, except of private banking customers that are reported as a part of Relationship services. This segment contains customers' deposits, consumer loans, overdrafts, payment solutions including payment cards 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).

Relationship services: Corporate companies with a turnover of greater than CZK 300 m, SME companies with a turnover of less than CZK 300 m, private banking customers with financial assets above CZK 10 m, financial and public sector institutions. This segment contains customers' deposits, loans, overdrafts, payment solutions including payment cards, leasing and other transactions and balances with corporate, SME customers and private banking customers. Margin income from the operations with corporate, SME clients and private banking clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions or 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.

Specialised banking: This segment contains mortgages, building savings, building savings loans, pension funds, mutual funds and asset management.

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

In 2015, the Group's segment reporting was modified following the change of the organisational structure of the Group. Thus, Private banking customers are managed in the same way as SME / corporate clients and were moved from strategic business unit Retail to SME / Corporate renamed to Relationship services in 2015. The specialised banking segment started to be reported as a separate segment as from 2015. The income and expenses related to e-toll were transferred from the strategic business unit Retail to Group Centre in 2015. Comparative balances were restated accordingly.

Segment reporting information by customer segments for 2015

(CZKm)	Retail	Relationship services	Financial markets	Specialised banking	Group Centre	**Total**
Statement of income						
Net interest income	7,484	8,214	208	4,630	1,767	**22,303**
Net fee and commission income	2,393	2,461	288	923	326	**6,391**
Dividend income	-	-	-	2	6	**8**
Net gains / (losses) from financial instruments at fair value through profit or loss	457	1,396	808	35	(44)	**2,652**
Net realised gains on available-for-sale financial assets	-	-	-	-	326	**326**
Other net income	33	444	-	100	285	**862**
Operating income	**10,367**	**12,515**	**1,304**	**5,690**	**2,666**	**32,542**
of which:						
External operating income	*4,237*	*10,855*	*1,304*	*7,699*	*8,447*	*32,542*
Intersegment operating income	*6,130*	*1,660*	-	*(2,009)*	*(5,781)*	-
Depreciation and amortisation	(36)	(56)	-	(72)	(453)	**(617)**
Other operating expenses	(7,856)	(5,075)	(315)	(1,217)	(607)	**(15,070)**
Operating expenses	**(7,892)**	**(5,131)**	**(315)**	**(1,289)**	**(1,060)**	**(15,687)**
Impairment losses - additions	(475)	(1,352)	-	(890)	(68)	**(2,785)**
Impairment losses - reversals	328	868	-	447	61	**1,704**
Impairment losses	**(147)**	**(484)**	**-**	**(443)**	**(7)**	**(1,081)**
Share of profit of associates and joint ventures	-	-	-	687	-	**687**
Profit before tax	**2,328**	**6,900**	**989**	**4,645**	**1,599**	**16,461**
Income tax (expense) / benefit	(469)	(1,315)	(188)	(723)	223	**(2,472)**
Segment profit	**1,859**	**5,585**	**801**	**3,922**	**1,822**	**13,989**
Attributable to:						
Owners of the parent	1,859	5,585	801	3,922	1,843	**14,010**
Non-controlling interest	-	-	-	-	(21)	**(21)**
Assets and liabilities						
Segment assets	19,721	266,137	30,435	232,593	402,106	**950,992**
Investment in associates and joint ventures	-	-	-	-	4,970	**4,970**
Non-current assets held-for-sale	-	297	-	-	66	**363**
Total assets	**19,721**	**266,434**	**30,435**	**232,593**	**407,142**	**956,325**
Total liabilities	**336,713**	**294,546**	**30,061**	**22,245**	**182,041**	**865,606**
Capital expenditure	**61**	**1,536**	**-**	**219**	**259**	**2,075**

Segment reporting information by customer segments for 2014

(CZKm)	Retail	Relationship services	Financial markets	Specialised banking	Group Centre	**Total**
Statement of income						
Net interest income	7,559	7,892	404	5,003	2,014	**22,872**
Net fee and commission income	2,547	2,390	238	502	302	**5,979**
Dividend income	-	-	-	2	6	**8**
Net gains / (losses) from financial instruments at fair value through profit or loss	413	1,491	287	(44)	(447)	**1,700**
Net realised gains on available-for-sale financial assets	-	-	-	1	213	**214**
Other net income	28	374	-	(209)	477	**670**
Operating income	**10,547**	**12,147**	**929**	**5,255**	**2,565**	**31,443**
of which:						
External operating income	*3,957*	*10,497*	*929*	*7,869*	*8,191*	*31,443*
Intersegment operating income	*6,590*	*1,650*	*-*	*(2,614)*	*(5,626)*	*-*
Depreciation and amortisation	(35)	(56)	-	(121)	(473)	**(685)**
Other operating expenses	(7,570)	(4,910)	(360)	(910)	(546)	**(14,296)**
Operating expenses	**(7,605)**	**(4,966)**	**(360)**	**(1,031)**	**(1,019)**	**(14,981)**
Impairment losses - additions	(503)	(1,409)	-	(911)	(52)	**(2,875)**
Impairment losses - reversals	258	910	-	482	250	**1,900**
Impairment losses	**(245)**	**(499)**	**-**	**(429)**	**198**	**(975)**
Share of profit of associates and joint ventures	-	-	-	691	-	**691**
Profit before tax	**2,697**	**6,682**	**569**	**4,486**	**1,744**	**16,178**
Income tax (expense) / benefit	(534)	(1,296)	(108)	(709)	90	**(2,557)**
Segment profit	**2,163**	**5,386**	**461**	**3,777**	**1,834**	**13,621**
Attributable to:						
Owners of the parent	2,163	5,386	461	3,777	1,817	**13,604**
Non-controlling interest	-	-	-	-	17	**17**
Assets and liabilities						
Segment assets	19,197	247,631	51,659	214,384	327,261	**860,132**
Investment in associates and joint ventures	-	-	-	-	4,992	**4,992**
Non-current assets held-for-sale	-	24	-	-	491	**515**
Total assets	**19,197**	**247,655**	**51,659**	**214,384**	**332,744**	**865,639**
Total liabilities	**326,057**	**273,221**	**69,379**	**22,039**	**89,363**	**780,059**
Capital expenditure	**123**	**518**	**-**	**115**	**329**	**1,085**

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)	2015	2014
Cash balances with central banks	19	6
Loans and receivables		
Credit institutions	381	440
Other than credit institutions	15,924	16,546
Available-for-sale financial assets	1,716	2,056
Held-to-maturity investments	5,383	5,922
Financial assets held for trading (Note: 8)	357	599
Financial assets designated at fair value through profit or loss (Note: 8)	87	173
Derivatives used as economic hedges (Note: 8)	144	93
Derivatives used for hedging (Note: 8)	1,569	1,006
	25,580	**26,841**

6. INTEREST EXPENSE

(CZKm)	2015	2014
Financial liabilities at amortised cost		
Central banks	2	-
Credit institutions	210	260
Other than credit institutions	1,155	1,952
Debt instruments in issue	369	375
Subordinated liabilities	-	-
Discount amortisation on other provisions (Note: 29)	3	3
Financial liabilities held for trading (Note: 8)	280	254
Derivatives used as economic hedges (Note: 8)	202	258
Derivatives used for hedging (Note: 8)	1,056	867
	3,277	**3,969**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2015	2014
Fee and commission income		
Payment services	5,613	5,409
Administration of credits	1,916	1,857
Collective investments	768	729
Securities	427	184
Custody	178	160
Asset management	67	52
Other	858	715
	9,827	**9,106**
Fee and commission expense		
Payment services	1,750	1,497
Retail service fees	986	953
Commissions to agents	58	109
Other	642	568
	3,436	**3,127**
Net fee and commission income	**6,391**	**5,979**

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)	2015	2014
Net gains from financial instruments at fair value through profit or loss and foreign exchange- as reported	**2,652**	**1,700**
Net interest income (Notes: 5, 6)	619	492
	3,271	**2,192**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	799	321
Foreign exchange	3,416	(738)
Equity contracts	(58)	-
Commodity contracts	22	19
	4,179	(398)
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	34	-
Foreign exchange differences	(942)	2,590
Financial instruments at fair value through profit or loss and foreign exchange	**3,271**	**2,192**

9. OTHER NET INCOME

(CZKm)	2015	2014
Net operating leasing and rental income	383	354
Services provided to the parent and to entities under common control	242	148
Other services provided by ČSOB Leasing	51	52
Net decrease in provisions for legal issues and other losses	41	26
Net gain / (loss) on disposal of loans and receivables	32	(4)
Net gain on disposal of property and equipment	11	15
Net gain from the sale of Property Skalica (Note: 3)	-	34
Net loss from the deconsolidation of Transformed fund (Note: 3)	-	(38)
Contributions to pension fund clients	-	(232)
Net loss on disposal of liabilities at amortised cost	(23)	-
Other	125	315
	862	**670**

10. STAFF EXPENSES

(CZKm)	2015	2014
Wages and salaries	5,010	4,921
Salaries and other short-term benefits of top management	97	112
Social security charges	1,532	1,557
Pension and similar expense	123	153
Additions of provisions for Restructuring programme (Note: 29)	100	-
Other	145	137
	7,007	**6,880**

Number of personnel of the Group

The number (in full-time equivalents) of personnel of the Group was 8,203 at 31 December 2015 (31 December 2014: 7,406).

In 2015, information and communication services were reintegrated from KBC Group Czech Branch back to ČSOB (Note: 3). As a result, 750 employees of the KBC Group were transferred to the Bank as at 31 December 2015. Given that fact, ratios of staff expenses per 1 employee are not fully comparable in 2014 and 2015.

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.

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. The 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 monthly 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 2015, no such compensation was paid. In 2014, termination benefits paid represented CZK 13 m.

11. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2015	2014
Rental expenses on information technologies – minimum lease payments	1,943	1,540
Information technologies	1,451	1,543
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	949	885
Rental expenses on land and buildings - minimum lease payments	585	531
Marketing	573	551
Other building expenses	503	522
Professional fees	448	411
Communication	329	306
Retail service fees	237	185
Administration	187	124
Travel and transportation	150	144
Payment cards and electronic banking	142	88
Training	80	83
Insurance	36	41
Car expenses	28	32
Other	422	430
	8,063	**7,416**

12. IMPAIRMENT LOSSES

(CZKm)	2015	2014
Impairment of loans and receivables (Notes: 18, 33)	(968)	(981)
Provisions for loan commitments and guarantees (Notes: 29, 33)	(15)	54
Impairment of property, plant and equipment (Notes: 22, 33)	(1)	(1)
Impairment of available-for-sale financial assets (Notes: 17, 33)	(24)	-
Impairment of goodwill (Notes: 23, 33)	(66)	-
Impairment of non-current assets held-for-sale (Notes: 24, 33)	(9)	(45)
Impairment of other assets (Note: 33)	2	(2)
	(1,081)	**(975)**

13. TAXATION

The components of income tax expense for the years ended 31 December 2015 and 2014 are as follows:

(CZKm)	2015	2014
Current tax expense	2,424	2,275
Previous year (over) / under accrual of current tax	(9)	39
Deferred tax expense relating to the origination and reversal of temporary differences	57	243
	2,472	**2,557**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2015 and 2014 is as follows:

(CZKm)	2015	2014
Profit before taxation	16,461	16,178
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,128	3,074
Previous year (over) / under accrual of current tax	(9)	39
Tax effect of non-taxable income	(701)	(955)
Tax effect of non-deductible expenses	89	399
Unused tax losses applicable in next periods	(35)	-
	2,472	**2,557**

The applicable tax rate for 2015 was 19% (2014: 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)	2015	2014
At 1 January	**(2,180)**	**(1,817)**
Statement of income	(57)	(243)
Available-for-sale securities (Note: 31)		
Fair value remeasurement	(164)	35
Transfer to net profit	110	90
Cash-flow hedges (Note: 31)		
Fair value remeasurement	(15)	(257)
Transfer to net profit (Note: 20)	152	106
Other – business combinations (Note: 3)	144	(94)
At 31 December	**(2,010)**	**(2,180)**

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

(CZKm)	2015	2014
Deferred tax asset		
Accelerated tax depreciation	59	56
Allowances for credit losses	52	40
Unused tax losses applicable in the next periods	22	-
Employee benefits	7	-
Provisions	2	2
Available-for-sale securities	-	(3)
Other temporary differences	10	5
	152	**100**

(CZKm)	2015	2014
Deferred tax liability		
Available-for-sale securities	969	800
Cash-flow hedging derivatives	682	788
Accelerated tax depreciation	656	604
Amortisation of goodwill	442	406
Held-to-maturity investments - bonds reclassified from Available-for-sale securities (Note: 17)	110	159
Initial fee expense	99	90
Finance lease valuation	75	101
Revaluation of financial assets and liabilities at fair value through profit or loss	3	(9)
Impairment losses on financial investments	(26)	(26)
Loans and receivables- bonds reclassified from Available-for-sale securities (Note: 17)	(78)	-
Legal claims	(93)	(78)
Provisions	(112)	(100)
Allowances for credit losses	(124)	(133)
Accelerated tax depreciation related to acquisition of ICT function (Note: 3)	(144)	-
Employee benefits	(280)	(284)
Other temporary differences	(17)	(38)
	2,162	**2,280**

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

(CZKm)	2015	2014
Accelerated tax depreciation	(49)	(139)
Employee benefits	3	5
Initial fee income	(9)	(20)
Available-for-sale securities	(16)	2
Finance lease valuation	26	7
Provisions	12	(32)
Amortisation of goodwill	(36)	(37)
Revaluation of financial assets and liabilities at fair value through profit or loss	(12)	(50)
Allowances for credit losses	3	1
Legal claims	15	6
Unused tax losses applicable in the next periods	22	-
Other temporary differences	(16)	14
	(57)	**(243)**

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 2015 has not been taken before the date of issue of the financial statements.

Based on a sole shareholder decision from 9 April 2015, a dividend of CZK 45.12 per share was paid for 2014, representing a total dividend of CZK 13,208 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.

15. CASH AND BALANCES WITH CENTRAL BANKS

(CZKm)	2015	2014
Cash (Note: 33)	9,522	9,386
Mandatory minimum reserves (Notes: 34, 40.2)	9,727	7,617
Other balances with central banks (Notes: 33, 34, 40.2)	98,038	55,073
	117,287	**72,076**

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 bank in the amount of CZK 94,900 m at 31 December 2015 (31 December 2014: CZK 51,300 m).

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2015	2014
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 36)	-	3,194
Money market placements	-	168
Debt instruments		
General government	13,270	24,894
Credit institutions	3,616	6,186
Corporate	1,198	957
Equity securities		
Corporate	6	-
Derivative contracts (Note: 20)		
Trading derivatives	10,935	14,935
Derivatives used as economic hedges	469	292
	29,494	**50,626**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Credit institutions	15	3,327
	15	**3,327**
Financial assets at fair value through profit or loss	**29,509**	**53,953**

Included within Financial assets at fair value through profit or loss are debt securities of CZK Nil (2014: CZK 1,121 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.

17. FINANCIAL INVESTMENTS

(CZKm)	2015	2014
Available-for-sale financial assets		
Debt securities		
General government	38,944	35,002
Credit institutions	19,453	20,433
Corporate	234	242
Equity securities		
Corporate	1,330	444
	59,961	**56,121**
Held-to-maturity investments		
Debt securities		
General government	133,705	142,441
Credit institutions	1,395	1,437
Corporate	1,333	196
	136,433	**144,074**
Financial investments	**196,394**	**200,195**

Included within Financial investments are debt securities of CZK 3,489 m (2014: CZK 17,491 m) pledged as collateral in repo transactions or securities lending and debt securities of CZK 7,831 m (2014: CZK 8,483 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)	2015	2014
Carrying value	13,446	13,913
Fair value	14,445	14,966
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	(55)	380
Interest income (before tax) recorded on reclassified assets after date of reclassification	446	457

As assessed at the date of reclassification, an expected undiscounted cash recoveries amounted to CZK 15,135 m and the level of anticipated average effective interest rate (EIR) over the remaining life of the assets is at 3.5%.

The following table shows a reconciliation of the cumulative impairment losses on financial investments for 2014 and 2015:

	Available-for-sale financial assets		Held-to maturity investments	Total
(CZKm)	Debt securities	Equity securities	Debt securities	
At 1 January 2014	**-**	**141**	**-**	**141**
Deconsolidation of Transformed fund	-	(62)	-	(62)
At 31 December 2014	**-**	**79**	**-**	**79**
Increase	-	24	-	24
At 31 December 2015	**-**	**103**	**-**	**103**

18. LOANS AND RECEIVABLES

(CZKm)	2015	2014
Analysed by category of borrower		
Central banks	70,001	27,000
General government	9,009	8,018
Credit institutions	16,046	22,778
Other legal entities	207,109	192,815
Private individuals	288,242	267,222
Gross loans	590,407	517,833
Allowance for impairment losses	(10,959)	(11,198)
	579,448	**506,635**

Of which finance lease receivables may be analysed as follows:

(CZKm)	2015	2014
Gross investment in finance leases, receivable	**14,990**	**13,072**
At not more than one year	4,051	3,861
At more than one but not more than five years	8,640	7,722
At more than five years	2,299	1,489
Unearned future finance income on finance leases	(760)	(812)
Net investment in finance leases	**14,230**	**12,260**
At not more than one year	3,846	3,621
At more than one but not more than five years	8,202	7,243
At more than five years	2,182	1,396
Accumulated allowance for uncollectible minimum lease payments receivable	207	281

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 2014 and 2015 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 2014	**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**
Net increase in allowances for credit losses (Note: 12)	(4)	(13)	521	464	968
Write-offs	-	-	(470)	(735)	(1,205)
Foreign currency translation	-	-	(4)	2	(2)
At 31 December 2015	**3**	**-**	**6,059**	**4,897**	**10,959**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2014	**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**
Increase in allowances for credit losses (Note: 12)	2,224	414	2,638
Decrease in allowances for credit losses (Note: 12)	(1,422)	(248)	(1,670)
Write-offs	(1,202)	(3)	(1,205)
Transfers	(55)	55	-
Foreign currency translation	(2)	-	(2)
At 31 December 2015	**9,984**	**975**	**10,959**

As at 31 December 2015, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 19 m (2014: CZK 25 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 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 2,713 m equivalent to the Group's share (31 December 2014: CZK 2,520 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)	2015	2014	2015	2014	2015	2014
The associate's and joint venture's assets and liabilities						
Assets	152,246	164,008	593	753	41,021	40,670
of which cash and cash equivalents	15,210	7,539	109	645	458	149
Liabilities	143,468	155,162	263	460	37,050	36,630
Net assets	**8,778**	**8,846**	**330**	**293**	**3,971**	**4,040**
Carrying amount of the investment	**4,828**	**4,866**	**132**	**117**	**10**	**9**
The associate's and joint venture's results						
Interest income	5,394	5,670	-	-	921	949
Interest expense	(2,819)	(3,396)	-	-	(168)	(158)
Total revenues	3,199	2,945	384	345	12,296	9,868
Depreciation and amortisation	(154)	(164)	(7)	(10)	(44)	(45)
Income tax expense	(256)	(253)	(39)	(32)	(163)	(162)
Profit for the year	1,123	1,156	168	130	716	747
Profit for the year – share of the Group	618	637	67	52	2	2
Dividend – share of the Bank	638	770	25	23	2	1
Other comprehensive income	(17)	211	-	-	-	-
Total comprehensive income	601	848	67	52	2	2

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 2015 and 2014 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

	2015			2014		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	447,435	8,108	10,073	452,092	11,128	13,721
Forwards	39,592	6	1	49,500	8	1
Options	15,478	90	102	41,615	136	181
	502,505	**8,204**	**10,176**	**543,207**	**11,272**	**13,903**
Foreign exchange contracts						
Swaps / Forwards	142,477	916	471	133,800	1,543	510
Cross currency interest rate swaps	56,638	1,056	602	57,529	1,641	385
Options	32,877	158	163	16,864	96	100
	231,992	**2,130**	**1,236**	**208,193**	**3,280**	**995**
Equity contracts						
Swaps	3,710	14	85	-	-	-
Options	1,409	43	-	-	-	-
	5,119	**57**	**85**	**-**	**-**	**-**
Commodity contracts						
Swaps / Options	5,702	544	530	6,348	383	374
Total trading derivatives (Notes: 16, 26)	**745,318**	**10,935**	**12,027**	**757,748**	**14,935**	**15,272**

Positions of ALM – economic hedges

	2015			2014		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	54,518	107	104	42,376	78	280
Foreign exchange contracts						
Cross currency interest rate swaps	8,403	362	51	8,144	214	94
Total derivatives used as economic hedges (Notes: 16, 26)	**62,921**	**469**	**155**	**50,520**	**292**	**374**

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** to fixed rates.

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 2015 and 2014 are set out as follows:

	2015			2014		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	107,058	6,245	2,915	112,083	7,963	3,445
Cross currency interest rate swaps	14,416	533	867	16,163	373	1,318
Total hedging derivatives	**121,474**	**6,778**	**3,782**	**128,246**	**8,336**	**4,763**

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

(CZKm)	2015	2014
Interest income (Note: 31)	824	603
Net gains / (losses) from financial instruments at fair value through profit or loss (Note: 31)	4	(25)
Taxation (Note: 13)	(152)	(106)
Net gains	**676**	**472**

In 2015, a gain of CZK 42 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2014: CZK 21 m).

In 2015, 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 38 m from equity to the statement of income (2014: CZK 45 m). The losses are 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 2015 and 2014:

(CZKm)	2015	2014
Less than 3 months	6,953	3,190
More than 3 months but not more than 6 months	2,395	3,353
More than 6 months but not more than 1 year	5,273	11,348
More than 1 year but not more than 2 years	23,112	15,542
More than 2 years but not more than 5 years	52,050	53,717
More than 5 years	31,691	41,096
	121,474	**128,246**

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 2015 and 2014 are set out as follows:

	2015			2014		
	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	35,786	17	4,855	25,951	-	4,651
Fair value portfolio hedges	264,713	5,105	1,988	195,975	5,631	2,356
Cross currency interest rate swaps						
Fair value micro hedges	923	-	149	923	-	217
Total hedging derivatives	**301,422**	**5,122**	**6,992**	**222,849**	**5,631**	**7,224**

In 2015, the net losses in the amount of CZK 318 m (2014: CZK 2,507 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 216 m (2014: CZK 2,363 m).

21. INVESTMENT PROPERTY

(CZKm)	2015	2014
Cost at 1 January	904	886
Depreciation and impairment at 1 January	(620)	(597)
Net book value at 1 January	**284**	**289**
Additions	-	20
Disposals	(2)	-
Transfers to assets held for sale (Note: 24)	(278)	-
Depreciation	(4)	(25)
Impairment charge (Note: 12)	-	-
Foreign exchange adjustments	-	-
Net book value at 31 December	**-**	**284**
of which		
Cost	-	904
Depreciation and impairment	-	(620)
Fair value at 31 December	**-**	**284**
Other disclosures		
Rental income	7	16
Direct operating expenses from investments generating rental income	12	12
Direct operating expenses from investments not generating rental income	2	2

On 31 December 2014, management valued the 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 was based on valuation techniques using significant unobservable inputs.

In 2015, the Group decided to sell the investment property held by Merrion Properties and thus to terminate its real estate activities. Based on that decision, the assets were transferred from the caption of Investment property to Non-current assets held-for-sale. The value of the assets was based on a valuation performed by an independent expert. It is expected that the assets will be sold in the first half of 2016.

22. PROPERTY AND EQUIPMENT

(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)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2015	7,791	252	573	4,397	111	13,124
Depreciation and impairment at 1 January 2015	(3,206)	(232)	(445)	(2,445)	-	(6,328)
Net book value at 1 January 2015	**4,585**	**20**	**128**	**1,952**	**111**	**6,796**
Transfers	82	24	11	1,590	(1,707)	-
Additions	-	-	-	-	1,807	1,807
Additions through business combinations (Note: 3)	-	417	2	26	71	516
Disposals	(42)	-	(1)	(542)	-	(585)
Transfers to assets held for sale (Note: 24)	(62)	-	-	(20)	-	(82)
Depreciation	(282)	(14)	(31)	(192)	-	(519)
Depreciation related to operating leased assets (Note: 33)	-	-	-	(270)	-	(270)
Impairment charge (Note: 12)	-	-	-	(1)	-	(1)
Net book value at 31 December 2015	**4,281**	**447**	**109**	**2,543**	**282**	**7,662**
of which						
Cost	7,601	674	589	4,951	282	14,097
Depreciation and impairment	(3,320)	(227)	(480)	(2,408)	-	(6,435)

In 2015, the following transactions were made by the Group which resulted in additions of property and equipment through business combinations:

1. Acquisition of entities Patria Online, Patria Finance and Patria CF by the Group in 2015 (Note: 3);
2. Acquisition of assets related to the ICT function as a result of the reintegration of ICT services back to ČSOB (Note: 3).

The cost of fully depreciated property and equipment still used by the Group amounted to CZK 2,119 m as at 31 December 2015 (31 December 2014: CZK 2,138 m).

ČSOB Leasing owns assets leased out under operating leases, which represent 78% (2014: 70%) 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 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)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2015	3,636	3,385	835	52	7,908
Amortisation and impairment at 1 January 2015	(1,029)	(3,157)	(809)	-	(4,995)
Net book value at 1 January 2015	**2,607**	**228**	**26**	**52**	**2,913**
Transfers	-	195	44	(239)	-
Additions	-	-	-	268	268
Acquisition of business under common control (Note: 3)	-	1,776	-	541	2,317
Disposals	-	(9)	(2)	-	(11)
Amortisation	-	(87)	(11)	-	(98)
Impairment (Note: 12)	(66)	-	-	-	(66)
Net book value at 31 December 2015	**2,541**	**2,103**	**57**	**622**	**5,323**
of which					
Cost	3,636	5,387	876	622	10,521
Amortisation and impairment	(1,095)	(3,284)	(819)	-	(5,198)

In 2015, assets related to the ICT function were acquired by the Group as a result of the reintegration of ICT services back to ČSOB (Note: 3). They are reported under Acquisition of business under common control.

The cost of fully amortised intangible assets still used by the Group amounted to CZK 3,243 m as at 31 December 2015 (31 December 2014: CZK 3,186 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)	2015	2014
Retail segment and SME clients – Bank	2,511	2,511
Retail segment and SME clients – subsidiaries		
Hypoteční banka	-	66
Other	30	30
	2,541	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 9.8% (2014: 8.9%) and no long term growth rates were used in 2015 and 2014.

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 an average risk discount rate of 9.8% has been applied (2014: 8.9%). 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 for the Retail segment and SME clients of Hypoteční banka 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 twenty years using the expected average growth rate. After that a terminal value is applied.

Cash flows in the Retail segment and SME clients of Hypoteční banka 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 cash flows and of the terminal value following assumptions were used as input parameters to the model:

- Forecasting horizon for the projection of net results of 20 years to the future with respect to the specifics of the mortgage business;
- Expected average growth rate decelerating to 2% in the next 10-year period as a result of the expected portfolio development and repricing effect. Assets growth rate in the period of 2026-2035 remains flat at 2% and no long term growth rate was used for the calculation of the terminal value;
- Cash flows represent the excess of the total equity of Hypoteční banka over the minimum regulatory capital requirements that could be paid out to the shareholder each year.

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 of Hypoteční banka has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail segment and SME clients of Hypoteční banka an average risk discount rate of 9.8% has been applied (2014: 8.9%). 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.

Based on the impairment assessment, there is an evidence of impairment of goodwill in respect of the Retail segment and SME clients of Hypoteční banka given the fact that the value-in-use is below the carrying value of the CGU.

The management has decided to recognize an impairment loss of CZK 66 m (Note: 12) and hereby to decrease the carrying value of the goodwill to zero amount.

24. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Investment property	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)

(CZKm)	Investment property	Land and buildings	Other (Note: 18)	Total
Net book value at 1 January 2015	**-**	**491**	**24**	**515**
Transfer from Property and equipment (Note: 22)	-	62	20	82
Transfer from investment property (Note: 21)	278	-	-	278
Additions	-	38	54	92
Disposals	-	(536)	(59)	(595)
Impairment charge (Note: 12)	-	(9)	-	(9)
Net book value at 31 December 2015	**278**	**46**	**39**	**363**
of which				
Cost	278	55	39	372
Impairment	-	(9)	-	(9)

In 2013, the Group decided to sell its investment property in Property Skalica and thus terminate its real estate activity in the Slovak Republic. In October 2014, Property Skalica was sold and derecognised from the Non-current assets held for sale (Note: 9). In 2015, the Group made a similar decision about the investment property in the Czech Republic. The movement in 2015 represents the transfer of the investment property in Merrion Properties from the caption of Investment property to Non-current assets held for sale. It is expected that the assets will be sold in the first half of 2016.

Movements disclosed in Transfer from Property and equipment represent buildings and other property which the Group decided to sell. 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)	2015	2014
Other debtors, net of provisions (Notes: 32, 34, 37, 40.2)	790	518
Accrued income (Notes: 32, 34, 37, 40.2)	382	282
Prepaid charges	317	287
VAT and other tax receivables	143	67
Receivables from securities clearing (Notes: 32, 34, 37, 40.2)	28	-
Other receivables from clients (Notes: 32, 34, 37, 40.2)	24	10
Other	580	326
	2,264	**1,490**

26. FINANCIAL LIABILITIES HELD FOR TRADING

(CZKm)	2015	2014
Short positions	6,147	4,358
Derivative contracts (Note: 20)		
Trading derivatives	12,027	15,272
Derivatives used as economic hedges	155	374
Overnight deposits	-	22,590
Term deposits	1,580	18,955
Repo transactions	-	1,018
Promissory notes	-	257
Bonds and investment certificates issued	10,061	6,800
Financial liabilities held for trading	**29,970**	**69,624**

27. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2015	2014
Deposits received from central banks		
Term deposits	-	-
Deposits received from credit institutions		
Current accounts and overnight deposits	10,853	19,543
Term deposits	12,933	23,349
Repo transactions	-	16,173
	23,786	**59,065**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	389,212	342,397
Term deposits	10,762	10,970
Savings deposits	213,355	222,484
Pension funds clients deposits	24	17
Repo transactions	-	14,141
Other deposits	8,574	9,134
	621,927	**599,143**
Debt securities in issue		
Bonds issued	20,632	23,010
Promissory notes	145,860	4,918
	166,492	**27,928**
Financial liabilities at amortised cost	**812,205**	**686,136**

28. OTHER LIABILITIES

(CZKm)	2015	2014
Accrued charges (Notes: 32, 34, 37, 40.3)	2,572	1,052
Payables to employees including social security charges (Notes: 32, 34, 37, 40.3)	1,840	1,798
Other creditors (Notes: 32, 34, 37, 40.3)	938	526
Income received in advance	167	209
VAT and other tax payables	93	111
Other debts to clients (Notes: 32, 34, 37, 40.3)	44	130
Payables to securities clearing entities (Notes: 32, 34, 37, 40.3)	2	-
Other (Notes: 32, 34, 37, 40.3)	71	129
	5,727	**3,955**

Unsettled consideration in respect of the acquisition of ICT function in the amount of CZK 955 m (Note: 3) is included in Accrued charges.

29. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Loans commitments and Guarantees (Note: 35)	Total
At 1 January 2014	**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**
Acquisition of business under common control	10	-	-	-	10
Additions	28	100	-	95	223
Amounts utilised	(295)	(37)	(16)	-	(348)
Unused amounts reversed	(6)	-	-	(80)	(86)
Discount amortisation (Note: 6)	-	-	3	-	3
Foreign currency translation	-	-	-	(2)	(2)
At 31 December 2015	**105**	**100**	**45**	**286**	**536**

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 used the remaining provision of CZK 37 m to cover the costs related to further reductions of the number of personnel in 2015.

During 2015, the Group started a new restructuring programme, resulting in the creation of a provision of CZK 100 m (Note: 10). In the framework of this restructuring programme the total number of personnel should be reduced.

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 2015, the Group had a provision for pending legal issues and other losses in the total amount of CZK 105 m. It is expected that the majority of the costs will be 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 3 years.

30. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2015, the total authorised share capital was CZK 5,855 m (31 December 2014: CZK 5,855 m) and comprised of 292,750,002 ordinary shares with a nominal value of CZK 20 each (31 December 2014: 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 16 December 2015, ČSOB issued one ordinary share with a nominal value of CZK 20 and with a share premium of CZK 5,419,999,980 (evidenced by an entry in the Register of Companies dated 21 December 2015).

No Treasury shares were held by the Group at 31 December 2015 and 2014.

On 31 December 2015, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2014: 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 2015 and 2014 are as follows:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total
At 1 January 2014	**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**
Other comprehensive income (Note: 31)	212	(583)	-	(371)
At 31 December 2015	**3,944**	**2,609**	**-**	**6,553**

31. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2015	2014
Exchange differences on translating foreign operation	-	(2)
Cash flow hedges		
Net unrealised gains on cash flow hedges	108	1,373
Net gains on cash flow hedges reclassified to the statement of income (Note: 20)	(828)	(578)
Tax effect relating to cash flow hedges (Note: 13)	137	(151)
	(583)	644
Available-for-sale financial assets		
Net unrealised gains on available-for-sale financial investments	868	513
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	(326)	(214)
Net realised gains on available-for-sale financial investments amortised to the statement of income on reclassified assets (Note: 17)	(259)	(258)
Tax effect relating to available-for-sale financial investments (Note: 13)	(54)	125
	229	(1,178)
Share of other comprehensive income of associates	(17)	211
Other comprehensive income for the year, net of tax attributable to owners of the parent	**(371)**	**(325)**
Non-controlling interests	(9)	(13)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**(380)**	**(338)**

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, foreign exchange and commodity 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 trading derivatives, 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 the 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 2015:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	-	-	-
Debt instruments	6,748	5,622	5,714	18,084
Equity securities	6	-	-	6
Derivative contracts	-	11,315	89	11,404
Financial assets designated at fair value through profit or loss				
Debt instruments	-	-	15	15
Available-for-sale financial assets				
Debt securities	38,051	16,192	4,388	58,631
Equity securities	-	-	1,330	1,330
Fair value adjustments of the hedged items in portfolio hedge	-	957	-	957
Derivatives used for hedging	-	11,900	-	11,900
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	6,147	-	-	6,147
Derivative contracts	-	12,020	162	12,182
Overnight deposits	-	-	-	-
Term deposits	-	1,580	-	1,580
Repo transactions	-	-	-	-
Promissory notes	-	-	-	-
Bonds issued	-	10,061	-	10,061
Fair value adjustments of the hedged items in portfolio hedge	-	4,062	-	4,062
Derivatives used for hedging	-	10,774	-	10,774

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

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 distinguishes between bonds with the tax allowance and bonds without the tax allowance was not confirmed. As a consequence, the tax allowance factor was excluded from the model. All mortgage bonds are now treated equally and the tax allowance is disregarded.

As a result of the mortgage bonds' credit spreads update in 2014, 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 50 bps (1-year) to 145 bps (above 30-year) in 2014 and 76 bps (6-year) to 164 bps (above 30-year) in 2015.

In 2015, a model for the valuation of bonds issued by Česká Exportní Banka (ČEB) changed. Yield curves (different for floating and fix bonds) used in the ČEB bonds valuation model for discounting future cash flows are constructed from IRS rates and respective credit spreads. The credit spreads are derived from the quotes of the most liquid bonds issued by ČEB and IRS rates. The management considers this a significant market unobservable input and, as a consequence, the bonds issued by ČEB remained classified as Level 3.

The implementation of the new ČEB valuation model, which has been used since June 2015, resulted in unrealised gains of CZK 245 m recorded in Net gains from financial instruments at fair value through profit or loss and unrealised gains of CZK 75 m recorded in Available-for-sale reserve. The spreads are regularly updated, at the latest quarterly. The spread according to bond maturity was 19 bps (1-year) to 159 bps (10-year) for fixed bonds and 28 bps (1-year) to 47 bps (10-year) for floating bonds after last review in December 2015.

Following the declared intention of VISA Inc. to acquire VISA Europe, the Group changed a model for the valuation of its share in VISA Europe in 2015. The model reflects the expected set up of the transaction. The model calculates the fair value of the Group's share in VISA Europe combining an upfront cash consideration, an upfront share consideration and an earn-out, which would be payable in cash four years past the merger. The value of the share is derived from the report of VISA Europe. The implementation of the new model resulted in unrealised gains of CZK 861 m recorded in Available-for-sale reserve.

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	Financial derivatives	Debt securities	Debt securities	Equity securities	
At 1 January 2014	**6,306**	**-**	**1,583**	**7,663**	**709**	**16,261**
Total gains / (losses) 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**

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(CZKm)	Financial assets held for trading		Financial assets designated at fair value through profit or loss	Available-for-sale financial assets		Total
	Debt securities	Financial derivatives	Debt securities	Debt securities	Equity securities	
At 1 January 2015	**5,151**	**-**	**-**	**3,158**	**444**	**8,753**
Total gains / (losses) recorded in profit or loss	370	89	15	(80)	-	394
Total gains recorded in other comprehensive income	-	-	-	16	861	877
Transfers into level 3	155	-	-	-	-	155
Purchases	2,110	-	-	1,294	-	3,404
Settlement	(512)	-	-	-	-	(512)
Sales	(1,560)	-	-	-	-	(1,560)
Acquisition of entity under common control	-	-	-	-	25	25
At 31 December 2015	**5,714**	**89**	**15**	**4,388**	**1,330**	**11,536**
Total gains recorded in profit or loss related to assets held at the end of the reporting period	359	89	15	-	-	**463**

Total gains 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 on available-for-sale financial assets and Impairment losses of the statement of income.

The following table shows the reconciliation of the opening and closing amount of financial liabilities which are recorded at fair value using valuation techniques based on non-market observable inputs:

(CZKm)	Financial liabilities held for trading
	Financial derivatives
At 1 January 2015	**-**
Total losses recorded in profit or loss	162
At 31 December 2015	**162**
Total losses recorded in profit or loss related to liabilities held at the end of the reporting period	162

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 losses recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss 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 the 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 2015, an increase / (decrease) of the credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds and bonds issued by ČEB included in Level 3 by CZK 54 m and CZK 91 m, respectively (2014: CZK 7 m for mortgage bonds). Such a change in the credit spread is based on the variability of mortgage bond and ČEB 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)	2015	2014	2015	2014
Financial assets				
Financial assets held for trading				
Debt instruments	3	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:

	2015		2014	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	117,287	117,287	72,076	72,076
Loans and receivables	579,448	587,942	506,635	517,274
Held-to-maturity investments	136,433	158,636	144,074	168,369
Other assets (Note: 25)	1,224	1,224	810	810
Financial liabilities				
Financial liabilities at amortised cost	812,205	811,965	686,136	687,422
Other liabilities (Note: 28)	5,467	5,467	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 2015:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash and balances with central banks	-	117,287	-	117,287
Loans and receivables	-	73,626	514,316	587,942
Held-to-maturity investments	153,599	570	4,467	158,636
Other assets (Note: 25)	-	1,224	-	1,224
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	790,373	21,592	811,965
Other liabilities (Note: 28)	-	5,467	-	5,467

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: 25)	-	810	-	810
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	657,608	29,814	687,422
Other liabilities (Note: 28)	-	3,635	-	3,635

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.

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)	2015	2014
Cash and balances with central banks (Note: 15)	117,287	72,076
Loans and advances to credit institutions and central banks	75,188	33,782
Financial liabilities at amortised cost to credit institutions and central banks	(10,972)	(35,797)
Financial liabilities at amortised cost - repo transactions with general government bodies	-	(14,141)
Financial liabilities at amortised cost - promissory notes issued to credit institutions	(137,133)	-
Cash and cash equivalents	**44,370**	**55,920**

Change in operating assets

(CZKm)	2015	2014
Net change in financial assets held for trading	21,159	154,103
Net change in financial assets designated at fair value through profit or loss	3,312	1,452
Net change in available-for-sale financial assets	(3,527)	(4,093)
Net change in loans and receivables	(28,962)	(36,258)
Net change in derivatives used for hedging	1,348	(3,887)
Net change in other assets	(281)	(2,555)
	(6,951)	**108,762**

Change in operating liabilities

(CZKm)	2015	2014
Net change in financial liabilities held for trading	(39,654)	(117,296)
Net change in financial liabilities at amortised cost	25,429	30,440
Net change in derivatives used for hedging	(1,213)	2,480
Net change in other liabilities	411	(168)
	(15,027)	**(84,544)**

Non-cash items included in profit before tax

(CZKm)	2015	2014
Allowances and provisions for credit losses (Note: 12)	983	927
Depreciation and amortisation (including investment property)	621	710
Amortisation of discounts and premiums of investment securities	550	447
Foreign exchange differences in held-to-maturity investments	530	(322)
Depreciation related to operating leases assets (Note: 22)	270	267
Impairment on goodwill (Note: 12)	66	-
Impairment on financial investments (Note: 12)	24	-
Impairment on non-current assets held-for-sale (Note: 12)	9	45
Impairment on property (Note: 12)	1	1
Impairment on other assets (Note: 12)	(2)	2
Creation of provisions	(226)	(91)
Net change in fair value adjustments of the hedged items in portfolio hedge	(387)	4,476
Share of profit of associates and joint ventures	(687)	(690)
Other	378	32
	2,130	**5,804**

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 2015:

(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)	107,765	-	-	-	**107,765**
Financial assets held for trading					
Financial derivatives	3,935	5,738	1,731	-	**11,404**
Other than financial derivatives	6,032	8,028	4,024	6	**18,090**
Financial assets designated at fair value through profit or loss	15	-	-	-	**15**
Available-for-sale financial assets	5,570	20,985	32,076	1,330	**59,961**
Loans and receivables	197,718	146,454	235,276	-	**579,448**
Fair value adjustments of the hedged items in portfolio hedge	420	537	-	-	**957**
Held-to-maturity investments	10,543	72,041	53,849	-	**136,433**
Derivatives used for hedging	2,582	6,992	2,326	-	**11,900**
Other assets (Note: 25)	1,224	-	-	-	**1,224**
Total carrying value	**335,804**	**260,775**	**329,282**	**1,336**	**927,197**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	4,145	5,947	2,090	-	**12,182**
Other than financial derivatives	11,752	3,688	2,348	-	**17,788**
Financial liabilities at amortised cost	253,875	266,157	292,173	-	**812,205**
Fair value adjustments of the hedged items in portfolio hedge	609	2,137	1,316	-	**4,062**
Derivatives used for hedging	2,685	5,723	2,366	-	**10,774**
Other liabilities (Note: 28)	5,467	-	-	-	**5,467**
Total carrying value	**278,533**	**283,652**	**300,293**	**-**	**862,478**

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**

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 the 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.

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2015 and 2014 are as follows:

(CZKm)	2015	2014
Loan commitments – irrevocable (Note: 40.2)	107,224	90,500
Loan commitments – revocable	41,861	36,276
Financial guarantees (Note: 40.2)	28,193	27,165
Other commitments (Note: 40.2)	1,381	2,022
	178,659	**155,963**
Provisions for loan commitments and guarantees (Notes: 29, 40.2)	286	273

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)	2015	2014
Not later than 1 year	593	1,587
Later than 1 year and not later than 5 years	1,054	1,133
Later than 5 years	176	179
	1,823	**2,899**

Future minimum sublease payments amounted to CZK 6 m as at 31 December 2015 (31 December 2014: CZK 63 m).

Operating lease commitments related to information technologies to the KBC Group are included in ‘Not later than 1 year’ in the amount of CZK 1,007 m in 2014. They represented expected half-year lease payments according to the committed notice period. These operating lease contracts were terminated in 2015 as a result of the acquisition of the ICT function to ČSOB (Note: 3).

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)	2015	2014
Not later than 1 year	838	503
Later than 1 year and not later than 5 years	1,095	960
Later than 5 years	12	7
	1,945	**1,470**

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)	2015	2014
Financial assets		
Financial assets held for trading	-	3,194
Loans and receivables	72,846	29,759
	72,846	**32,953**

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 2015 was CZK 74,420 m, of which CZK 10,046 m has been either sold or repledged (31 December 2014: CZK 40,999 m and CZK 19,131 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)	2015	2014
Financial liabilities		
Financial liabilities held for trading	-	1,018
Financial liabilities at amortised cost	-	30,314
	-	**31,332**

Amounts of financial assets pledged as collateral in repo transactions and securities lending are described in Financial assets at fair value through profit or loss (Note: 16) and Financial investments (Note: 17).

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 2015:

(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	18,591	-	18,591
Derivatives not set-off that are not subject to an enforceable master netting arrangement	4,713	-	4,713
Total trading and hedging derivatives	**23,304**	**-**	**23,304**
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	72,846	-	72,846
Total repurchase agreements (Note: 36)	**72,846**	**-**	**72,846**
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	1,224	-	1,224
Total other financial assets (Note: 25)	**1,445**	**221**	**1,224**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	20,676	-	20,676
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,280	-	2,280
Total trading and hedging derivatives	**22,956**	**-**	**22,956**
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	5,467	-	5,467
Total other financial liabilities (Note: 28)	**5,688**	221	**5,467**

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 not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2015:

(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	18,591	17,217	993	-	381
Total carrying value	**18,591**	**17,217**	**993**	**-**	**381**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	20,676	17,217	3,234	-	225
Total carrying value	**20,676**	**17,217**	**3,234**	**-**	**225**

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: 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 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 are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2015 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	2,685	-	-	1,277	7,439	1
Entities under common control						
ČSOB SK	157	-	-	34	1	-
KBC Internationale Financieringsmij NV	149	-	-	-	-	-
KBC Securities NV	-	-	-	238	-	1
Other	159	15	-	145	-	-
Associates						
ČSOB AM	-	-	-	35	-	-
ČSOB Pojišťovna	413	-	-	-	-	45
Joint ventures						
ČMSS	-	-	-	40	-	56

The outstanding balances of liabilities from related party transactions as at 31 December 2015 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	60	-	59
KBC Bank	2,621	138,608	8,546	-
Entities under common control				
ČSOB SK	3	36	-	-
KBC Group	-	1	-	983
KBC Securities NV	-	134	-	1
Other	26	188	-	-
Associates				
ČSOB AM	-	133	-	12
ČSOB Pojišťovna	9	2,665	-	-
Joint ventures				
ČMSS	-	8,213	-	-

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 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:

(CZKm)	2015 Interest income	2015 Interest expense	2014 Interest income	2014 Interest expense
Directors / Top management	-	-	-	-
KBC Bank	1,290	1,068	882	1,072
Entities under common control				
ČSOB SK	9	-	5	-
KBC Internationale Financieringsmij NV	8	-	74	-
Patria Finance (in 2014 merged with Patria Direct)	-	-	1	3
Other	2	-	5	-
Associates				
ČSOB AM	-	-	-	-
ČSOB Pojišťovna	-	42	-	44
Joint ventures				
ČMSS	53	215	56	281

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

(CZKm)	2015 Fee and commission income	2015 Fee and commission expense	2014 Fee and commission income	2014 Fee and commission expense
KBC Bank NV	62	10	44	11
Entities under common control				
ČSOB SK	-	30	-	-
KBC Group	-	35	-	50
KBC Securities NV	23	39	11	-
Other	-	4	-	1
Associates				
ČSOB AM	455	34	380	31
ČSOB Pojišťovna	279	6	236	1
Joint ventures				
ČMSS	6	42	-	46

In accordance with the Group strategy, the Group has been purchasing information and communication services from the related party KBC Global Services NV from 2009 until 2015. In 2013, KBC Global Services NV merged with the KBC Group; KBC Group being the successor company.

In accordance with the Group strategy, information and communication services were reintegrated from the KBC Group Czech Branch back to ČSOB in 2015. Based on the acquisition agreement, concluded between the ČSOB and the KBC Group, selected activities and processes of the KBC Group Czech Branch, including employees (Note: 10), assets and liabilities related to the ICT function, were acquired by the Bank on 31 December 2015 (Note: 3).

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. In 2015, the Group received income of CZK 72 m (2014: CZK 76 m) from rental payments and related services, received CZK 59 m (2014: CZK 45 m) from the provision of administration services, received CZK Nil (2014: CZK 230 m) from sale of intangible assets and paid expense of CZK 3,321 m (2014: CZK 3,001 m) for IT services, including rental expenses on information technologies.

In 2015, the Group received income of CZK 87 m (2014: CZK 86 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:

	2015		2014	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank NV	2,596	191	5,898	217
Entities under common control				
ČSOB SK	1,815	145	1,593	204
Kereskedelmi és Hitelbank	270	23	277	23
Associates				
ČSOB Pojišťovna	-	1	-	-

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

In February 2016, a liability to the KBC Group in respect of the consideration related to the acquisition of ICT function (Note: 3, 28) in the amount of CZK 955 m was settled.

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 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, European Central Bank (ECB), European Banking Authority (EBA) 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 subsidiaries, associates and joint ventures of ČSOB 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 Chief risk officer (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 principles described above 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 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,

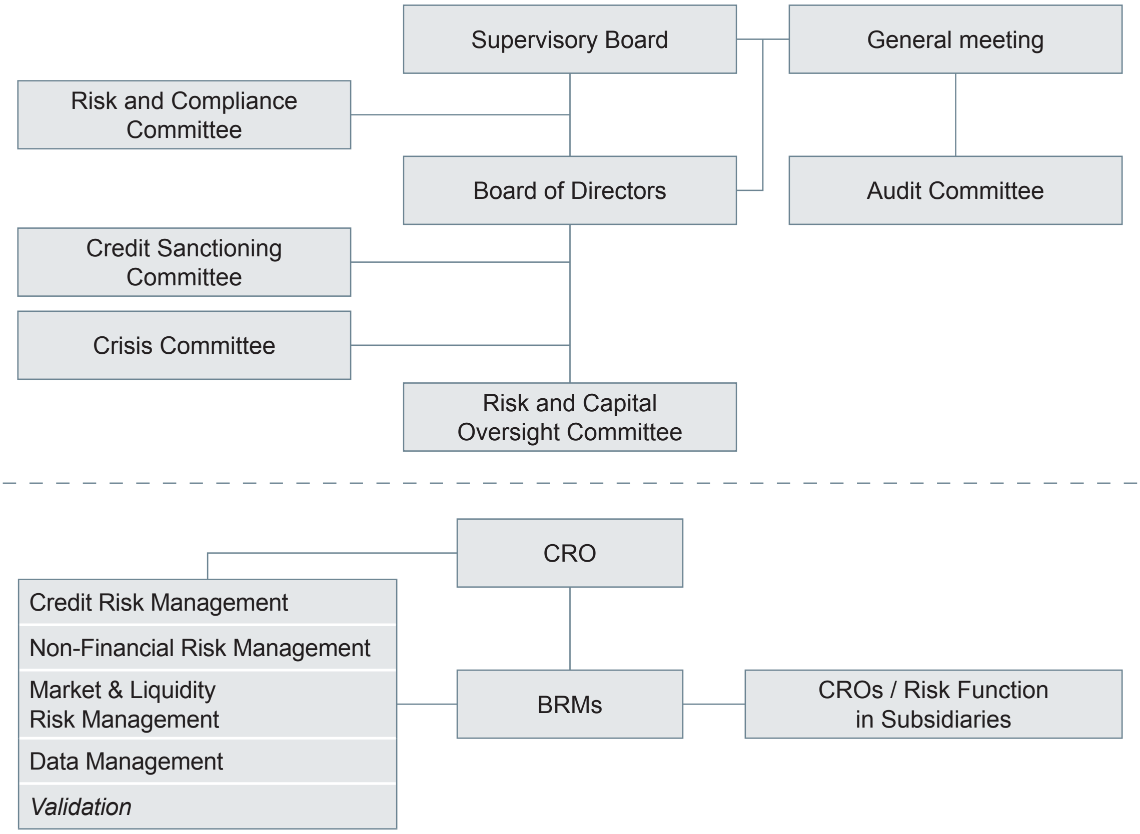
(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place, and

(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 Group is fully embedded in the governance of the KBC Group. During 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 established as a sub-committee of the Supervisory Board with a 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.

The Supervisory Board:

(i) Oversees whether the system of risk governance is efficient, comprehensive and adequate;

(ii) Regularly discuss matters concerning the risks to which the Bank is or might be exposed;

(iii) Continuously oversees and assures itself of the fulfilment of the risk management strategy and of the operational control's reliability;

(iv) Critically and constructively participates in the evaluation of the management of risks;

(v) Comments on a proposal (of the KBC Group CRO) to entrust as well as dismiss a natural person with the ensuring of the performance of the risk management function, stipulates policies governing remuneration of that person and assesses the activities of the person.

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 profile, appetite and strategy, and for overseeing the implementation of that strategy.

The Committee regularly discusses risk management and compliance 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 reviews the activities, structure, independence, professionalism and expertise of Risk management .

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 independence of statutory auditors and the auditing firm(s), recommends for approval by the management body the appointment, compensation and appointment 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 (BoD)

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 that comprehensive and adequate internal control and risk governance system is established, good functioning and efficient, in its entirety and in parts. With regards to the risk management function, the Board of Directors:

(i) Ensures earmarking of adequate and sufficient capacities for management of significant risks, capital and liquidity management, internal models and validations/reviews of such models;

(ii) Approves and regularly evaluates the implementation of:

- Risk Management Charter,
- Risk Appetite of ČSOB,
- Result of Risk Scan,
- Risk Management Strategy,
- Risk Management Framework (including risk specific frameworks),
- Limit Book and Framework,
- Internal Capital Adequacy Assessment Process and Capital Adequacy Policy,
- Recovery and Resolution plan,
- Information Security Strategy;

(iii) Evaluates the overall functioning and efficiency of the internal control and governance system (Internal Control Assessment to ČSOB Supervisory Board), and ensures appropriate steps to rectify the potential identified shortcomings.

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 Bank's Risk Appetite;

(ii) propose to the Board of Directors a framework of limits consistent with the Bank's Risk Appetite, within which Risk and Capital will be managed;

(iii) provide an integrated view on Risk exposure against Risk Appetite/Limits and identify/report on 'hidden risks' (including concentration); In the event of Risk exposure being in excess of limit(s), to recommend to the BoD material mitigating actions and decide on non-material mitigating actions to bring Risk exposure back in line;

(iv) periodically review limits and, as necessary, to recommend to the BoD material changes in limit (s) and to decide on non – material limit changes;

(v) monitor market context, solvency, liquidity, risk/return profile, balance sheet profile, maturity transformation and structural interest rate exposure;

(vi) monitor capital adequacy and usage of Regulatory and Economic Capital.

The RCOC is responsible for the whole ČSOB group. In case of subsidiaries or entities that have a separate legal structure, the decisions of the RCOC are to be considered as advices to the Management Board of those entities.

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:

(i) Ensures that risk management processes are effective and efficient, promotes a culture of risk aware business conduct and prudent risk management;

(ii) Ensures compliance with Group (KBC) and regulatory requirements in the field of risk management;

(iii) Recommends the need for action to address risk & capital issues raised in internal reports;

(iv) Inputs to corrective actions to address local underperformance versus targets and agree to final actions to ensure within risk playing field;

(v) Assess the rate and structure of risk undertaken and the impact thereof on the performance and stability;

(vi) Coordinates the field of continuity management for the business;

(vii) Provides risk and capital reporting to internal (senior management, Board of Directors, Risk and Compliance Committee, Subsidiaries) and external clients (KBC, CNB);

(viii) Presents information concerning the developments in the field of risk management to ČSOB and KBC management;

(ix) Advices on risk related matters to Management Board of subsidiaries within the Group that have a separate legal structure.

The key strategic and governance responsibilities of the CRO are to:

(i) Recommend Risk Governance structure and roles;

(ii) Decide the structure of the Risk Function;

(iii) Input to the Risk Appetite;

(iv) Input to the corporate Strategy / strategic plans (including performance targets) development and agree to final Strategy to ensure within risk playing field;

(v) Recommend Risk and Capital Management Strategy;

(vi) Input to limits and delegation of authority setting within and below BoD delegation and agree to final decision to ensure within risk playing field;

(vii) Input to capital and funding allocation and agree to final allocation to ensure within risk playing field.

The CRO, in its role has following key execution activities:

(i) Recommend and decide on changes to the Risk Function owned frameworks;

(ii) Decide on validation of transactional models for risk management;

(iii) Input to guidelines for portfolio and transactional model development;

(iv) Input or decide (in line with the delegation rules) on mitigating actions for limit overruns and agree to final decision to ensure within risk playing field;

(v) Recommend and/or decide ex-post actions to address compliance issues with risk frameworks;

(vi) Ensure the process of assessment and evaluation of the regulatory / internally determined capital adequacy and conduct stress testing;

(vii) Input to day to day business decisions as a trusted advisor;

(viii) Agree to risk taking decisions outside of the risk playing field with the right to call “time out”.

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 provides independent oversight of the management of risks inherent in the Group’s activities. The function is generally responsible for ensuring that effective processes are in place for:

(i) Identifying current and emerging risks;

(ii) Developing risk assessment and measurement systems;

(iii) Establishing policies, practices and other control mechanisms to manage risks;

(iv) Developing risk tolerance limits for Senior Management and Board approval;

(v) Monitoring positions against approved risk tolerance limits; and

(vi) Reporting results of risk monitoring to Senior Management and the Board.

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, Risk Integration 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). Risk Integration also regularly provides reports to the supervisory section of the ČNB.

Risk Integration is also responsible for preparation of recovery plans and cooperates with regulator in preparation of resolution plan.

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 described in limit book and limit book framework. The limit book and limit book framework is regularly approved by RCOC and Board of Directors.

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 sustainable profit for the current year.
- to the CRO, the authority to decide on matters falling below the thresholds described above. 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 / assesses risk 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)

Members of NAPP process 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)

Business Risk Meetings are established for each business line in the Group where business specific risk issues are regularly discussed. The CRO has sole decision right within the delegated decision authority which can always be escalated to the Board of Directors at the request of the Board of Directors' member responsible for that area.

Internal Capital Adequacy Assessment Process

The 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 changed 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 European Central Bank).

In 2015, KBC developed a new internal economic capital model, which was also adopted by the Group. The main difference between the previous and the current models is the change from fully fair value based approach to accounting value based approach. The new model was developed taking into account the IFRS 9, which will be implemented in 2018.

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.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses an accounting-value 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 following:

- 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 these when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

The amount of capital needed is determined using the economic capital method and addresses the following material risks to which the Group is or may be exposed:

- Credit and counterparty risk, (incl. concentration risk)
- Interest rate in banking book
- Market risk banking book (excl. interest rate)
- Market risk trading book
- Operational risk
- Funding and liquidity 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 needed 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 the 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 model results are used for the 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.

At ČSOB Group, default status is determined to occur any time a forbearance measure-concession is granted: 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. For more, see the section “Forbearance measures”.

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. 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 represents customers, who have been overdue for 90 days or more, but not subject to bankruptcy proceeds yet.

PD 12 represents customers, which are 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, among 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 Group, 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 eyes principle", i.e. at least two 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 subject 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 fully automated based on scorecards in the vast majority of cases. 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. In additional, mortgage collection also uses field collection for customers whose payments are less than 180 days overdue and which precedes late collection. Collection units within the Group are in general 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, 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 2015. 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)	-	107,765	-	-	107,765
Financial assets held for trading	-	469	29,025	-	29,494
Financial assets designated at fair value through profit or loss	-	15	-	-	15
Available-for-sale financial assets	2,245	57,716	-	-	59,961
Loans and receivables	501,150	73,902	-	4,396	579,448
Held-to-maturity investments	1,333	135,100	-	-	136,433
Fair value adjustments of the hedged items in portfolio hedge	-	957	-	-	957
Derivatives used for hedging	-	11,900	-	-	11,900
Other assets (Note: 25)	-	-	-	1,224	1,224
Total	504,728	387,824	29,025	5,620	927,197
Contingent liabilities (Note: 35)	29,288	-	-	-	29,288
Commitments – irrevocable (Note: 35)	107,224	-	-	-	107,224
Total	136,512	-	-	-	136,512
Total credit risk exposure	**641,240**	**387,824**	**29,025**	**5,620**	**1,063,709**

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**

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:

	2015			2014		
(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)	107,765	-	107,765	62,690	-	62,690
Financial assets held for trading	29,494	478	29,016	50,626	3,710	46,916
Financial assets designated at fair value through profit or loss	15	-	15	3,327	-	3,327
Available-for-sale financial assets	59,961	-	59,961	56,121	-	56,121
Loans and receivables	579,448	411,124	168,324	506,635	336,167	170,468
Held-to-maturity investments	136,433	-	136,433	144,074	-	144,074
Fair value adjustments of the hedged items in portfolio hedge	957	-	957	1,654	-	1,654
Derivatives used for hedging	11,900	782	11,118	13,967	1,228	12,739
Other assets (Note: 25)	1,224	-	1,224	810	-	810
Total	927,197	412,384	514,813	839,904	341,105	498,799
Contingent liabilities and Commitments – irrevocable (Note: 35)	136,512	34,234	102,278	119,414	25,451	93,963
Total credit risk exposure	**1,063,709**	**446,618**	**617,091**	**959,318**	**366,556**	**592,762**

The credit portfolio is structured according to the type of the business the Group enters into:

2015 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	231,533	-	15,226	**246,759**	(3,125)	-	**243,634**
Consumer loans	20,333	10	8,743	**29,086**	(1,183)	(15)	**27,888**
SME	81,072	2,951	27,841	**111,864**	(3,804)	(86)	**107,974**
Leasing	33,147	-	1,308	**34,455**	(487)	-	**33,968**
Corporate	145,051	25,828	53,772	**224,651**	(1,960)	(69)	**222,622**
Factoring	4,483	-	-	**4,483**	(369)	-	**4,114**
Other	68	784	334	**1,186**	(31)	(115)	**1,040**
Total credits	**515,687**	**29,573**	**107,224**	**652,484**	**(10,959)**	**(285)**	**641,240**

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**

An industry sector analysis of the Group's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2015		2014	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Private persons	271,608	41.6	250,569	41.8
Services	60,477	9.3	55,817	9.3
Distribution	55,636	8.5	52,022	8.6
Automotive	38,198	5.9	35,191	5.9
Commercial Real Estate	35,302	5.4	28,576	4.8
Building and Construction	33,018	5.1	30,129	5.0
Oil, Gas and other Fuels	20,500	3.1	13,055	2.2
Authorities	17,204	2.6	17,218	2.9
Machinery and Heavy Equipment	16,887	2.6	17,944	3.0
Electricity	15,344	2.4	19,149	3.2
Metals	14,129	2.2	13,006	2.2
Finance and Insurance	12,511	1.9	12,300	2.1
Other sectors	61,670	9.4	54,700	9.0
Total	**652,484**	**100.0**	**599,676**	**100.0**

The investment portfolio is structured according to the type of the instrument.

2015 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	191,501	-	-	-	**191,501**
Equity securities	1,433	-	-	(103)	**1,330**
Loans and receivables within investment portfolio	74,859	-	-	-	**74,859**
Derivatives used for hedging	11,900	-	-	-	**11,900**
Derivatives held for trading	469	-	-	-	**469**
Cash and balances with central banks	107,765	-	-	-	**107,765**
Total investment	**387,927**	**-**	**-**	**(103)**	**387,824**

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**

The investment portfolio is monitored from a counterparty sector point of view:

	2015		2014	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central banks	177,766	45.9	89,690	28.4
General government	171,755	44.3	175,397	55.7
Credit institutions	36,607	9.4	49,280	15.7
Corporate	1,696	0.4	567	0.2
Total investment	**387,824**	**100.0**	**314,934**	**100.0**

The trading portfolio is structured according to the type of the instrument.

2015 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	18,084	-	-	**18,084**
Equity securities	6	-	-	**6**
Derivatives held for trading	10,935	-	-	**10,935**
Total trading portfolio	**29,025**	**-**	**-**	**29,025**

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**

The trading portfolio is monitored from a counterparty sector point of view:

	2015		2014	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
General government	13,270	45.7	25,084	50.5
Credit institutions	10,744	37.0	19,341	38.9
Corporate	5,011	17.3	5,272	10.6
Total trading portfolio	**29,025**	**100.0**	**49,697**	**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:

	2015		2014	
(CZKm)	Total risk	of which General government	Total risk	of which General government
Czech Republic	980,653	174,675	876,404	195,581
Slovak Republic	15,353	7,441	10,166	3,452
Greece	1	-	-	-
Italy	5,016	-	8,153	-
Spain	288	-	445	-
Belgium	14,151	2,438	16,397	2,562
Hungary	658	-	147	-
Other Europe	44,235	10,371	45,262	6,306
Other	3,354	-	2,344	-
Total	**1,063,709**	**194,925**	**959,318**	**207,901**

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

Client	2015 Granted exposure (CZKm)	2015 Percentage of total exposure	2014 Granted exposure (CZKm)	2014 Percentage of total exposure
1 largest client	8,272	1.3	7,468	1.2
10 largest clients	53,514	8.2	48,311	8.1
25 largest clients	94,032	14.4	83,818	14.0

The largest exposures to single clients in the investment and trading portfolio as at 31 December 2015 and 31 December 2014 were:

Client	2015 Granted exposure (CZK m)	2015 % of total investment portfolio	2014 Granted exposure (CZK m)	2014 % of total investment portfolio
Investment portfolio				
Czech Ministry of Finance	151,528	39.1	171,584	54.3
CNB	177,766	45.9	89,661	28.4
Trading portfolio				
Czech Ministry of Finance	13,269	45.7	23,997	49.4

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 and ISDA-CSA collateralisation annexes within its relationship 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 on the length of the emergence period. In 2014, the Group used a uniform emergence period of four months, which was confirmed by the back-testing. In 2015, the emergence period has been extended to 6 – 8 months for some of the segments based on the latest back-testing results. The emergence period extension resulted in an increase of the collective impairment provision of CZK 390 m. The back-testing methodology was refined in 2015 following the updated Group policy on determining the emergence period and its back-testing.

Financial guarantees and letters of credit are assessed and provisions are made for them in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

The Group sorts exposures into four 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 2015 and 2014 by individual portfolios:

Credit portfolio

	2015				
	Collectively assessed assets		Individually impaired assets		Total
(CZKm)	Normal	AQR	Uncertain	Irrecoverable	
Mortgage loans	221,738	2,593	1,798	5,404	231,533
Consumer loans	18,902	158	396	877	20,333
SME	73,904	2,066	1,847	3,255	81,072
Leasing	32,015	557	212	363	33,147
Corporate	138,574	2,673	2,157	1,647	145,051
Factoring	3,707	-	651	125	4,483
Other	36	-	3	29	68
Total	**488,876**	**8,047**	**7,064**	**11,700**	**515,687**

	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**

Investment portfolio

	2015		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	191,501	-	191,501
Equity securities	1,303	27	1,330
Loans and receivables within investment portfolio	74,859	-	74,859
Derivatives used for hedging	11,900	-	11,900
Derivative contracts held for trading	469	-	469
Cash and balances with central banks	107,765	-	107,765
Total	**387,797**	**27**	**387,824**

	2014		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
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**

Trading portfolio

	2015		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	18,084	-	18,084
Equity securities	6	-	6
Loans and advances	-	-	-
Derivative contracts held for trading	10,935	-	10,935
Total	**29,025**	**-**	**29,025**

	2014		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
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**

The table below shows an ageing analysis of gross past due but not impaired financial assets in the Credit portfolio:

(CZKm)	2015 Less than 30 days	2014 Less than 30 days
Mortgage loans	7,971	9,515
Consumer loans	379	474
SME	325	346
Leasing	55	55
Corporate	-	-
Factoring	-	-
Other	-	-
Total	**8,730**	**10,390**

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:

	2015		2014	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Mortgage loans	7,202	(2,795)	8,131	(3,094)
Consumer loans	1,273	(963)	1,360	(1,068)
SME	5,102	(3,605)	4,951	(3,416)
Leasing	575	(350)	708	(502)
Corporate	3,804	(1,887)	3,618	(1,994)
Factoring	776	(353)	706	(314)
Other	32	(31)	82	(53)
Total	**18,764**	**(9,984)**	**19,556**	**(10,441)**

Individually impaired financial assets included in the investment portfolio in the carrying amounts are as follows:

(CZKm)	2015	2014
Debt securities	-	-
Equity securities	27	1
Total	**27**	**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 Group implemented a new definition of forborne loans in 2014.

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 2014 in the Group increased the balance of non-performing exposures by CZK 741 m, and led to the creation of an additional individual impairment of CZK 110 m.

Outstanding gross amounts and gross amounts of forborne exposures included in the credit portfolio and the related impairment and collateral and financial guarantees as at 31 December 2015 and 2014 are as follows:

	2015				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Exposure of collectively and individually assessed assets	Percentage of outstanding gross amount (%)	Individual and collective impairment	Collateral and financial guarantees
Corporate	157,574	2,778	1.8	737	1,912
SME	92,090	1,345	1.5	593	478
Mortgage loans	231,532	2,508	1.1	321	2,416
Other	34,491	423	1.2	117	86
Total	**515,687**	**7,054**	**1.4**	**1,768**	**4,892**

	2014				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Exposure of collectively and individually assessed assets	Percentage of outstanding gross amount (%)	Individual and collective impairment	Collateral and financial guarantees
Corporate	136,595	2,975	2.2	754	2,088
SME	77,786	1,241	1.6	453	401
Mortgage loans	214,754	2,137	1.0	242	2,153
Other	50,855	272	0.5	88	110
Total	**479,990**	**6,625**	**1.4**	**1,537**	**4,752**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2015 and 2014 are as follows:

2015

(CZKm)	Exposure of collectively assessed assets	Of which past due but not impaired assets	Exposure of individually impaired assets	Individual impairment	Collective impairment
Corporate	741	-	2,037	734	3
SME	196	1	1,149	591	2
Mortgage loans	1,009	160	1,499	244	77
Other	171	9	252	114	3
Total	**2,117**	**170**	**4,937**	**1,683**	**85**

2014

(CZKm)	Exposure of collectively assessed assets	Of which past due but not impaired assets	Exposure of individually impaired assets	Individual impairment	Collective impairment
Corporate	804	-	2,171	754	-
SME	249	-	992	451	2
Mortgage loans	801	142	1,336	199	43
Other	58	7	214	87	1
Total	**1,912**	**149**	**4,713**	**1,491**	**46**

The following table shows a reconciliation of Gross amounts of forborne exposures for 2015 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Other	Total
At 1 January 2015	**2,975**	**1,241**	**2,137**	**272**	**6,625**
Loans which have become forborne	48	478	889	230	1,645
Loans which are no longer considered to be forborne	(136)	(13)	(120)	-	(269)
Increase of exposure	24	8	-	1	33
Decrease of exposure	(161)	(369)	(403)	(80)	(1,013)
Other movements	28	-	5	-	33
At 31 December 2015	**2,778**	**1,345**	**2,508**	**423**	**7,054**

The following table shows a reconciliation of Impairments of forborne exposure for 2015 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Other	Total
At 1 January 2015	**754**	**453**	**242**	**88**	**1,537**
Loans which have become forborne	11	239	172	63	485
Loans which are no longer considered to be forborne	(13)	(9)	(2)	-	(24)
Increase of exposure	2	82	-	10	94
Decrease of exposure	(24)	(172)	(91)	(44)	(331)
Other movements	7	-	-	-	7
At 31 December 2015	**737**	**593**	**321**	**117**	**1,768**

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). The capacity and readiness to withstand adverse liquidity development is regularly reviewed by the means of stress tests.

Starting from October 2015, the Group reports on Liquidity Coverage Ratio (LCR), which compares available liquidity buffers to expected net cash outflows within the 30 day horizon under gravely stressed conditions. The level of LCR was 161.1% at 31 December 2015.

The LCR ratio is regularly monitored and reported to the top management of the Group.

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 2015 and 2014 was as follows:

(%)	2015	2014
31 March	136.5	138.3
30 June	134.0	137.8
30 September	131.6	137.6
31 December	134.9	135.9

In addition to internally defined limits, the Group must also comply with a regulatory limit on the basis of minimum statutory reserves deposited with ČNB. 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 2015:

(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	-	4,144	5,862	2,122	**12,128**
Other than financial derivatives	-	11,753	3,652	2,388	**17,793**
Financial liabilities at amortised cost	605,202	173,166	27,790	6,687	**812,845**
Fair value adjustments of the hedged items in portfolio hedge	4,062	-	-	-	**4,062**
Derivatives used for hedging	-	2,685	5,641	2,406	**10,732**
Other liabilities (Note: 28)	-	5,467	-	-	**5,467**
Total carrying value	**609,264**	**197,215**	**42,945**	**13,603**	**863,027**

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 maturity of contingent liabilities and commitments of CZK 178,660 m (2014: CZK 155,963 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 the actual profit or loss made by the trading book.

The Group holds regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks.

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 / (losses) analysed using VaR 10D 99% model in 2015 and 2014:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2015	151	20	(16)	155
Average during the period	127	12	(10)	129
Highest	178	54	(55)	177
Lowest	(137)	(6)	241	98

(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

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 2015:

		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	0.5	2.1	(63.7)	(150.0)	(211.1)
EUR	+ 10	(0.3)	0.3	51.7	25.2	76.9
USD	+ 10	(0.1)	(0.4)	(7.5)	(43.8)	(51.8)
CZK	- 10	(0.5)	(2.1)	63.7	150.0	211.1
EUR	- 10	0.3	(0.3)	(51.7)	(25.2)	(76.9)
USD	- 10	0.1	0.4	7.5	43.8	51.8

		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	(18.0)	1.9	(28.8)	(83.5)	(128.4)
EUR	+ 10	(0.5)	0.4	(16.6)	39.7	23.0
USD	+ 10	(1.1)	0.1	0.1	33.0	32.1
CZK	- 10	18.0	(1.9)	28.8	83.5	128.4
EUR	- 10	0.5	(0.4)	16.6	(39.7)	(23.0)
USD	- 10	1.1	(0.1)	(0.1)	(33.0)	(32.1)

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	(0.2)	(5.1)	(43.0)	(202.6)	(250.9)
EUR	+ 10	(0.1)	(0.3)	28.0	72.6	100.2
USD	+ 10	0.0	(0.4)	(3.2)	(4.9)	(8.5)
CZK	- 10	0.2	5.1	43.0	202.6	250.9
EUR	- 10	0.1	0.3	(28.0)	(72.6)	(100.2)
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	(13.9)	0.5	(12.4)	(89.1)	(114.9)
EUR	+ 10	(0.8)	1.1	(0.3)	(7.1)	(7.1)
USD	+ 10	0.0	(0.1)	(3.6)	(0.5)	(4.2)
CZK	- 10	13.9	(0.5)	12.4	89.1	114.9
EUR	- 10	0.8	(1.1)	0.3	7.1	7.1
USD	- 10	0.0	0.1	3.6	0.5	4.2

In 2015, the calculation of sensitivity was fine-tuned and consequently, comparative balances were restated accordingly.

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 2015 and 2014:

	2015			2014		
(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	(13)	-	-	4	-	-

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 2015) 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
VISA Inc. quotation	- 10 + 10	(35) 35

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, was as follows:

(CZKm)	Change in equity price (%)	Effect on equity
VISA Inc. quotation	- 10 + 10	(45) 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 is regularly monitored and assessed in the Group. Convenient tools for prepayment risk limitation are applied in the area of mortgage loans particularly.

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 the decision of an 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

Every year, before the risk appetite statement is defined, the Group executes a risk scan identifying and assessing its top risks. All material risk types are explicitly considered, but it is not necessary that a top risk is ultimately withheld for every risk type. The Risk Scan is executed and reported based on the KBC Group Risk Scan Guidance.

The prime responsibility for the identification and assessment of the top risks lies with the business. Input for the risk scan can be derived from several sources, including the main risks identified in the Internal Control Statement, audit recommendations, existing claims, economic forecasts and so on. The Risk Function facilitates the process. This may include gathering business input and documenting the conclusions of the risk scan. The business may call upon the Risk Function for assistance with the identification and assessment of the top risks as well. In any case, the Risk Function challenges the assessment details.

The results of the risk scan, as well as the risk response thereto (acceptance, non-acceptance, mitigating actions), can lead to changes to the existing business plans. Furthermore, they are used as input for the definition of risk appetite in the strategic planning process.

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.

For the purpose of the ICAAP process, available capital of the Pillar II in the Group coincides with the Common equity Tier 1 capital under Pillar I.

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 2015 with sufficient buffers above the regulatory minimum standards, underpinning the 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 III, Pillar 2 requirements, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) in place. 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. The Group uses also other instruments as required by Pillar 2 mainly in the area of capital planning, stress testing and risk strategies.

The Basel III agreement and corresponding European CRD IV Directive and Regulation introduced new, more stringent capital requirements for financial institutions. According to these requirements, the legal minimum tier-1 ratio 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’ (between 0% and 2.5% Common Equity Tier 1, to be determined by the national regulatory authority) may further be introduced. 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 instruments.

Compared to the previous year new capital economic model has been developed. There we no other significant changes made in objectives, policies and processes compared to the previous years.

The following table shows the capital and CAD ratio calculated under Basel III in 2015 and 2014 for the Group.

(CZKm)	2015	2014
Tier 1 capital	67,036	60,104
Tier 2 capital	1,102	749
Total capital	**68,138**	**60,853**
Regulatory capital requirements	28,137	27,894
Risk weighted assets	**351,718**	**348,670**
Capital adequacy ratio	19.37%	17.45%

SEPARATE FINANCIAL STATEMENTS

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

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

(CZKm)	Note	2015	2014
Interest income	4	20,212	21,039
Interest expense	5	(3,412)	(4,260)
Net interest income		**16,800**	**16,779**
Fee and commission income	6	8,470	8,203
Fee and commission expense	6	(3,338)	(3,027)
Net fee and commission income		**5,132**	**5,176**
Dividend income		5,308	4,224
Net gains from financial instruments at fair value through profit or loss and foreign exchange	7	2,643	1,414
Net realised gains on available-for-sale financial assets		334	214
Other net income	8	473	646
Operating income		**30,690**	**28,453**
Staff expenses	9	(5,789)	(5,877)
General administrative expenses	10	(7,616)	(7,067)
Depreciation and amortisation	20, 21	(325)	(359)
Operating expenses		**(13,730)**	**(13,303)**
Impairment losses	11	(559)	(305)
Profit before tax		**16,401**	**14,845**
Income tax expense	12	(1,620)	(1,637)
Profit for the year		**14,781**	**13,208**

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

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

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

(CZKm)	Note	2015	2014
Profit for the year		**14,781**	**13,208**
Net (loss) / gain on cash flow hedges	29	(685)	817
Net gain / (loss) on available-for-sale financial assets	29	332	(716)
Income tax benefit / (expense) relating to components of other comprehensive income	29	67	(19)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods		**(286)**	**82**
Total comprehensive income for the year, net of tax		**14,495**	**13,290**

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

SEPARATE FINANCIAL STATEMENTS

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

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

(CZKm)	Note	2015	2014
ASSETS			
Cash and balances with central banks	14	116,592	72,039
Financial assets held for trading	15	30,651	52,676
Financial assets designated at fair value through profit or loss	15	3,491	6,677
Available-for-sale financial assets	16	74,389	69,928
Held-to-maturity investments	16	136,432	144,576
Loans and receivables	17	501,668	435,231
Fair value adjustments of the hedged items in portfolio hedge		866	1,539
Investments in subsidiaries, associates and joint ventures	18	45,773	39,610
Derivatives used for hedging	19	11,906	13,967
Property and equipment	20	2,765	2,551
Goodwill and other intangible assets	21	5,059	2,727
Non-current assets held-for-sale	22	66	491
Other assets	23	1,136	828
Total assets		**930,794**	**842,840**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	30,085	69,821
Financial liabilities at amortised cost	25	797,101	674,306
Fair value adjustments of the hedged items in portfolio hedge		4,062	5,145
Derivatives used for hedging	19	10,668	11,818
Current tax liabilities		148	147
Deferred tax liabilities	12	870	1,106
Other liabilities	26	4,640	3,197
Provisions	27	511	686
Total liabilities		**848,085**	**766,226**
Share capital	28	5,855	5,855
Share premium		20,093	14,673
Statutory reserve		18,687	18,687
Retained earnings		32,132	31,171
Available-for-sale reserve	28	3,296	3,027
Cash flow hedge reserve	28	2,646	3,201
Total equity		**82,709**	**76,614**
Total liabilities and equity		**930,794**	**842,840**

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 21 April 2016 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 2015

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 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**
At 1 January 2015	**5,855**	**14,673**	**18,687**	**31,171**	**6,228**	**76,614**
Profit for the year	-	-	-	14,781	-	14,781
Other comprehensive income for the year	-	-	-	-	(286)	(286)
Total comprehensive income for the year	-	-	-	14,781	(286)	14,495
Increase of Share capital and Share premium	-	5,420	-	-	-	5,420
Acquisition of business under common control (Note: 18)	-	-	-	(612)	-	(612)
Dividends paid (Note: 13)	-	-	-	(13,208)	-	(13,208)
At 31 December 2015	**5,855**	**20,093**	**18,687**	**32,132**	**5,942**	**82,709**

(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 2015

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

(CZKm)	Note	2015	2014
OPERATING ACTIVITIES			
Profit before tax		16,401	14,845
Adjustments for:			
Change in operating assets	31	(4,223)	127,284
Change in operating liabilities	31	(14,489)	(95,674)
Non-cash items included in profit before tax	31	2,405	6,054
Net gains from investing activities		(62)	(222)
Income tax paid		(1,644)	(2,091)
Net cash flows (used in) / from operating activities		**(1,612)**	**50,196**
INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		(6,589)	(6,753)
Acquisition and equity increase of subsidiary, associate and joint venture companies		(6,590)	(3,887)
Reintegration of information and communication services (Note: 18)		(1,136)	-
Maturity / disposal of investment securities		13,261	7,325
Purchase of property, equipment and intangible assets		(187)	(268)
Proceeds from sale and equity decrease of subsidiary, associate and joint venture companies		427	527
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		611	265
Net cash used in investing activities		**(203)**	**(2,791)**
FINANCING ACTIVITIES			
Repayment of bonds		(1,500)	-
Increase of share capital and share premium		5,420	-
Dividends paid	13	(13,208)	(8,109)
Net cash flows used in financing activities		**(9,288)**	**(8,109)**
Net (decrease) / increase in cash and cash equivalents		**(11,103)**	**39,296**
Cash and cash equivalents at the beginning of the year	31	54,507	15,211
Net (decrease) / increase in cash and cash equivalents		(11,103)	39,296
Cash and cash equivalents at the end of the year	31	**43,404**	**54,507**
Additional information			
Interest paid		(3,323)	(5,006)
Interest received		21,322	22,947
Dividends received		5,308	4,224

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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, 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 separate financial statements of ČSOB 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 Bank at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Impairment of investment in subsidiaries

Investments in subsidiaries are reviewed for impairment indicators at least annually. In cases where impairment indicators are identified, investment is tested for impairment by comparing the recoverable amount with the investment carrying amount. Determining and assessing of the impairment indicators as well as determining the recoverable amount requires judgment.

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 2015

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.

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.

Annual Improvements to IFRSs (2010 - 2012 and 2011 – 2013 Cycle), issued in December 2013 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 2015

The following standards, amendments and interpretations have been issued and are effective after 1 January 2015. 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 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, which is designated at fair value through profit or loss, caused by changes in its own credit quality are recognised in other comprehensive income, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

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 receivables, 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 trade and lease receivables and contract 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) does not yet have a set effective date. 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 2018. 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.

Annual Improvements to IFRSs (2012 - 2014 Cycle), issued in 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 January 2016.

IFRS 16 Leases - the standard is effective for annual periods beginning on or after 1 January 2019 and hasn't been endorsed by EU yet. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Bank is currently assessing the impact that IFRS 16 will have on the financial statements.

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.

(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) Business combinations and Goodwill

Business combinations are generally reflected in separate financial statements only if the Bank acquires business that doesn't represent separate legal entity.

The acquisition method of accounting is used to account for the acquisition of businesses by the Bank that are not under common control as the Bank was. 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 Bank at which the goodwill is monitored for internal management purposes.

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

The pooling of interest method of accounting is used to account for the business combination of entities or businesses under common control. It means a business combination in which all of the combining entities or businesses are ultimately controlled by the same party both before and after the business combination.

The assets and liabilities of the combining entities are reflected at their carrying amounts and no new assets and liabilities are recognized at the date of combination. No new goodwill is recognised as a result of the combination.

Any difference between the consideration paid and the carrying amounts of assets and liabilities acquired is reflected through equity.

The income statement reflects the results of the combining entities only since the date, when the control was obtained by the reporting entity.

(17) Intangible assets

Intangible assets include software, licences and other intangible assets. A core system is a large-scale software application that performs important strategic group objectives.

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.

The amortisation of 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:

Core systems	8 years
Other 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.

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, except of private banking customers that are reported as a part of Relationship services. This segment contains customers' deposits, consumer loans, overdrafts, payment solutions including payment cards, mortgages 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).

Relationship services: Corporate companies with a turnover of greater than CZK 300 m, SME companies with a turnover of less than CZK 300 m, private banking customers with financial assets above CZK 10 m financial and public sector institutions. This segment contains customers' deposits, loans, overdrafts, payment solutions including payment cards and other transactions and balances with corporate, SME customers and private banking customers. Margin income from the operations with corporate, SME clients and private banking clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions or 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.

Group Centre: The Group Centre segment consists of positions and results of Asset Liability Management (ALM), the results of the reinvestment of free equity of the Bank, dividends from subsidiaries, associates and joint ventures and items not directly attributable to other segments.

In 2015, the Bank's segment reporting was modified following the change of the organisational structure of the Bank. Thus, Private banking customers are managed in the same way as SME / Corporate clients and were moved from strategic business unit Retail to SME / Corporate renamed to Relationship services in 2015. The income and expenses related to e-toll were transferred from strategic business unit Retail to Group Centre in 2015. Comparative balances were restated accordingly.

Segment reporting information by customer segments for 2015

(CZKm)	Retail	Relationship services	Financial markets	Group Centre	Total
Statement of income					
Net interest income	7,484	7,235	208	1,873	16,800
Net fee and commission income	2,535	2,222	288	87	5,132
Dividend income	-	-	-	5,308	5,308
Net gains / (losses) from financial instruments at fair value through profit or loss	457	1,394	808	(16)	2,643
Net realised gains on available-for-sale financial assets	-	-	-	334	334
Other net income	33	16	-	424	473
Operating income	**10,509**	**10,867**	**1,304**	**8,010**	**30,690**
of which:					
External operating income	*4,379*	*8,982*	*1,304*	*16,025*	*30,690*
Intersegment operating income	*6,130*	*1,885*	*-*	*(8,015)*	*-*
Depreciation and amortisation	(36)	(1)	-	(288)	(325)
Other operating expenses	(7,856)	(4,368)	(315)	(866)	(13,405)
Operating expenses	**(7,892)**	**(4,369)**	**(315)**	**(1,154)**	**(13,730)**
Impairment losses - additions	(475)	(1,209)	-	(21)	(1,705)
Impairment losses - reversals	328	767	-	51	1,146
Profit before tax	**2,470**	**6,056**	**989**	**6,886**	**16,401**
Income tax (expense) / benefit	(469)	(1,150)	(188)	187	(1,620)
Segment profit	**2,001**	**4,906**	**801**	**7,073**	**14,781**
Assets and liabilities					
Segment assets	19,721	226,657	30,435	653,915	930,728
Non-current assets held-for-sale	-	-	-	66	66
Total assets	**19,721**	**226,657**	**30,435**	**653,981**	**930,794**
Total liabilities	**336,713**	**293,698**	**30,061**	**187,613**	**848,085**
Capital expenditures	**61**	**4**	**-**	**84**	**149**

Segment reporting information by customer segments for 2014

(CZKm)	Retail	Relationship services	Financial markets	Group Centre	Total
Statement of income					
Net interest income	7,559	6,978	404	1,838	16,779
Net fee and commission income	2,654	2,163	238	121	5,176
Dividend income	-	-	-	4,224	4,224
Net gains / (losses) from financial instruments at fair value through profit or loss	413	1,493	287	(779)	1,414
Net realised gains on available-for-sale financial assets	-	-	-	214	214
Other net income	28	(3)	-	621	646
Operating income	**10,654**	**10,631**	**929**	**6,239**	**28,453**
of which:					
External operating income	*4,064*	*8,725*	*929*	*14,735*	*28,453*
Intersegment operating income	*6,590*	*1,906*	*-*	*(8,496)*	*-*
Depreciation and amortisation	(35)	(2)	-	(322)	(359)
Other operating expenses	(7,570)	(4,207)	(360)	(807)	(12,944)
Operating expenses	**(7,605)**	**(4,209)**	**(360)**	**(1,129)**	**(13,303)**
Impairment losses - additions	(503)	(1,232)	-	(100)	(1,835)
Impairment losses - reversals	258	773	-	499	1,530
Profit before tax	**2,804**	**5,963**	**569**	**5,509**	**14,845**
Income tax (expense) / benefit	(534)	(1,132)	(108)	137	(1,637)
Segment profit	**2,270**	**4,831**	**461**	**5,646**	**13,208**
Assets and liabilities					
Segment assets	19,197	214,832	51,659	556,661	842,349
Non-current assets held-for-sale	-	-	-	491	491
Total assets	**19,197**	**214,832**	**51,659**	**557,152**	**842,840**
Total liabilities	**326,057**	**272,453**	**69,379**	**98,337**	**766,226**
Capital expenditures	**123**	**-**	**-**	**145**	**268**

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)	2015	2014
Cash balances with central banks	19	6
Loans and receivables		
Credit institutions	2,865	3,327
Other than credit institutions	7,868	7,995
Available-for-sale financial assets	1,818	1,929
Held-to-maturity investments	5,397	5,810
Financial assets held for trading (Note: 7)	371	611
Financial assets designated at fair value through profit or loss (Note: 7)	151	193
Derivatives used as economic hedges (Note: 7)	161	164
Derivatives used for hedging (Note: 7)	1,562	1,004
	20,212	**21,039**

5. INTEREST EXPENSE

(CZKm)	2015	2014
Financial liabilities at amortised cost		
Central banks	2	-
Credit institutions	564	664
Other than credit institutions	1,331	2,138
Debt instruments in issue	43	159
Subordinated liabilities	-	-
Discount amortisation on other provisions (Note: 27)	3	3
Financial liabilities held for trading (Note: 7)	280	203
Derivatives used as economic hedges (Note: 7)	202	261
Derivatives used for hedging (Note: 7)	987	832
	3,412	**4,260**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2015	2014
Fee and commission income		
Payment services	5,624	5,410
Administration of credits	1,166	1,164
Collective investments	768	729
Securities	220	237
Custody	178	160
Asset management	68	52
Other	446	451
	8,470	**8,203**
Fee and commission expense		
Payment services	1,750	1,497
Retail service fees	986	953
Commissions to agents	48	47
Other	554	530
	3,338	**3,027**
Net fee and commission income	**5,132**	**5,176**

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)	2015	2014
Net gains from financial instruments at fair value through profit or loss and foreign exchange - as reported	**2,643**	**1,414**
Net interest income (Notes: 4, 5)	776	676
	3,419	**2,090**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	749	564
Foreign exchange	3,428	(751)
Equity contracts	(57)	-
Commodity contracts	22	19
	4,142	(168)
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	244	(340)
Foreign exchange differences	(967)	2,598
Financial instruments at fair value through profit or loss and foreign exchange	**3,419**	**2,090**

8. OTHER NET INCOME

(CZKm)	2015	2014
Net gain on disposal of loans and receivables	381	66
Operating leasing and rental income	151	154
Services provided to Československá obchodná banka, a.s (ČSOB SK)	87	86
Net gain / (loss) on disposal of non-current assets held-for-sale	58	(6)
Net decrease in provisions for legal issues and other losses	6	25
Net gain on disposal of Held-to-maturity investments	4	-
Net loss on disposal of financial liabilities at amortised cost	(387)	(75)
Other	173	396
	473	**646**

9. STAFF EXPENSES

(CZKm)	2015	2014
Wages and salaries	4,118	4,189
Salaries and other short-term benefits of top management	97	112
Social security charges	1,265	1,325
Pension and similar expense	112	141
Additions of provision for Restructuring programme (Note: 27)	100	-
Other	97	110
	5,789	**5,877**

Number of Bank personnel

The number (in full-time equivalents) of Bank personnel was 7,099 at 31 December 2015 (31 December 2014: 6,424).

In 2015, information and communication services were reintegrated from KBC Group Czech Branch back to ČSOB (Note: 18). As a result, 750 employees of the KBC Group were transferred to the Bank as at 31 December 2015. Given that fact, ratios of staff expenses per 1 employee are not fully comparable in 2014 and 2015.

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.

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. The 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., a member of the ČSOB group 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 Czech employment law are entitled to termination benefits equal to or less than three times the employee's monthly 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 2015, no such compensation was paid. In 2014, termination benefits paid represented CZK 13 m.

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2015	2014
Rental expenses on information technologies – minimum lease payments	1,943	1,841
Information technologies	1,301	1,081
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	944	884
Rental expenses on land and buildings – minimum lease payments	708	677
Other building expenses	463	487
Marketing	463	458
Professional fees	394	376
Communication	266	279
Retail service fees	237	185
Administration	153	95
Travel and transportation	144	141
Payment cards and electronic banking	142	88
Training	66	70
Car expenses	44	50
Insurance	36	41
Other	312	314
	7,616	**7,067**

11. IMPAIRMENT LOSSES

(CZKm)	2015	2014
Impairment of loans and receivables (Notes: 17, 31, 38.2)	(525)	(544)
Provisions for loan commitments and guarantees (Notes: 27, 31)	(15)	54
Impairment of investments in subsidiaries, associates and joint ventures (Notes: 18, 31)	(10)	240
Impairment of property and equipment (Notes: 20, 31)	-	(8)
Impairment of non-current assets held-for-sale (Notes: 22, 31)	(9)	(45)
Impairment of other assets (Note: 31)	-	(2)
	(559)	**(305)**

12. TAXATION

The components of income tax expense for the years ended 31 December 2015 and 2014 are as follows:

(CZKm)	2015	2014
Current tax expense	1,656	1,498
Previous year (over) / under accrual of current tax	(11)	43
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	(25)	96
	1,620	**1,637**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2015 and 2014 is as follows:

(CZKm)	2015	2014
Profit before taxation	16,401	14,845
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,116	2,821
Previous year (over) / under accrual of current tax	(11)	43
Tax effect of non-taxable income	(1,627)	(1,382)
Tax effect of non-deductible expenses	142	155
	1,620	**1,637**

The applicable tax rate for 2015 was 19% (2014: 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)	2015	2014
At 1 January	**(1,106)**	**(991)**
Statement of income	25	(96)
Available-for-sale securities (Note: 29)		
Fair value remeasurement	(172)	46
Transfer to net profit	109	90
Cash-flow hedges (Note: 29)		
Fair value remeasurement	(22)	(261)
Transfer to net profit (Note: 19)	152	106
Other – acquisition of business under common control (Note: 18)	144	-
At 31 December	**(870)**	**(1,106)**

Deferred tax assets / (liability) are attributable to the following items:

(CZKm)	2015	2014
Deferred tax assets / (liability)		
Employee benefits	280	284
Accelerated tax depreciation	231	188
Accelerated tax depreciation related to acquisition of ICT function (Note: 18)	144	-
Provisions	99	84
Allowances for credit losses	93	86
Legal claim	93	78
Loans and receivables - bonds reclassified from Available-for-sale securities (Note: 16)	78	82
Impairment losses on financial investments	26	26
Held-to-maturity investments - bonds reclassified from Available-for-sale securities (Note: 16)	(110)	(159)
Amortisation of goodwill	(442)	(406)
Cash-flow hedges	(621)	(751)
Available-for-sale securities	(740)	(632)
Other temporary differences	(1)	14
	(870)	**(1,106)**

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

(CZKm)	2015	2014
Accelerated tax depreciation	43	(67)
Provisions	15	(31)
Legal claim	15	6
Allowances for credit losses	7	26
Employee benefits	(4)	5
Amortisation of goodwill	(36)	(37)
Other temporary differences	(15)	2
	25	**(96)**

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 2015 has not been taken before the date of issue of the financial statements.

Based on a sole shareholder decision from 9 April 2015, a dividend of CZK 45.12 per share was paid for 2014, representing a total dividend of CZK 13,208 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)	2015	2014
Cash (Note: 31)	9,516	9,378
Mandatory minimum reserves (Note: 38.2)	9,717	7,606
Other balances with central banks (Notes: 31, 38.2)	97,359	55,055
	116,592	**72,039**

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 overnight loans provided to central bank in the amount of CZK 94,900 m at 31 December 2015 (31 December 2014: CZK 51,300 m).

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2015	2014
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 34)	-	3,194
Money market placements	-	169
Debt instruments		
General government	13,270	24,894
Credit institutions	4,662	7,884
Corporate	1,198	957
Derivative contracts (Note: 19)		
Trading derivatives	10,860	14,969
Derivatives used as economic hedges	661	609
	30,651	**52,676**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Credit institutions	3,491	6,677
	3,491	**6,677**
Financial assets at fair value through profit or loss	**34,142**	**59,353**

Included within Financial assets at fair value through profit or loss are debt securities of CZK Nil (2014: CZK 1,121 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.

16. FINANCIAL INVESTMENTS

(CZKm)	2015	2014
Available-for-sale financial assets		
Debt securities		
General government	38,944	32,977
Credit institutions	33,907	36,266
Corporate	234	242
Equity securities		
Corporate	1,304	443
	74,389	**69,928**
Held-to-maturity investments		
Debt securities		
General government	133,704	142,442
Credit institutions	1,395	1,938
Corporate	1,333	196
	136,432	**144,576**
Financial investments	**210,821**	**214,504**

Included within Financial investments are debt securities of CZK 3,489 m (2014: CZK 17,491 m) pledged as collateral in repo transactions or securities lending and debt securities of CZK 7,831 m (2014: CZK 8,483 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:

	2015		2014	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Held-to-maturity investments	13,446	14,445	13,913	14,966
Loans and receivables	62,017	58,045	62,389	54,761

The following table shows the total fair value gain or loss in Statement of comprehensive income that would have been recognised during 2015 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)	(55)	3,657	3,602

The following table shows the total fair value gain or loss in Statement of comprehensive income that would have been recognised during 2014 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)	380	(4,098)	(3,718)

The following table shows the net profit or loss recorded on reclassified assets in 2015:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Interest income (before tax)	446	780	1,226

The following table shows the net profit or loss recorded on reclassified assets in 2014 after the date of reclassification:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Interest income (before tax)	457	1,054	1,511

The following table shows the expected undiscounted cash recoveries, as assessed at the date of reclassification and anticipated average effective interest rate (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 2014 and 2015:

	Available-for-sale financial assets		Total
(CZKm)	Debt securities	Equity securities	
At 1 January 2014	**-**	**79**	**79**
Increase / (decrease)	-	-	-
At 31 December 2014	**-**	**79**	**79**
Increase / (decrease)	-	-	-
At 31 December 2015	**-**	**79**	**79**

17. LOANS AND RECEIVABLES

(CZKm)	2015	2014
Analysed by category of borrower		
Central banks	70,001	27,000
General government	8,673	7,568
Credit institutions	173,842	167,544
Other legal entities	216,569	201,163
Private individuals	39,561	38,940
Gross loans	508,646	442,215
Allowance for impairment losses	(6,978)	(6,984)
	501,668	**435,231**

The following tables show a reconciliation of the allowances for impairment losses on loans and receivables for 2014 and 2015 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 2014	**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**
Net increase in allowances for credit losses (Note: 11)	(4)	(13)	476	66	525
Write-offs	-	-	(407)	(122)	(529)
Foreign currency translation	-	-	(4)	2	(2)
At 31 December 2015	**3**	**-**	**5,488**	**1,487**	**6,978**

(CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2014	**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**
Increase in allowances for credit losses (Note: 11)	1,503	146	1,649
Decrease in allowances for credit losses (Note: 11)	(1,018)	(106)	(1,124)
Write-offs	(529)	-	(529)
Foreign currency translation	(2)	-	(2)
At 31 December 2015	**6,486**	**492**	**6,978**

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

		2015		2014	
Name	Abbreviation	(%)	Carrying amount	(%)	Carrying amount
Subsidiaries					
Bankovní informační technologie, s.r.o.	BANIT	100.00	60	100.00	60
Centrum Radlická a.s.	Centrum Radlická	100.00	709	100.00	709
ČSOB Advisory, a.s.	ČSOB Advisory	100.00	1,458	100.00	1,858
ČSOB Factoring, a.s.	ČSOB Factoring	100.00	1,095	100.00	975
ČSOB Leasing, a.s.	ČSOB Leasing	100.00	7,100	100.00	4,900
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	100.00	1,267	100.00	1,267
ČSOB Property fund, a.s.	ČSOB Property fund	59.79	262	59.79	272
Hypoteční banka, a.s.	Hypoteční banka	100.00	30,776	100.00	27,676
Patria Online, a.s.	Patria Online	100.00	1,180	-	-
Radlice Rozvojová, a.s.	Radlice Rozvojová	100.00	271	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	46	40.08	73
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	0.24	9	0.24	9
			45,773		**39,610**

All companies are incorporated in the Czech Republic.

On 19 December 2014, a share purchase agreement was concluded between ČSOB and KBC Securities NV for the purchase of 100% shares and 100% voting rights of Patria Online, a.s. (member of KBC Group). The acquisition of Patria Online, which has full control over Patria Finance, a.s. and Patria Corporate Finance, a.s., 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, was transferred to the Bank on 1 January 2015.

In April 2015, based on the Sole shareholder decision, the Bank increased the share premium of Hypoteční banka by CZK 600 m.

In June 2015, the Bank increased its investment in ČSOB Leasing by CZK 1,200 m through an additional charge apart from the registered capital of the company.

In June 2015, a redemption of the other capital funds from ČSOB AM in the amount of CZK 27 m was processed.

In July 2015, the Bank increased its investment in ČSOB Factoring by CZK 120 m through an additional charge apart from the registered capital of the company.

In July 2015, a redemption of the other capital funds from ČSOB Advisory in the amount of CZK 400 m was processed.

In November 2015, the Bank increased its investment in ČSOB Leasing by CZK 1,000 m through an additional charge apart from the registered capital of the company.

In December 2015, based on the Sole shareholder decision, the Bank increased the share premium of Hypoteční banka by CZK 2,500 m.

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 company.

In June 2014, a redemption of the other capital funds from ČSOB AM in the amount of CZK 27 m was made.

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 271 m. The entity was established by ČSOB for the construction of a new ČSOB headquarters building and has no other activities.

In 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: 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 2014 and 2015, the Bank considered the value of interests in certain subsidiaries to be impaired.

In 2014, with regard to the equity decrease and discounted projected cash flows the impairment of interests in ČSOB PS was reversed in the amount of CZK 250 m.

In December 2015 and 2014, 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 10 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 2014 and 2015:

(CZKm)	ČSOB PS	ČSOB Property fund	Total
At 1 January 2014	**608**	**244**	**852**
(Decrease) / increase (Note: 11)	(250)	10	(240)
At 31 December 2014	**358**	**254**	**612**
Increase (Note: 11)	-	10	10
At 31 December 2015	**358**	**264**	**622**

In accordance with the Group strategy, information and communication services were reintegrated from KBC Group Czech Branch back to ČSOB in 2015 (Note: 36). An agreement to acquire a part of business was concluded between ČSOB and the KBC Group and became effective in December 2015. According to the agreement, selected activities and processes of the KBC Group Czech Branch, including a number of employees (Note: 9), assets and liabilities related to the ICT function, were acquired by the Bank on 31 December 2015. Such a transfer represents a purchase of a part of the business by the Bank. The sales price which represents future net cash outflow from the Bank was determined on the basis of an independent expert appraisal and amounted to CZK 955 m. The difference between the purchase price of the business and carrying amount of the transferred assets and liabilities reached the amount of CZK 612 m and has been recognised in the Bank's Equity.

The acquisition was included into the financial statements of the Bank using the pooling of interest method.

Set out below is an analysis of financial effect of the acquisition of the ICT function into the financial statements of the Bank as at 31 December 2015:

Assets acquired and liabilities assumed

(CZKm)	31.12.2015
ASSETS	
Deferred tax assets (Note: 12)	144
Property and equipment (Note: 20)	504
Goodwill and other intangible assets (Note: 21)	2,317
Other assets	135
Total assets	**3,100**
LIABILITIES	
Financial liabilities at amortised cost	2,738
Other liabilities	19
Total liabilities	**2,757**
Total identifiable net assets	**343**
Decrease of Retained earnings	612
Cash consideration (Note: 26)	**955**

The cash consideration was not settled as at 31 December 2015. There is no contingent consideration resulting from the transaction. Included in financial liabilities at amortised cost are cash equivalents in the amount of CZK 1,136 m.

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 2015 and 2014 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

	2015			2014		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	449,121	8,097	10,080	454,483	11,162	13,733
Forwards	39,592	6	-	49,500	8	1
Options	15,478	90	102	41,615	136	181
	504,191	**8,193**	**10,182**	**545,598**	**11,306**	**13,915**
Foreign exchange contracts						
Swaps / Forwards	140,985	852	453	133,800	1,543	509
Cross currency interest rate swaps	56,638	1,057	602	57,529	1,641	397
Options	32,877	158	163	16,864	96	100
	230,500	**2,067**	**1,218**	**208,193**	**3,280**	**1,006**
Equity contracts						
Swaps	3,710	13	85	-	-	-
Options	1,409	43	-	-	-	-
	5,119	**56**	**85**	**-**	**-**	**-**
Commodity contracts						
Swaps / Options	5,702	544	529	6,347	383	374
Total trading derivatives (Notes: 15, 24)	**745,512**	**10,860**	**12,014**	**760,138**	**14,969**	**15,295**

Positions of ALM – economic hedges

	2015			2014		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	90,589	299	232	82,583	367	431
Forwards	-	-	-	-	-	-
Foreign exchange contracts						
Cross currency interest rate swaps	8,403	362	51	9,249	242	117
Total derivatives used as economic hedges (Notes: 15, 24)	**98,992**	**661**	**283**	**91,832**	**609**	**548**

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 to fixed rates

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 2015 and 2014 are set out as follows:

	2015			2014		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	107,058	6,245	2,915	112,083	7,963	3,445
Cross currency interest rate swaps	14,416	533	867	15,340	373	1,283
Total hedging derivatives	**121,474**	**6,778**	**3,782**	**127,423**	**8,336**	**4,728**

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

(CZKm)	2015	2014
Interest income (Note: 29)	823	603
Net losses from financial instruments at fair value through profit or loss (Note: 29)	(22)	(46)
Taxation (Note: 12)	(152)	(106)
Net gains	**649**	**451**

In 2015, a gain of CZK 15 m was recognised in the statement of income due to hedge ineffectiveness from cash flow hedges (2014: loss of CZK 1 m).

In 2015, 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 38 m from equity to the statement of income (2014: CZK 45 m). The losses are 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 2015 and 2014:

(CZKm)	2015	2014
Less than 3 months	6,953	3,190
More than 3 months but not more than 6 months	2,395	3,353
More than 6 months but not more than 1 year	5,273	11,348
More than 1 year but not more than 2 years	23,112	15,542
More than 2 years but not more than 5 years	52,050	52,894
More than 5 years	31,691	41,096
	121,474	**127,423**

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 2015 and 2014 are set out as follows:

	2015			2014		
	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	35,785	18	4,855	25,951	-	4,651
Fair value portfolio hedges	262,463	5,110	1,882	187,125	5,631	2,222
Cross currency interest rate swaps						
Fair value micro hedges	923	-	149	923	-	217
Total hedging derivatives	**299,171**	**5,128**	**6,886**	**213,999**	**5,631**	**7,090**

In 2015, the net losses in the amount of CZK 318 m (2014: net losses of CZK 2,507 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 216 m (2014: net gains of CZK 2,363 m).

20. PROPERTY AND EQUIPMENT

(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)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2015	4,549	123	553	1,467	11	6,703
Depreciation and impairment at 1 January 2015	(2,520)	(123)	(429)	(1,080)	-	(4,152)
Net book value at 1 January 2015	**2,029**	**-**	**124**	**387**	**11**	**2,551**
Transfers	57	-	10	24	(91)	-
Additions	-	-	-	-	123	123
Disposals	(6)	-	(1)	(10)	-	(17)
Acquisition of business under common control (Note: 18)	-	414	-	21	69	504
Depreciation	(195)	-	(29)	(90)	-	(314)
Transfer to non-current assets held-for-sale	(62)	-	-	(20)	-	(82)
Net book value at 31 December 2015	**1,823**	**414**	**104**	**312**	**112**	**2,765**
of which						
Cost	4,392	511	549	1,334	112	6,898
Depreciation and impairment	(2,569)	(97)	(445)	(1,022)	-	(4,133)

In 2015, assets related to the ICT function were acquired by the Bank as a result of the reintegration of ICT services back to ČSOB (Note: 18). They are reported under Acquisition of business under common control.

The cost of fully depreciated property and equipment still used by the Bank amounted to CZK 1,707 m as at 31 December 2015 (31 December 2014: CZK 1,650 m).

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(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)

(CZKm)	Goodwill	Software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2015	2,752	2,347	726	9	5,834
Amortisation and impairment at 1 January 2015	(63)	(2,338)	(706)	-	(3,107)
Net book value at 1 January 2015	**2,689**	**9**	**20**	**9**	**2,727**
Transfers	-	3	29	(32)	-
Additions	-	-	-	26	26
Disposals	-	-	-	-	-
Acquisition of business under common control (Note: 18)	-	1,776	-	541	2,317
Amortisation	-	(3)	(8)	-	(11)
Net book value at 31 December 2015	**2,689**	**1,785**	**41**	**544**	**5,059**
of which					
Cost	2,752	4,124	754	544	8,174
Amortisation and impairment	(63)	(2,339)	(713)	-	(3,115)

In 2015, assets related to the ICT function were acquired by the Bank as a result of the reintegration of ICT services back to ČSOB (Note: 18). They are reported under Acquisition of business under common control.

The cost of fully amortised intangible assets still used by the Bank amounted to CZK 2,877 m as at 31 December 2015 (31 December 2014: CZK 2,876 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 9.8% in 2015 (2014: 8.9%) and no long term growth rates were used in 2015 and 2014.

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 an average risk discount rate of 9.8% has been applied (2014: 8.9%). 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	Other	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)

(CZKm)	Land and buildings	Other	Total
Net book value at 1 January 2015	**491**	-	**491**
Transfer from Property and equipment	62	20	82
Additions	38	-	38
Disposal	(516)	(20)	(536)
Impairment (Note: 11)	(9)	-	(9)
Net book value at 31 December 2015	**66**	**-**	**66**
of which			
Cost	75	-	75
Impairment	(9)	-	(9)

Movements disclosed in Transfer from Property and equipment represent buildings and other property 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)	2015	2014
Other debtors, net of provisions (Notes: 30, 32, 35, 38.2)	682	503
Prepaid charges	233	160
Accrued income (Notes: 30, 32, 35, 38.2)	216	158
VAT and other tax receivables	5	7
	1,136	**828**

24. FINANCIAL LIABILITIES HELD FOR TRADING

(CZKm)	2015	2014
Short positions	6,147	4,358
Derivative contracts (Note: 19)		
Trading derivatives	12,014	15,295
Derivatives used as economic hedges	283	548
Overnight deposits	-	22,590
Term deposits	1,580	18,955
Repo transactions	-	1,018
Promissory notes	-	257
Bonds issued	10,061	6,800
Financial liabilities held for trading	**30,085**	**69,821**

25. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2015	2014
Deposits received from credit institutions		
Current accounts and overnight deposits	10,838	20,931
Term deposits	19,465	32,497
Repo transactions	-	16,173
	30,303	**69,601**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	389,407	342,741
Term deposits	11,083	10,970
Savings deposits	213,355	222,484
Repo transactions	-	14,141
Other deposits	7,073	7,940
	620,918	**598,276**
Debt securities in issue		
Bonds and investment certificates issued	10	1,501
Promissory notes	145,870	4,928
	145,880	**6,429**
Financial liabilities at amortised cost	**797,101**	**674,306**

26. OTHER LIABILITIES

(CZKm)	2015	2014
Accrued charges (Notes: 30, 32, 35, 38.3)	2,139	884
Payables to employees including social security charges (Notes: 30, 32, 35, 38.3)	1,719	1,674
Other creditors (Notes: 30, 32, 35, 38.3)	563	368
Income received in advance	138	169
VAT and other tax payables	81	102
	4,640	**3,197**

Unsettled consideration in respect of the acquisition of ICT function in the amount of CZK 955 m (Note: 18) is included in Accrued charges.

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**
Additions	22	100	-	95	217
Amounts utilised	(253)	(38)	(16)	-	(307)
Unused amounts reversed	(6)	-	-	(80)	(86)
Discount amortisation (Note: 5)	-	-	3	-	3
Foreign currency translation	-	-	-	(2)	(2)
At 31 December 2015	**81**	**100**	**45**	**285**	**511**

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 used the remaining provision of CZK 38 m to cover the costs related to reductions in the number of personnel in 2015.

During 2015, the Bank started a new restructuring programme, resulting in the creation of a provision of CZK 100 m (Note: 9). In the framework of this restructuring programme the total number of personnel should be reduced.

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 2015, the Bank had a provision for pending legal issues and other losses in the total amount of CZK 81 m. It is expected that the majority of the costs will be 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 3 years.

28. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 2015, the total authorised share capital was CZK 5,855 m (31 December 2014: CZK 5,855 m) and comprised of 292,750,002 ordinary shares with a nominal value of CZK 20 each (31 December 2014: 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 16 December 2015, ČSOB issued one ordinary share with a nominal value of CZK 20 and with a share premium of CZK 5,419,999,980 (evidenced by an entry in the Register of Companies dated 21 December 2015).

No Treasury shares were held by the Bank at 31 December 2015 and 2014.

On 31 December 2015, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100% (31 December 2014: 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 2015 and 2014:

(CZKm)	Available-for-sale reserve	Cash flow hedge reserve	Total
At 1 January 2014	**3,607**	**2,539**	**6,146**
Other comprehensive income (Note: 29)	(580)	662	82
At 31 December 2014	**3,027**	**3,201**	**6,228**
Other comprehensive income (Note: 29)	269	(555)	(286)
At 31 December 2015	**3,296**	**2,646**	**5,942**

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29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2015	2014
Cash flow hedges		
Net unrealised gains on cash flow hedges	116	1,374
Net gains on cash flow hedges reclassified to the statement of income (Note: 19)	(801)	(557)
Tax effect relating to cash flow hedges (Note: 12)	130	(155)
	(555)	662
Available-for-sale financial assets		
Net unrealised gains / (losses) on available-for-sale financial investments	903	(266)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	(334)	(214)
Net realised gains on available-for-sale financial investments amortised to the statement of income on reclassified assets (Note: 16)	(237)	(236)
Tax effect relating to available-for-sale financial investments (Note: 12)	(63)	136
	269	(580)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**(286)**	**82**

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, foreign exchange and commodity 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 trading derivatives, 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 the 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 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 2015:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	-	-	-
Debt instruments	6,749	6,667	5,714	19,130
Derivative contracts	-	11,432	89	11,521
Financial assets designated at fair value through profit or loss				
Debt instruments	-	-	3,491	3,491
Available-for-sale financial assets				
Debt securities	38,051	30,646	4,388	73,085
Equity securities	-	-	1,304	1,304
Fair value adjustments of the hedged items in portfolio hedge	-	866	-	866
Derivatives used for hedging	-	11,906	-	11,906
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	6,147	-	-	6,147
Derivative contracts	-	12,135	162	12,297
Overnight deposits	-	-	-	-
Term deposits	-	1,580	-	1,580
Repo transactions	-	-	-	-
Promissory notes	-	-	-	-
Bonds issued	-	10,061	-	10,061
Fair value adjustments of the hedged items in portfolio hedge	-	4,062	-	4,062
Derivatives used for hedging	-	10,668	-	10,668

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

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 distinguishes between bonds with a tax allowance and bonds without the tax allowance was not confirmed. As a consequence, the tax allowance factor was excluded from the model. All mortgage bonds are now treated equally and the tax allowance is disregarded.

As a result of the mortgage bond's credit spreads update in 2014, 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 50 bps (1-year) to 145 bps (above 30-year) in 2014 and 75 bps (7-year) to 142 bps (above 25-year) in 2015.

In 2015, a model for the valuation of bonds issued by Česká Exportní Banka (ČEB) changed. Yield curves (different for floating and fix bonds) used in the ČEB bonds valuation model for discounting future cash flows are constructed from IRS rates and respective credit spreads. The credit spreads are derived from the quotes of the most liquid bonds issued by ČEB and IRS rates. The management considers this a significant market unobservable input and, as a consequence, the bonds issued by ČEB remained classified as Level 3.

The implementation of the new ČEB valuation model, which has been used since June 2015, resulted in unrealised gains of CZK 245 m recorded in Net gains from financial instruments at fair value through profit or loss and unrealised gains of CZK 75 m recorded in Available-for-sale reserve. The spreads are regularly updated, at the latest quarterly. The spread according to bond maturity was 19 bps (1-year) to 159 bps (10-year) for fixed bonds and 28 bps (1-year) to 47 bps (10-year) for floating bonds after last review in December 2015.

Following the declared intention of VISA Inc. to acquire VISA Europe Limited, the Bank changed a model for the valuation of its share in VISA Europe Limited in 2015. The model reflects the expected set up of the transaction. The model calculates the fair value of the Bank's share in VISA Europe Limited combining an upfront cash consideration, an upfront share consideration and an earn-out, which would be payable in cash four years past the merger. The value of the share is derived from the report of VISA Europe Limited. The implementation of the new model resulted in unrealised gains of CZK 861 m recorded in Available-for-sale reserve.

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)	Trading derivatives	Debt securities	Debt securities	Debt securities	Equity securities	
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 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**
At 1 January 2015	**-**	**5,560**	**3,378**	**3,157**	**443**	**12,538**
Total gains / (losses) recorded in profit or loss	89	371	113	(79)	-	494
Total gains recorded in other comprehensive income	-	-	-	16	861	877
Transfers into Level 3	-	155	-	-	-	155
Transfers out of Level 3	-	(153)	-	-	-	(153)
Purchases	-	2,187	-	1,294	-	3,481
Settlement	-	(512)	-	-	-	(512)
Sales	-	(1,894)	-	-	-	(1,894)
At 31 December 2015	**89**	**5,714**	**3,491**	**4,388**	**1,304**	**14,986**
Total gains recorded in profit or loss related to assets held at the end of the reporting period	89	359	112	-	-	**560**

Total gains 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.

The following table shows the reconciliation of the opening and closing amount of financial liabilities which are recorded at fair value using valuation techniques based on non-market observable inputs:

(CZKm)	Financial liabilities held for trading Trading derivatives
At 1 January 2015	**-**
Total losses recorded in profit or loss	162
At 31 December 2015	**162**
Total losses recorded in profit or loss related to liabilities held at the end of the reporting period	162

Total losses recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss 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 the 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 2015, an increase / (decrease) of the credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds and bonds issued by ČEB included in Level 3 by CZK 98 m and CZK 91 m, respectively (2014: CZK 67 m for mortgage bonds). Such a change in the credit spread is based on the variability of mortgage bond and ČEB 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)	2015	2014	2015	2014
Financial assets				
Financial assets held for trading				
Debt instruments	3	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:

(CZKm)	2015 Carrying value	2015 Fair value	2014 Carrying value	2014 Fair value
Financial assets				
Cash and balances with central banks	116,592	116,592	72,039	72,039
Loans and receivables	501,668	504,024	435,231	435,625
Held-to-maturity investments	136,432	158,636	144,576	168,882
Other assets (Note: 23)	898	898	661	661
Financial liabilities				
Financial liabilities at amortised cost	797,101	800,255	674,306	679,827
Other liabilities (Note: 26)	4,421	4,421	2,926	2,926

The following table shows an analysis of financial instruments 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 2015:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash and balances with central banks	-	116,592	-	116,592
Loans and receivables	-	165,568	338,456	504,024
Held-to-maturity investments	153,599	570	4,467	158,636
Other assets (Note: 23)	-	898	-	898
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	773,600	26,655	800,255
Other liabilities (Note: 26)	-	4,421	-	4,421

The following table shows an analysis of financial instruments 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	-	72,039	-	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 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)	2015	2014
Cash and balances with central banks	116,592	72,039
Loans and advances to credit institutions and central banks	74,901	33,792
Financial liabilities at amortised cost to credit institutions and central banks	(10,956)	(37,183)
Financial liabilities at amortised cost - repo transactions with general government bodies	-	(14,141)
Financial liabilities at amortised cost – promissory notes issued to credit institutions	(137,133)	-
Cash and cash equivalents	**43,404**	**54,507**

Change in operating assets

(CZKm)	2015	2014
Net change in financial assets held for trading	22,025	153,364
Net change in financial assets designated at fair value through profit or loss	3,186	1,866
Net change in available-for-sale financial assets	(4,455)	(1,014)
Net change in loans and receivables	(26,182)	(23,023)
Net change in derivatives used for hedging	1,376	(3,865)
Net change in other assets	(173)	(44)
	(4,223)	**127,284**

Change in operating liabilities

(CZKm)	2015	2014
Net change in financial liabilities held for trading	(39,736)	(122,652)
Net change in financial liabilities at amortised cost	25,928	24,834
Net change in derivatives used for hedging	(1,150)	2,726
Net change in other liabilities	469	(582)
	(14,489)	**(95,674)**

Non-cash items included in profit before tax

(CZKm)	2015	2014
Amortisation of discounts and premiums in investment securities	1,199	1,162
Allowances and provisions for credit losses (Note: 11)	540	490
Foreign exchange differences in held-to-maturity investments	530	(322)
Depreciation and amortisation	325	359
Impairment on investment securities (Note: 11)	10	(240)
Impairment of non-current assets held-for-sale (Note: 11)	9	45
Impairment on property and equipment (Note: 11)	-	8
Impairment on other assets (Note: 11)	-	2
Creation of provisions	(188)	(85)
Net change in fair value adjustments of the hedged items in portfolio hedge	(410)	4,590
Other	390	45
	2,405	**6,054**

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 2015:

(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)	107,076	-	-	-	107,076
Financial assets held for trading					
Financial derivatives	3,863	5,917	1,741	-	11,521
Other than financial derivatives	6,034	9,058	4,038	-	19,130
Financial assets designated at fair value through profit or loss	32	-	3,459	-	3,491
Available-for-sale financial assets	11,810	29,110	32,165	1,304	74,389
Loans and receivables	192,898	181,506	127,264	-	501,668
Fair value adjustments of the hedged items in portfolio hedge	420	446	-	-	866
Held-to-maturity investments	10,542	72,041	53,849	-	136,432
Derivatives used for hedging	2,584	6,996	2,326	-	11,906
Other assets (Note: 23)	898	-	-	-	898
Total carrying value	**336,157**	**305,074**	**224,842**	**1,304**	**867,377**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	4,175	6,030	2,092	-	12,297
Other than financial derivatives	11,752	3,688	2,348	-	17,788
Financial liabilities at amortised cost	249,277	254,265	293,559	-	797,101
Fair value adjustments of the hedged items in portfolio hedge	609	2,137	1,316	-	4,062
Derivatives used for hedging	2,649	5,653	2,366	-	10,668
Other liabilities (Note: 26)	4,421	-	-	-	4,421
Total carrying value	**272,883**	**271,773**	**301,681**	**-**	**846,337**

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**

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 the 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.

Contingent liabilities and commitments

The contingent liabilities and commitments at 31 December 2015 and 2014 are as follows:

(CZKm)	2015	2014
Loan commitments - irrevocable (Note: 38.2)	91,309	78,055
Loan commitments - revocable	42,879	38,028
Financial guarantees (Note: 38.2)	28,291	27,164
Other commitments (Note: 38.2)	1,381	2,022
	163,860	**145,269**
Provisions for loan commitments and guarantees (Notes: 27, 38.2)	285	272

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)	2015	2014
Not later than 1 year	779	1,773
Later than 1 year and not later than 5 years	1,054	1,319
Later than 5 years	176	179
	2,009	**3,271**

Future minimum sublease payments amounted to CZK 56 m as at 31 December 2015 (31 December 2014: CZK 85 m).

Operating lease commitments related to information technologies to the KBC Group are included in ‘Not later than 1 year’ in the amount of CZK 1,007 m in 2014. They represented expected half-year lease payments according to the committed notice period. These operating lease contracts were terminated in 2015 as a result of acquisition of the ICT function to ČSOB (Note: 18).

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)	2015	2014
Not later than 1 year	26	47
Later than 1 year and not later than 5 years	30	89
	56	**136**

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)	2015	2014
Financial assets		
Financial assets held for trading	-	3,194
Loans and receivables	70,094	27,000
	70,094	**30,194**

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 and securities lending as at 31 December 2015 was CZK 71,668 m, of which CZK 10,046 m has been either sold or repledged (31 December 2014: CZK 38,240 m and CZK 19,131 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)	2015	2014
Financial liabilities		
Financial liabilities held for trading	-	1,018
Financial liabilities at amortised cost	-	30,314
	-	**31,332**

Amounts of financial assets pledged as collateral in repo transactions and securities lending are described in Financial assets at fair value through profit or loss (Note: 15) and Financial investments (Note: 16).

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 2015:

(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	18,591	-	18,591
Derivatives not set-off that are not subject to an enforceable master netting arrangement	4,836	-	4,836
Total trading and hedging derivatives	**23,427**	**-**	**23,427**
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	70,094	-	70,094
Total repurchase agreements (Note: 34)	**70,094**	**-**	**70,094**
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	898	-	898
Total other financial assets (Note: 23)	**1,119**	**221**	**898**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	20,676	-	20,676
Derivatives not set-off that are not subject to an enforceable master netting arrangement	2,289	-	2,289
Total trading and hedging derivatives	**22,965**	**-**	**22,965**
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	4,421	-	4,421
Total other financial liabilities (Note: 26)	**4,642**	**221**	**4,421**

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 not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2015:

(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	18,591	17,217	993	-	381
Total carrying value	**18,591**	**17,217**	**993**	**-**	**381**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	20,676	17,217	3,234	-	225
Total carrying value	**20,676**	**17,217**	**3,234**	**-**	**225**

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 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 are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2015 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	2,685	-	-	1,277	-	7,439	1
Entities under common control							
ČSOB SK	157	-	-	27	-	1	-
KBC Internationale Financieringsmij NV	149	-	-	-	-	-	-
Other	159	-	-	145	-	-	-
Subsidiaries							
BANIT	-	-	-	102	-	-	2
Centrum Radlická	-	-	-	1,732	-	-	-
ČSOB Factoring	-	-	-	2,961	-	-	-
ČSOB Leasing	63	-	-	25,287	-	-	-
Hypoteční banka	1,250	3,514	15,479	158,367	-	6	-
Patria Finance (member of Patria group)	-	-	-	152	-	-	-
Radlice Rozvojová	-	-	-	-	-	-	3
Associates							
ČSOB AM	-	-	-	9	-	-	-
ČSOB Pojišťovna	413	-	-	-	-	-	9
Joint ventures							
ČMSS	-	-	-	40	-	-	-

The outstanding balances of liabilities from related party transactions as at 31 December 2015 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	60	-	59
KBC Bank NV	2,699	138,596	8,468	-
Entities under common control				
ČSOB SK	3	36	-	-
KBC Group	-	1	-	966
Other	26	192	-	-
Subsidiaries				
BANIT	-	-	-	18
Centrum Radlická	-	11	-	-
ČSOB Advisory	-	15	-	-
ČSOB Leasing	6	54	-	-
ČSOB Penzijní společnost	-	250	-	-
ČSOB Property fund	-	172	-	-
Hypoteční banka	21	6,622	-	-
Patria CF	-	6	-	-
Patria Finance (member of Patria group)	-	305	-	-
Patria Online	-	148	-	-
Radlice Rozvojová	-	23	-	-
Associates				
ČSOB AM	-	109	-	-
ČSOB Pojišťovna	9	1,725	-	-
Joint ventures				
ČMSS	-	6,712	-	-

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 (in 2014 merged with Patria Direct)	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	-	7	-	97
Patria Finance (in 2014 merged with Patria Direct)	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 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:

	2015		2014	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Top management	-	-	-	-
KBC Bank NV	1,290	1,068	882	1,072
Entities under common control				
ČSOB SK	9	-	5	-
KBC Internationale Financieringsmij NV	8	-	71	-
Patria Finance (in 2014 merged with Patria Direct)	-	-	1	3
Other	-	-	5	-
Subsidiaries				
BANIT	2	-	1	-
Centrum Radlická	55	-	58	-
ČSOB Factoring	17	-	20	-
ČSOB Advisory	-	1	-	3
ČSOB Leasing	286	-	328	-
ČSOB Property fund	-	-	7	3
Hypoteční banka	2,678	530	3,085	586
Patria Finance (member of Patria group)	1	-	-	-
Associates				
ČSOB AM	-	-	-	-
ČSOB Pojišťovna	-	21	-	21
Joint ventures				
ČMSS	53	178	56	245

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

(CZKm)	2015 Fee and commission income	2015 Fee and commission expense	2014 Fee and commission income	2014 Fee and commission expense
KBC Bank NV	62	10	44	10
Entities under common control				
ČSOB SK	-	30	-	-
KBC Global Services NV	-	-	-	-
KBC Group	-	35	-	50
KBC Securities NV	11	-	11	-
Other	-	4	-	1
Subsidiaries				
BANIT	-	160	-	139
ČSOB Factoring	2	-	2	-
ČSOB Leasing	9	1	-	-
ČSOB Penzijní společnost	10	-	13	-
Hypoteční banka	217	75	158	20
Patria Finance (member of Patria group)	4	-	-	-
Associates				
ČSOB AM	455	-	380	-
ČSOB Pojišťovna	171	6	138	1
Joint ventures				
ČMSS	6	3	-	3

Dividend income received from subsidiaries, associates and joint ventures in 2015 amounted to CZK 5,302 m (2014: CZK 4,218 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2015 amounted to CZK 187 m (2014: CZK 187 m).

In accordance with the Group strategy, the Bank has been purchasing information and communication services from the related party KBC Global Services NV, from 2009 until 2015. In 2013, KBC Global Services NV merged with the KBC Group; KBC Group being the successor company.

In accordance with the Group strategy, information and communication services were reintegrated from the KBC Group Czech Branch back to ČSOB in 2015. Based on the acquisition agreement, concluded between the ČSOB and the KBC Group, selected activities and processes of the KBC Group Czech Branch, including employees (Note: 9), assets and liabilities related to the ICT function, were acquired by the Bank on 31 December 2015 (Note: 18).

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. In 2015, the Bank received income of CZK 72 m (2014: CZK 76 m) from the rental payments and related services, received CZK 59 m (2014: CZK 45 m) from the provision of administration services, received CZK Nil (2014: CZK 230 m) from sale of intangible assets and paid expense of CZK 3,192 m (2014: CZK 2,878 m) for IT services, including rental expenses on information technologies.

In 2015, the Bank received income of CZK 87 m (2014: CZK 86 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:

	2015		2014	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank NV	2,596	191	5,898	217
Entities under common control				
ČSOB SK	1,815	145	1,593	204
Kereskedelmi és Hitelbank Rt.	270	23	277	23
Associates				
ČSOB Pojišťovna	-	1	-	-

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

In February 2016, a liability to the KBC Group in respect of the consideration related to the acquisition of ICT function (Notes: 18 and 26) in the amount of CZK 955 m was settled.

In April 2016, the Bank bought back bonds in the nominal amount of CZK 10 m. These bonds were issued by the Bank on 22 December 2008 and were listed at the Regulated Market of the Prague Stock Exchange. On 4 April 2016, the bonds were excluded from the trading and cancelled with the effective date of 5 April 2016. The remaining debt securities issued by the Bank are unlisted.

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 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, European Central Bank (ECB), European Banking Authority (EBA) 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 Chief risk officer (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 principles described above 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,

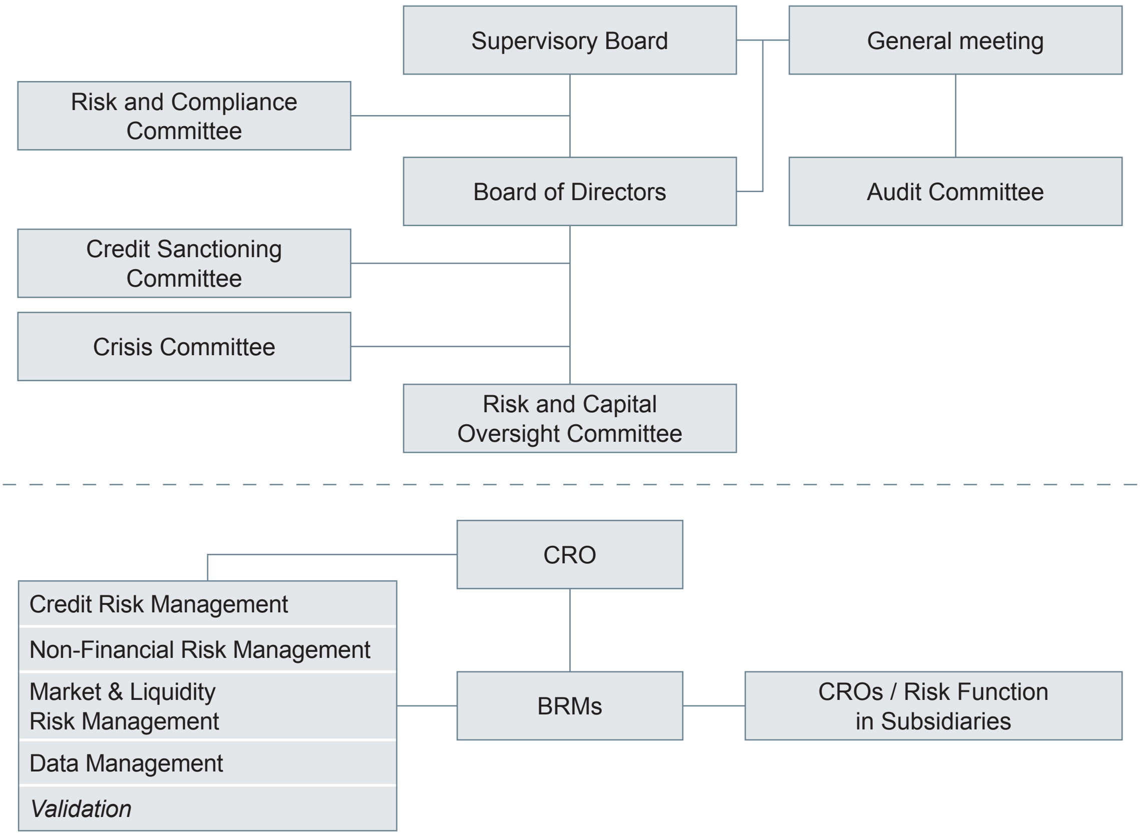
(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place; and

(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 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 established as a sub-committee of the Supervisory Board with a 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.

The Supervisory Board:

(i) Oversees whether the system of risk governance is efficient, comprehensive and adequate;

(ii) Regularly discuss matters concerning the risks to which the Bank is or might be exposed;

(iii) Continuously oversees and assures itself of the fulfilment of the risk management strategy and of the operational control's reliability;

(iv) Critically and constructively participates in the evaluation of the management of risks;

(v) Comments on a proposal (of the KBC Group CRO) to entrust as well as dismiss a natural person with the ensuring of the performance of the risk management function, stipulates policies governing remuneration of that person and assesses the activities of the person.

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 profile, appetite and strategy, and for overseeing the implementation of that strategy.

The Committee regularly discusses risk management and compliance 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 reviews the activities, structure, independence, professionalism and expertise of Risk management.

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 independence of statutory auditors and the auditing firm(s), recommends for approval by the management body the appointment, compensation and appointment 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 (BoD)

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 that comprehensive and adequate internal control and risk governance system is established good functioning and efficient, in its entirety and in parts. With regards to the risk management function, the Board of Directors:

(i) Ensures earmarking of adequate and sufficient capacities for management of significant risks, capital and liquidity management, internal models and validations/reviews of such models;

(ii) Approves and regularly evaluates the implementation of:

- Risk Management Charter,
- Risk Appetite of ČSOB,
- Result of Risk Scan,
- Risk Management Strategy,
- Risk Management Framework (including risk specific frameworks),
- Limit Book and Framework,
- Internal Capital Adequacy Assessment Process and Capital Adequacy Policy,
- Recovery and Resolution plan,
- Information Security Strategy;

(iii) Evaluates the overall functioning and efficiency of the internal control and governance system (Internal Control Assessment to ČSOB Supervisory Board), and ensures appropriate steps to rectify the potential identified shortcomings.

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 Bank's Risk Appetite;

(ii) propose to the Board of Directors a framework of limits consistent with the Bank's Risk Appetite, within which Risk and Capital will be managed;

(iii) provide an integrated view on Risk exposure against Risk Appetite/Limits and identify/report on 'hidden risks' (including concentration); In the event of Risk exposure being in excess of limit(s), to recommend to the BoD material mitigating actions and decide on non-material mitigating actions to bring Risk exposure back in line;

(iv) periodically review limits and, as necessary, to recommend to the BoD material changes in limit (s) and to decide on non – material limit changes;

(v) monitor market context, solvency, liquidity, risk/return profile, balance sheet profile, maturity transformation and structural interest rate exposure;

(vi) monitor capital adequacy and 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:

(i) Ensures that risk management processes are effective and efficient, promotes a culture of risk aware business conduct and prudent risk management;

(ii) Ensures compliance with Group (KBC) and regulatory requirements in the field of risk management;

(iii) Recommends the need for action to address risk & capital issues raised in internal reports;

(iv) Inputs to corrective actions to address local underperformance versus targets and agree to final actions to ensure within risk playing field;

(v) Assess the rate and structure of risk undertaken and the impact thereof on the performance and stability;

(vi) Coordinates the field of continuity management for the business;

(vii) Provides risk and capital reporting to internal (senior management, Board of Directors, Risk and Compliance Committee, Subsidiaries) and external clients (KBC, CNB);

(viii) Presents information concerning the developments in the field of risk management to ČSOB and KBC management;

(ix) Advices on risk related matters to Management Board of subsidiaries within the Group that have a separate legal structure.

The key strategic and governance responsibilities of the CRO are to:

(i) Recommend Risk Governance structure and roles;

(ii) Decide the structure of the Risk Function;

(iii) Input to the Risk Appetite;

(iv) Input to the corporate Strategy / strategic plans (including performance targets) development and agree to final Strategy to ensure within risk playing field;

(v) Recommend Risk and Capital Management Strategy;

(vi) Input to limits and delegation of authority setting within and below BoD delegation and agree to final decision to ensure within risk playing field;

(vii) Input to capital and funding allocation and agree to final allocation to ensure within risk playing field.

The CRO, in its role has following key execution activities:

(i) Recommend and decide on changes to the Risk Function owned frameworks;

(ii) Decide on validation of transactional models for risk management;

(iii) Input to guidelines for portfolio and transactional model development;

(iv) Input or decide (in line with the delegation rules) on mitigating actions for limit overruns and agree to final decision to ensure within risk playing field;

(v) Recommend and/or decide ex-post actions to address compliance issues with risk frameworks;

(vi) Ensure the process of assessment and evaluation of the regulatory / internally determined capital adequacy and conduct stress testing;

(vii) Input to day to day business decisions as a trusted advisor;

(viii) Agree to risk taking decisions outside of the risk playing field with the right to call “time out”.

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 provides independent oversight of the management of risks inherent in the Bank’s activities. The function is generally responsible for ensuring that effective processes are in place for:

(i) Identifying current and emerging risks;

(ii) Developing risk assessment and measurement systems;

(iii) Establishing policies, practices and other control mechanisms to manage risks;

(iv) Developing risk tolerance limits for Senior Management and Board approval;

(v) Monitoring positions against approved risk tolerance limits; and

(vi) Reporting results of risk monitoring to Senior Management and the Board.

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

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, Risk Integration 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). Risk Integration also regularly provides reports to the supervisory section of the CNB.

Risk Integration is also responsible for preparation of recovery plans and cooperates with regulator in preparation of resolution plan.

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 described in limit book and limit book framework. The limit book and limit book framework is regularly approved by RCOC and Board of Directors.

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 sustainable profit for the current year.
- to the CRO, the authority to decide on matters falling below the thresholds described above. 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 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)

Members of NAPPs process 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)

Business Risk Meetings are established for each business line in the Bank where business specific risk issues are regularly discussed. The CRO has sole decision right within the delegated decision authority which can always be escalated to the Board of Directors at the request of the Board of Directors' member responsible for that area.

Internal Capital Adequacy Assessment Process (ICAAP)

The 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 changed 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 Bank, 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 European Central Bank).

In 2015, KBC developed a new internal economic capital model, which was also adopted by the Bank. The main difference between the previous and the current models is the change from fully fair value based approach to accounting value based approach. The new model was developed taking into account the IFRS 9, which will be implemented in 2018.

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 Bank's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses an accounting-value 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 Bank will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP the following:

- 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 these when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

The amount of capital needed is determined using the economic capital method and addresses the following material risks to which the Bank is or may be exposed:

- Credit and counterparty risk, (including concentration risk)
- Interest rate in banking book
- Market risk banking book (excl. interest rate)
- Market risk trading book
- Operational risk
- Funding and liquidity 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 needed 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 the 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 model results are used for the 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.

At ČSOB, default status is determined to occur any time a forbearance measure-concession is granted: 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. For more, see the section “Forbearance measures”.

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. 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 represent customers, who have been overdue for 90 days or more, but not subject to bankruptcy proceedings yet,

PD 12 represents customers, which are 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, among 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 Bank, 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 eyes principle”, i.e. at least two 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 fully automated based on scorecards in the vast majority of cases. 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 in general 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, 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 2015. 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)	-	107,076	-	-	107,076
Financial assets held for trading	-	661	29,990	-	30,651
Financial assets designated at fair value through profit or loss	-	3,491	-	-	3,491
Available-for-sale financial assets	2,245	72,144	-	-	74,389
Loans and receivables	235,969	262,928	-	2,771	501,668
Fair value adjustments of the hedged items in portfolio hedge	-	866	-	-	866
Held-to-maturity investments	1,333	135,099	-	-	136,432
Derivatives used for hedging	-	11,906	-	-	11,906
Other assets (Note: 23)	-	-	-	898	898
Total	239,547	594,171	29,990	3,669	867,377
Contingent liabilities (Note: 33)	29,387	-	-	-	29,387
Commitments – irrevocable (Note: 33)	90,440	869	-	-	91,309
Total	119,827	869	-	-	120,696
Total credit risk exposure	**359,374**	**595,040**	**29,990**	**3,669**	**988,073**

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**

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)	2015 Gross maximum exposure	2015 Financial effect of collateral	2015 Net maximum exposure	2014 Gross maximum exposure	2014 Financial effect of collateral	2014 Net maximum exposure
ASSETS						
Cash and balances with central banks (Note: 14)	107,076	-	107,076	62,661	-	62,661
Financial assets held for trading	30,651	478	30,173	52,676	3,710	48,966
Financial assets designated at fair value through profit or loss	3,491	-	3,491	6,677	-	6,677
Available-for-sale financial assets	74,389	-	74,389	69,928	-	69,928
Loans and receivables	501,668	171,196	330,472	435,231	113,131	322,100
Fair value adjustments of the hedged items in portfolio hedge	866	-	866	1,539	-	1,539
Held-to-maturity investments	136,432	-	136,432	144,576	-	144,576
Derivatives used for hedging	11,906	782	11,124	13,967	1,228	12,739
Other assets (Note: 23)	898	-	898	661	-	661
Total	867,377	172,456	694,921	787,916	118,069	669,847
Contingent liabilities and commitments – irrevocable (Note: 33)	120,696	30,160	90,536	106,969	21,051	85,918
Total credit risk exposure	**988,073**	**202,616**	**785,457**	**894,885**	**139,120**	**755,765**

The portfolios are further structured as follows:

The credit portfolio is structured according to the type of the business the Bank enters into:

2015 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	145,051	25,827	53,773	**224,651**	(1,960)	(69)	**222,622**
SME	81,073	2,951	27,841	**111,865**	(3,804)	(86)	**107,975**
Retail	20,333	10	8,743	**29,086**	(1,183)	(15)	**27,888**
Other	68	884	83	**1,035**	(31)	(115)	**889**
Total credits	**246,525**	**29,672**	**90,440**	**366,637**	**(6,978)**	**(285)**	**359,374**

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**

An industry sector analysis of the Bank's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2015		2014	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Services	55,429	15.1	51,466	15.1
Distribution	51,035	13.9	47,750	14.0
Commercial Real Estate	35,011	9.6	28,262	8.3
Building and Construction	30,329	8.3	28,505	8.4
Automotive	28,988	7.9	27,664	8.1
Private persons	26,095	7.1	25,366	7.4
Oil, Gas and other Fuels	20,346	5.6	12,995	3.8
Authorities	16,853	4.6	16,747	4.9
Machinery and Heavy Equipment	15,804	4.3	17,102	5.0
Electricity	15,215	4.1	19,007	5.6
Metals	12,159	3.3	11,333	3.3
Finance and Insurance	12,144	3.3	12,206	3.6
Telecommunications	8,366	2.3	6,117	1.8
Electrotechnics	6,482	1.8	5,686	1.7
Chemicals	5,650	1.5	5,148	1.5
Food producers	4,870	1.3	4,128	1.2
Other sectors	21,861	6.0	21,143	6.3
Total	**366,637**	**100.0**	**340,625**	**100.0**

The investment portfolio is structured according to the type of the instrument:

2015 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	209,430	-	-	-	**209,430**
Equity securities	1,383	-	-	(79)	**1,304**
Loans and receivables within investment portfolio	263,794	-	869	-	**264,663**
Derivatives used for hedging	11,906	-	-	-	**11,906**
Derivatives held for trading	661	-	-	-	**661**
Cash and balances with central banks	107,076	-	-	-	**107,076**
Total investment	**594,250**	**-**	**869**	**(79)**	**595,040**

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**

The investment portfolio is monitored from a counterparty sector point of view:

	2015		2014	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Central banks	177,077	29.8	89,661	17.8
General government	171,756	28.9	173,372	34.4
Credit institutions	213,405	35.8	214,411	42.5
Corporate	32,802	5.5	26,661	5.3
Total investment	**595,040**	**100.0**	**504,105**	**100.0**

The trading portfolio is structured according to the type of the instrument:

2015 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	19,130	-	-	19,130
Derivatives held for trading	10,860	-	-	10,860
Total trading portfolio	**29,990**	**-**	**-**	**29,990**

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**

The trading portfolio is monitored from counterparty sector point of view:

	2015		2014	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
General government	13,270	44.3	25,084	48.7
Credit institutions	11,761	39.2	21,074	41.0
Corporate	4,959	16.5	5,272	10.3
Total trading portfolio	**29,990**	**100.0**	**51,430**	**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:

	2015		2014	
(CZKm)	Total risk	of which General government	Total risk	of which General government
Czech Republic	912,983	174,340	816,677	195,552
Slovak Republic	14,833	7,441	9,668	3,452
Greece	1	-	-	-
Italy	5,016	-	8,153	-
Spain	288	-	445	-
Belgium	14,151	2,438	16,397	2,562
Hungary	658	-	147	-
Other Europe	39,883	10,371	41,474	6,306
Other	2,760	-	1,924	-
Total	**990,573**	**194,590**	**894,885**	**207,872**

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

	2015		2014	
Client	Granted exposure (CZK m)	% of total credit portfolio	Granted exposure (CZK m)	% of total credit portfolio
1 largest client	8,258	2.3	7,466	2.2
10 largest clients	53,391	14.6	48,272	14.2
25 largest clients	91,305	24.9	82,249	24.1

The largest exposures to single clients in the investment portfolio as at 31 December 2015 and 31 December 2014 were:

	2015		2014	
Client	Granted exposure (CZK m)	% of total investment portfolio	Granted exposure (CZK m)	% of total investment portfolio
Hypoteční banka	179,866	30.2	164,859	32.7
CNB	177,077	29.8	89,661	17.8
Czech Ministry of Finance	151,528	25.5	163,044	32.3

The largest exposures to single clients in the trading portfolio as at 31 December 2015 and 31 December 2014 were:

	2015		2014	
Client	Granted exposure (CZK m)	% of total trading portfolio	Granted exposure (CZK m)	% of total trading portfolio
Czech Ministry of Finance	13,269	44.2	23,997	46.7

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 and ISDA-CSA collateralization annexes within its relationship 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 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 the emergence period. In 2014, the Bank used a uniform emergence period of four months, which was confirmed by the back-testing. In 2015, the emergence period has been extended to 6 – 8 months for some of the segments based on the latest back-testing results. The emergence period extension resulted in an increase of the collective impairment provision of CZK 155 m. The back-testing methodology was refined in 2015 following the updated Bank policy on determining the emergence period and its back-testing.

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 four 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 2015 and 2014 by individual portfolios:

Credit portfolio	2015				
	Collectively assessed assets		Individually impaired assets		Total
(CZKm)	Normal	AQR	Uncertain	Irrecoverable	
Corporate	138,574	2,673	2,157	1,647	145,051
SME	73,905	2,066	1,847	3,255	81,073
Retail	18,902	158	396	877	20,333
Other	36	-	3	29	68
Total	**231,417**	**4,897**	**4,403**	**5,808**	**246,525**

Credit portfolio	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**

Investment portfolio	2015		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	209,430	-	**209,430**
Equity securities	1,303	1	**1,304**
Loans and receivables within investment portfolio	264,663	-	**264,663**
Derivatives used for hedging	11,906	-	**11,906**
Derivative contracts held for trading	661	-	**661**
Cash and balances with central banks	107,076	-	**107,076**
Total	**595,039**	**1**	**595,040**

Investment portfolio

(CZKm)	2014 Collectively assessed assets Normal	2014 Individually impaired assets Irrecoverable	Total
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**

Trading portfolio

(CZKm)	2015 Collectively assessed assets Normal	2015 Individually impaired assets Irrecoverable	Total
Debt securities	19,130	-	19,130
Derivative contracts held for trading	10,860	-	10,860
Total	**29,990**	**-**	**29,990**

Trading portfolio

(CZKm)	2014 Collectively assessed assets Normal	2014 Individually impaired assets Irrecoverable	Total
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**

The table below shows an ageing analysis of gross past due but not impaired financial assets in the Credit portfolio:

(CZKm)	2015 Less than 30 days	2014 Less than 30 days
SME	325	346
Retail	379	474
Total	**704**	**820**

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:

(CZKm)	2015 Gross amount	2015 Impairment	2014 Gross amount	2014 Impairment
Credit portfolio				
Corporate	3,804	(1,887)	3,619	(1,996)
SME	5,102	(3,605)	4,950	(3,415)
Retail	1,273	(963)	1,360	(1,068)
Other	32	(31)	82	(53)
Total	**10,211**	**(6,486)**	**10,011**	**(6,532)**

Individually impaired financial assets included in the investment portfolio in the carrying amounts are as follows:

(CZKm)	2015	2014
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 in 2014.

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 2014 in ČSOB increased the balance of non-performing exposures by CZK 116 m, and led to the creation of an additional individual impairment of CZK 58 m.

Outstanding gross amounts and gross amounts of forborne exposures included in the credit portfolio and the related impairment and collateral and financial guarantees as at 31 December 2015 and 2014 are as follows:

2015

(CZKm)	Outstanding gross amount	Forborne exposures: Exposure of collectively and individually assessed assets	Percentage of outstanding gross amount (%)	Individual and collective impairment	Collateral and financial guarantees
Corporate	145,051	2,754	1.9	732	1,903
SME	81,073	1,140	1.4	567	403
Retail	20,333	266	1.3	98	5
Other	68	3	4.4	1	-
Total	**246,525**	**4,163**	**1.7**	**1,398**	**2,311**

2014

(CZKm)	Outstanding gross amount	Forborne exposures: Exposure of collectively and individually assessed assets	Percentage of outstanding gross amount (%)	Individual and collective impairment	Collateral and financial guarantees
Corporate	136,616	2,884	2.1	759	2,077
SME	77,786	926	1.2	409	302
Retail	19,324	253	1.3	87	2
Other	82	-	0.0	-	1
Total	**233,808**	**4,063**	**1.7**	**1,255**	**2,382**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2015 and 2014 are as follows:

2015

(CZKm)	Exposure of collectively assessed assets	Of which past due but not impaired assets	Exposure of individually impaired assets	Individual impairment	Collective impairment
Corporate	728	-	2,026	730	2
SME	81	-	1,059	566	1
Retail	110	9	156	95	3
Other	0	-	3	1	-
Total	**919**	**9**	**3,244**	**1,392**	**6**

2014

(CZKm)	Exposure of collectively assessed assets	Of which past due but not impaired assets	Exposure of individually impaired assets	Individual impairment	Collective impairment
Corporate	778	-	2,106	759	-
SME	103	-	823	407	2
Retail	53	7	200	86	1
Other	-	-	-	-	-
Total	**934**	**7**	**3,129**	**1,252**	**3**

The following table shows a reconciliation of Gross amounts of forborne exposures for 2015 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2015	**2,884**	**926**	**253**	**-**	**4,063**
Loan which have become forborne	47	478	93	3	621
Loans which are no longer considered to be forborne	(127)	(11)	-	-	(138)
Increase of exposure	24	8	1	-	33
Decrease of exposure	(74)	(261)	(81)	-	(416)
At 31 December 2015	**2,754**	**1,140**	**266**	**3**	**4,163**

The following table shows a reconciliation of Impairments of forborne exposures for 2015 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2015	**759**	**409**	**87**	**-**	**1,255**
Loan which have become forborne	1	229	45	1	276
Loans which are no longer considered to be forborne	(13)	(9)	-	-	(22)
Increase of exposure	2	82	10	-	94
Decrease of exposure	(17)	(144)	(44)	-	(205)
At 31 December 2015	**732**	**567**	**98**	**1**	**1,398**

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). The capacity and readiness to withstand adverse liquidity development is regularly reviewed by the means of stress tests.

Starting from October 2015 the Bank reports on Liquidity Coverage Ratio (LCR), which compares available liquidity buffers to expected net cash outflows within the 30 day horizon under gravely stressed conditions. The level of LCR was 163.0% at 31 December 2015.

The LCR ratio is regularly monitored and reported to the top management of the Bank.

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 2015 and 2014 was as follows:

(%)	2015	2014
31 March	143.1	146.6
30 June	137.0	145.9
30 September	133.0	146.4
31 December	138.9	145.2

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 2015:

(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	-	4,175	5,944	2,124	12,243
Other than financial derivatives	-	11,753	3,652	2,388	17,793
Financial liabilities at amortised cost	605,062	168,708	15,240	8,931	797,941
Fair value adjustments of the hedged items in portfolio hedge	4,062	-	-	-	4,062
Derivatives used for hedging	-	2,649	5,572	2,407	10,628
Other liabilities (Note: 26)	-	4,421	-	-	4,421
Total carrying value	**609,124**	**191,706**	**30,408**	**15,850**	**847,088**

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 maturity of contingent liabilities and commitments of CZK 163,860 m (2014: CZK 145,269 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 the actual profit or loss made by the trading book.

The Bank holds regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks.

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 2015 and 2014:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2015	151	20	(16)	155
Average during the period	127	12	(10)	129
Highest	178	54	(55)	177
Lowest	(137)	(6)	241	98

(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

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 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 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 2015 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	(15.1)	1.7	(105.1)	(110.3)	(228.8)
EUR	+ 10	1.3	0.2	(21.9)	38.8	18.4
USD	+ 10	(1.1)	0.1	0.1	33.0	32.1
CZK	- 10	15.1	(1.7)	105.1	110.3	228.8
EUR	- 10	(1.3)	(0.2)	21.9	(38.8)	(18.4)
USD	- 10	1.1	(0.1)	(0.1)	(33.0)	(32.1)

		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	5.3	(2.4)	(59.3)	(25.4)	(81.8)
EUR	+ 10	(0.1)	0.3	51.7	25.2	77.1
USD	+ 10	(0.1)	(0.4)	(7.5)	(43.8)	(51.8)
CZK	- 10	(5.3)	2.4	59.3	25.4	81.8
EUR	- 10	0.1	(0.3)	(51.7)	(25.2)	(77.1)
USD	- 10	0.1	0.4	7.5	43.8	51.8

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	(12.1)	5.0	(77.1)	(114.2)	(198.4)
EUR	+ 10	(0.2)	0.9	(4.9)	(7.7)	(11.9)
USD	+ 10	0.0	(0.1)	(0.1)	0.0	(0.2)
CZK	- 10	12.1	(5.0)	77.1	114.2	198.4
EUR	- 10	0.2	(0.9)	4.9	7.7	11.9
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	3.0	(2.0)	(54.2)	(87.9)	(141.1)
EUR	+ 10	0.0	(0.3)	28.0	72.6	100.3
USD	+ 10	0.0	(0.4)	(3.2)	(4.9)	(8.5)
CZK	- 10	(3.0)	2.0	54.2	87.9	141.1
EUR	- 10	0.0	0.3	(28.0)	(72.6)	(100.3)
USD	- 10	0.0	0.4	3.2	4.9	8.5

In 2015, the calculation of sensitivity was fine-tuned and consequently, comparative balances were restated accordingly.

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 2015 and 2014:

	2015			2014		
(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	(10)	-	-	2	-	-

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 Bank'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 2015) 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
VISA Inc. quotation	- 10	(35)
	+ 10	35

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, was as follows:

(CZKm)	Change in equity price (%)	Effect on equity
VISA Inc. quotation	- 10	(45)
	+ 10	45

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 and assessed.

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 the decision of an 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

Every year, before the risk appetite statement is defined, the Bank executes a risk scan identifying and assessing its top risks. All material risk types are explicitly considered, but it is not necessary that a top risk is ultimately withheld for every risk type. The Risk Scan is executed and reported based on the KBC Group Risk Scan Guidance.

The prime responsibility for the identification and assessment of the top risks lies with the business. Input for the risk scan can be derived from several sources, including the main risks identified in the Internal Control Statement, audit recommendations, existing claims, economic forecasts and so on. The Risk Function facilitates the process. This may include gathering business input and documenting the conclusions of the risk scan. The business may call upon the Risk Function for assistance with the identification and assessment of the top risks as well. In any case, the Risk Function challenges the assessment details.

The results of the risk scan, as well as the risk response thereto (acceptance, non-acceptance, mitigating actions), can lead to changes to the existing business plans. Furthermore, they are used as input for the definition of risk appetite in the strategic planning process.

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.

For the purpose of the ICAAP process, available capital of the Pillar II in the Bank coincides with the Common equity Tier 1 capital under Pillar I.

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 2015 with sufficient buffers above the regulatory minimum standards, underpinning the 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 III, Pillar 2 requirements, the Bank has an Internal Capital Adequacy Assessment Process (ICAAP) in place. 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. The Bank uses also other instruments as required by Pillar 2 mainly in the area of capital planning, stress testing and risk strategies.

The Basel III agreement and corresponding European CRD IV Directive and Regulation introduced new, more stringent capital requirements for financial institutions. According to these requirements, the legal minimum tier-1 ratio 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’ (between 0% and 2.5% Common Equity Tier 1, to be determined by the national regulatory authority) may further be introduced. 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 instruments.

Compared to the previous year new capital economic model has been developed. There we no other significant changes made in objectives, policies and processes compared to the previous years.

The following table shows the capital and CAD ratio calculated under Basel III in 2015 and 2014 for ČSOB:

(CZKm)	2015	2014
Tier 1 capital	59,665	53,856
Tier 2 capital	500	511
Total capital	**60,165**	**54,367**
Regulatory capital requirements	26,043	26,511
Risk weighted assets	**325,540**	**331,390**
Capital adequacy ratio	18.48%	16.41%

RELATED PARTIES REPORT

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. registered office Praha 5, Radlická 333/150, postcode 150 57, Company ID No. 000 01 350, incorporated in the Commercial Register, Section B XXXVI, File 46, maintained at the Municipal Court in Prague (hereinafter "ČSOB" or the "Bank").

2. Controlling Entity

KBC Bank NV registered office Havenlaan 2, B-1080 Brussels, Belgium is the sole shareholder of ČSOB.

All shares of KBC Bank NV are held (directly or indirectly) by the KBC Group NV (legal entity).

3. Structure of the Relationships between the Controlling Entity and the Controlled Entity as well as between the Controlled Entity and Entities Controlled by the same Controlling Entity

KBC Bank NV, a member of the KBC Group financial bank-insurance 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.

The KBC Group NV (legal entity) shares are publicly traded on the Euronext Exchange in Brussels. No shareholder has a shareholding of more than 20%.

Attachment 1 of this report gives an overview of the ČSOB and KBC group companies, which is also 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
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 Poist'ovňa 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
ČSOB Property fund, a.s.	Radlická 333/150, 150 57 Praha 5	Czech Republic
ČSOB stavebná sporiteľňa, 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, 1080 Brussels (Sint-Jans Molenbeek)	Belgium
KBC Bank NV	Havenlaan 2, 1080 Brussels (Sint-Jans Molenbeek)	Belgium
KBC Group NV (legal entity)	Havenlaan 2, 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
Merrion Properties s.r.o.	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 in 2014, the KBC Group controlled, through KBC Securities, Patria Online, a.s. registered office 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 a securities trader, both based at Jungmannova 745/24, postcode 110 00 Praha 1. ČSOB became the sole shareholder of Patria Online, a.s. by acquiring a 100% interest on 1 January 2015.

The KBC Group has a branch in the Czech Republic – KBC Group NV Czech Branch, organizational unit (KBC Group Czech Branch), registered office Praha 5, Radlická 333/150, postcode 150 57, which has been providing information and communication services (ICT services) to the Bank in accordance with the strategy of the Group since 2009. The KBC Group Czech Branch has been extending its range of back-office and supporting services, i.e. payments, financial markets and operational accounting services to the KBC Group since 2011.

In 2015 part of the enterprise KBC Group Czech Branch, in particular the part providing ICT services, was acquired by the Bank through a purchase agreement for part of an enterprise concluded between the Bank and the KBC Group on 22 December 2015. This transfer has been effective since 31 December 2015.

4. Purpose of Controlling Entity Measures and Means of Control

The KBC Group NV (legal entity), KBC Bank NV respectively, controls ČSOB through decisions made by a single shareholder to the extent of the competence of the General Meeting according to the Act on Commercial Companies and Cooperatives.

The controlling entity also exercises its influence through its representatives on the governing bodies of ČSOB – i.e. the Supervisory Board and the Board of Directors. First and foremost, this involves cooperation and coordination of activities related the consolidated risk management, auditing, and compliance with the prudential rules that apply to banks and other financial institutions, and the legal requirements.

5. Review of Activities in the Accounting Period, Induced by the Interest of the Controlling Entity or its Controlled Entities

Unless stated otherwise, no activities were carried out in the accounting period induced by the controlling entity or its controlled entities that would affect more than 10% of the assets of ČSOB equity, including common business transactions.

During the accounting period, ČSOB repeatedly accepted liabilities towards KBC Bank NV, including short-term money market trading deposits, the value of which exceeded 10% of the company's equity. These transactions aim at improvement of the efficiency of the use of the financial assets within the group. These outstanding obligations arose during the ordinary course of business and are subject to comparable terms (including interest rates and security), as transactions with third party counterparties. The Bank incurred no damage from the fulfilment of these contracts.

At the end of the accounting period, ČSOB issued promissory notes in the amount of CZK 137 bn to KBC Bank NV i.e. their nominal value exceeded 10% of the Bank's equity. These are standard deposit products which are ordinarily provided to even unrelated parties under comparable conditions. The Bank incurred no damage from the fulfilment of these contracts.

On 26 June 2012, ČSOB executed a revolving loan agreement with ČSOB Leasing with a credit limit of CZK 9 bn (which was amended in 2015 and the limit increased to CZK 9.5 bn) which exceeded 10% of the Bank's equity. This is a standard bank product which is ordinarily provided even to unrelated parties under comparable conditions. 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 other companies controlled by the controlling entity (hereafter "related entities" for the Related Parties Report) 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

During the accounting period, ČSOB concluded contracts or had concluded contracts in the previous accounting periods to provide services for maintaining various types of accounts, current and term accounts, interbank deposits (including amendments on early termination (default) of some deposits, along with settling interest and compensation payments), accounts for deposit of funds intended to acquire or increase participation in a company, and to provide the following products and domestic and international payments services such as – Cash Management NightLine, Virtual Cash Pooling and Real One-Way Cash Pooling. The contracts were concluded under standard business terms and conditions.

Payment Cards

During the accounting period, ČSOB concluded contracts or had concluded contracts in the previous accounting periods to issue, accept and process payment card transactions. The contracts were concluded under standard business terms and conditions.

Electronic Banking

During the accounting period, ČSOB concluded contracts or had concluded contracts in the previous accounting periods through 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

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for procuring 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

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods through which it provided the following credit products: overdrafts, commercial loans, revolving loans, special purpose loans, subordinated loans, interbank loans (including amendments on the early termination (default) of some loan agreements, along with interests settlements and compensation payment) and current account overdrafts, and accepted and issued guarantees, confirmed or open 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

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for purchasing and selling investment instruments, ISDA contracts, custody contracts, contracts for settling investment instrument transactions, contracts for administering securities, depository contracts, agreements on the contact bank, and agreements on the authorization of fax instructions for settling and administering securities. The remuneration 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

During the accounting period, ČSOB concluded mandate contracts or had concluded mandate contracts in previous accounting periods for procuring an issue of mortgage bonds issued on the domestic market as part of a bond programme, and mandate contracts for procuring an issue of debentures, contracts for the subscription and purchase of mortgage bond/bonds, and contracts for administering the issue and arranging payments. The related entities paid contractual commissions for these services. The contracts were concluded under standard business terms and conditions.

Receivables

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for receivables administering and factoring. 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

During the accounting period, ČSOB concluded insurance contracts or had concluded insurance contracts in 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

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for the renting/leasing non-residential areas, parking places and movable assets. The consideration consisted of the contractual prices or the lease of certain items. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Employee Benefits

During the accounting period, ČSOB concluded cooperation agreements – employee benefits – or had concluded contracts in previous accounting periods. The consideration consisted of providing employee benefits. The agreements were concluded under standard business terms and conditions.

Cooperation Agreements – Selling Products and Services

During the accounting period, ČSOB concluded cooperation agreements, framework, mandate and commission agent's contracts or had concluded these contracts and agreements in previous accounting periods particularly about cooperating in 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 agreements with some of the entities controlled by the same controlling entity (ČMSS, ČSOB AM, ČSOB Penzijní společnost, ČSOB Pojišťovna, Hypoteční banka, KBC Group Czech Branch) on cooperation on the common fulfilment of tax obligations

(VAT) that were also valid and effective during 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 ICT Services

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods on providing 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

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide 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 and Other Related Services

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide back-office services and supporting processes, i.e. risk management cooperation, developing models, management consultancy, central procurement, accounting and tax services and processing 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

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide facilities management services i.e. accounting and assets administration, food vouchers and catering, accommodation, postal services, document archiving, telephone exchange, fleet management and parking administration and transferring or purchasing movable property. The consideration consisted of contractual commissions. The contracts and agreements were concluded under standard business terms and conditions.

Agreements on Providing Services – Processing Financial Reporting

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide processing financial reports for external users services 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

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods on cooperation and providing internal audit and compliance services, finance and accounting administrative support, human resources management including labour-law relations and using employees and administrative support. The consideration consisted of services and contractual commissions. ČSOB also concluded agreements on personal data processing and transmitting information, maintaining confidentiality agreements, etc. The contracts and agreements were concluded under standard business terms and conditions.

OTHER

Purchase of the ICT Business Section of the KBC Group Czech Branch

Through an agreement to purchase a part of an enterprise of 22 December 2015, ČSOB acquired from the KBC Group the section of the KBC Group Czech Branch providing ICT services with effect from 31 December 2015. The purchase price of CZK 955 m was determined by an expert opinion, prepared by an expert appointed by the Municipal Court in Prague. The agreement was concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of this agreement.

Agreements on a Placement of Building

In connection with extending the Bank's headquarters in Prague Radlice, the Bank concluded two agreements with Radlice Rozvojová, a.s. on a buildings placement, subject matter of which is a consent provided to Radlice Rozvojová, a.s., with a permanent location of a building. Both agreements were concluded under standard business terms and conditions. The Bank incurred no damage from the fulfilment of these agreements.

PROFIT SHARES AND OTHER MEASURES

On 9 April 2015, KBC Bank NV, as the sole shareholder to the extent of the competence of the General Meeting, decided on the distribution of the 2014 profit so that the profit of CZK 13.208 bn was paid to the sole shareholder.

During the accounting period, ČSOB received revenue as shares of the profit from BANIT, ČMSS, ČSOB Factoring, Hypoteční banka, ČSOB Advisory, ČSOB Leasing, ČSOB Pojišťovna, ČSOB AM, Patria Online, První certifikační autorita, and CBCB.

During the accounting period, ČSOB also adopted resolutions 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, settling the profit and paying dividends, electing Board members and their remuneration, changing the Articles of Association, approval of the status of some subsidiaries, and an increase / decrease in share capital and/or share premium.

7. Assessment of Incurred Damage to Controlled Entities

No damage was incurred from the contractual and other relationships between ČSOB and the controlling entity.

8. Evaluation of the Relationship between the Controlling Entity and the Controlled Entity as well as between the Controlled Entity and Entities Controlled by the same Controlling Entity

The common synergy within the ČSOB group and the KBC group brings positive effects in effective cost management, human resources, and support for process configuration to ensure compliance with the company strategy. The cooperation also helps to reduce the risk of some transactions such as the risks of providing sensitive information to third parties.

The Bank provides banking services for 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 the assets and liabilities with KBC Bank NV and the entities under common control principally comprise the fair value of derivative financial instruments, debt instruments, repo transactions and promissory notes.

The mutual cooperation between companies in the KBC group and the ČSOB group, as well as other companies controlled by ČSOB, helps to build a common market position and allows the range of financial services offered to their clients to be extended such as the product portfolio, including mortgages and building savings loans, asset management, collective investment, pension fund products, leasing, factoring and insurance products and also services for trading equities on financial markets.

9. Accounting Period

This report describes the relations for the accounting period from 1 January 2015 to 31 December 2015.

10. Conclusion

The Board of Directors of ČSOB states that this Report was prepared within the stated period and according to Section 82 of the Act on Commercial Companies and Cooperatives. When processing the report the Board of Directors exercised due professional care and the contents of the Report reflect the purpose of the legal provisions of the Act on Commercial Companies and Cooperatives with regard to the ownership structure of ČSOB.

In Prague, 30 March 2016

Československá obchodní banka, a. s.

On behalf of the Board of Directors

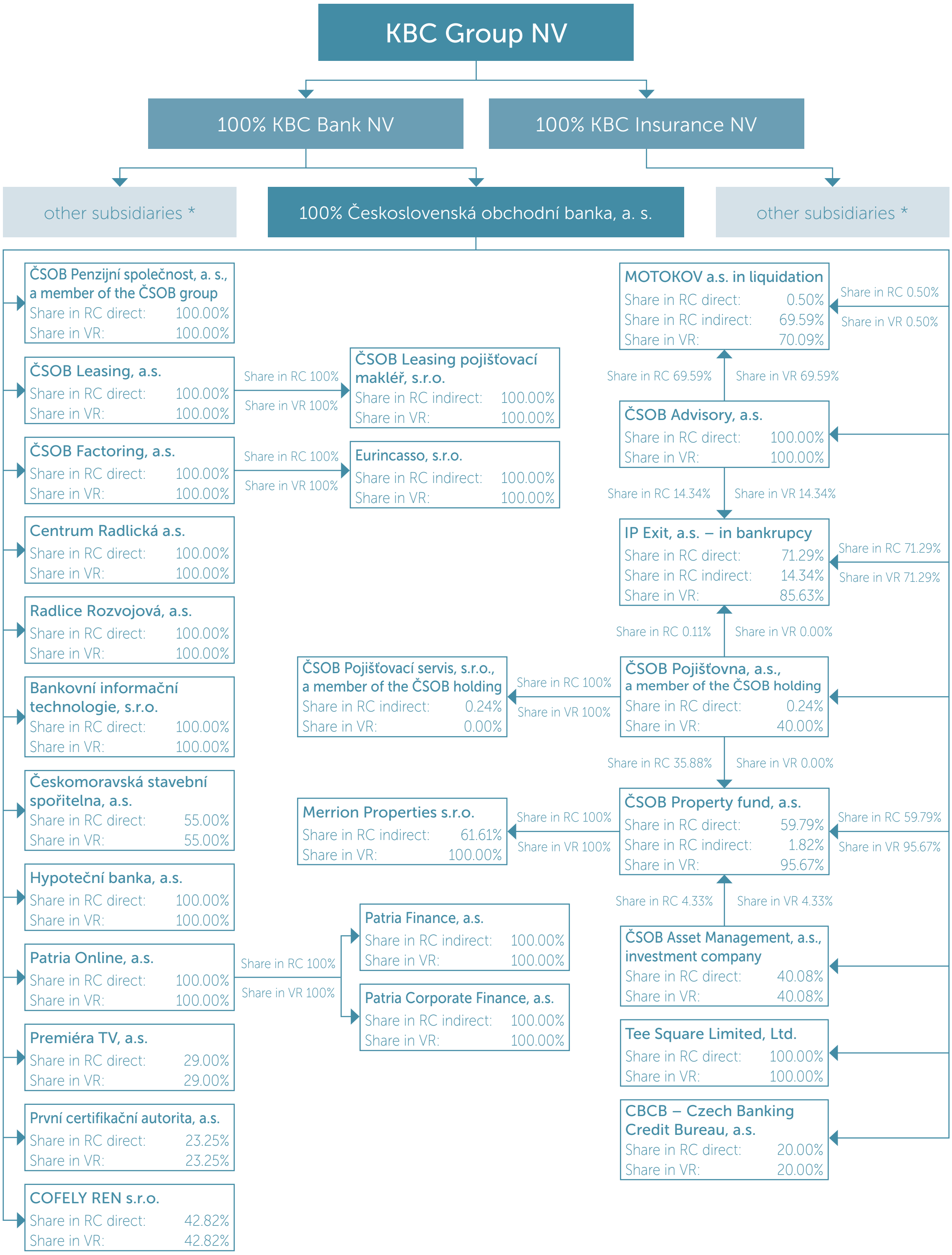
John Arthur Hollows
Chairman of the Board of Directors

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 2015)



Explanatory notes:
Percentage shares shown for individual companies are expressed from the ČSOB point of view as a parent company.
All shares of KBC Bank and KBC Insurance are held (directly or indirectly) by the KBC Group.
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

ADDITIONAL INFORMATION

ČSOB Securities

Shares

Shares and Share Capital of ČSOB

	as at 31 December 2015
ISIN	CZ0008000288
Class	Ordinary shares
Type	Bearer shares
Edition	Book-entered
Number of shares	292,750,002
Nominal value	CZK 20
Total issue volume	CZK 5,855,000,040
Amount of share capital	**CZK 5,855,000,040**
Paid up in full	100%

In December 2015, ČSOB's share capital was increased by CZK 20 from current CZK 5,855,000,020 to CZK 5,855,000,040 – one piece of common uncertificated bearer share with a nominal value of CZK 20 was subscribed, the issue price of the subscribed share is CZK 5,420,000,000.

Recorded by an entry in the Commercial Register on 21 December 2015.

For more details please refer to the Separate Financial Statements for the year 2015 (Note 28) and to the Consolidated Financial Statements for the year 2015 (Note 30).

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 2015, 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 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. This bond issuance program was closed. Any issue of bonds or any bond programe are not currently prepared.

By 31 December 2015, ČSOB recorded the following bond issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Bonds Issued (Nominal Value)	
Bond ČSOB VAR/2018	CZ0003701799	22. 12. 2008	CZKm	10
Bond ČSOB 3M PRIBOR/2016	CZ0003702540	2. 3. 2011	CZKm	149
Bond ČSOB Inflace II/2016	CZ0003702789	17. 3. 2011	CZKm	630
Bond ČSOB Měny II/2016	CZ0003702821	5. 5. 2011	CZKm	280
Bond ČSOB koš akcií II/2016	CZ0003702839	9. 6. 2011	CZKm	111.3
Bond ČSOB likvidní IV/2017	CZ0003703050	2. 2. 2012	CZKm	2,360.16
Bond ČSOB 3M PRIBOR II/2017	CZ0003703183	29. 3. 2012	CZKm	210
Bond ČSOB likvidní VI/2017	CZ0003703472	6. 8. 2012	CZKm	4,000

The Bond ČSOB VAR/2018 bond was listed at the Regulated Market of the Prague Stock Exchange; trading started on 22 December 2008, **excluded from the trading on 4 April 2016**. ČSOB bought and canceled these bonds with the effective date of 5 April 2016.

The remaining bonds are unlisted (not publicly tradable on any official regulated market in either an EU member state, or an EEC member state).

Since 2012, ČSOB is an issuer of investment certificates issued under the certificate issuance program (public or non public) in the Czech Republic.

By 31 December 2015, ČSOB recorded the following investment certificate issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
ČSOB Investment certificate IX.	CZ0000300306	19. 2. 2014	CZKm	135.61
ČSOB Investment certificate XX.	CZ0000300413	24. 9. 2014	CZKm	160.62
ČSOB Investment certificate XXIV.	CZ0000300504	17. 12. 2014	CZKm	156.79
ČSOB Investment certificate XXV.	CZ0000300512	17. 12. 2014	CZKm	114.27
ČSOB Investment certificate XXVIII.	CZ0000300520	17. 12. 2014	CZKm	166.68
ČSOB Investment certificate XXVI.	CZ0000300538	17. 12. 2014	CZKm	159.47
ČSOB Investment certificate XXVII.	CZ0000300561	25. 2. 2015	CZKm	154.25
ČSOB Investment certificate XXIX.	CZ0000300587	15. 4. 2015	USD	5.89
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	68.77
ČSOB Investment certificate XXXIII.	CZ0000300629	6. 5. 2015	CZKm	62.63
ČSOB Investment certificate XXXIV.	CZ0000300611	6. 5. 2015	CZKm	208.92
ČSOB Investment certificate XXXV.	CZ0000300645	20. 5. 2015	CZKm	90.05
ČSOB Investment certificate XXXVI.	CZ0000300660	3. 6. 2015	CZKm	136.37
ČSOB Investment certificate UL I.	CZ0000300652	12. 6. 2015	CZKm	157.00
ČSOB Investment certificate XXXVII.	CZ0000300678	17. 6. 2015	CZKm	142.75
ČSOB Investment certificate UL II.	CZ0000300686	10. 7. 2015	CZKm	417.00
ČSOB Investment certificate XXXVIII.	CZ0000300694	15. 7. 2015	CZKm	134.12
ČSOB Investment certificate XXXIX.	CZ0000300702	22. 7. 2015	CZKm	142.41
ČSOB Investment certificate UL III.	CZ0000300710	10. 8. 2015	CZKm	230.82
ČSOB Investiční certifikát Unit link IV.	CZ0000300728	10. 9. 2015	CZKm	261.82
ČSOB Investiční certifikát XL.	CZ0000300736	14. 10. 2015	CZKm	181.56
ČSOB Investiční certifikát XLI.	CZ0000300751	21. 10. 2015	CZKm	152.26
ČSOB Investiční certifikát Unit link V.	CZ0000300728	10. 11. 2015	CZKm	493.00
ČSOB Investiční certifikát XLII.	CZ0000300785	2. 12. 2015	CZKm	176.24
CSOB IC INDEXOVÝ I.	CZ0000300777	19. 11. 2015	CZKm	391.75
ČSOB Investiční certifikát Unit link VI.	CZ0000300793	21. 12. 2015	CZKm	572.70
ČSOB Investiční certifikát XLIII.	CZ0000300819	9. 12. 2015	EURm	3.59
ČSOB Investiční certifikát XLIV.	CZ0000300827	16. 12. 2015	USDm	3.06
Defensive SX5E 4,8 2023	CZ0000300835	30. 12. 2015	CZKm	217.77

In the first three months 2016, ČSOB issued the following investment certificates issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
Defensive SX5E 4,8 2023 II	CZ0000300868	3. 2. 2016	CZKm	259.82
Autocall SX5E 5,9 2021	CZ0000300850	5. 2. 2016	CZKm	399.90
Participation SX5E 2021	CZ0000300843	9. 2. 2016	CZKm	62.60
ČSOB Investiční certifikát Unit link VII.	CZ0000300884	22. 2. 2016	CZKm	763.20
Participation SX7P 2021	CZ0000300892	16. 3. 2016	CZKm	39.89

All ČSOB's investment certificates are unlisted (not publicly tradable on any official regulated market in either an EU member state, or an EEC member state).

The bond issuance program's prospectus and the prospectus of investment certificates, amendments thereto and pricing supplements 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.

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.

In 2015, ČSOB used **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 Group Czech Branch). ICT services provided by KBC Group Czech Branch also used other companies of the ČSOB group (for example Hypoteční banka, ČSOB Asset Management, ČSOB Penzijní společnost, ČSOB Leasing, ČSOB Factoring and also ČSOB Insurance).

With effect from 31 December 2015, the part of KBC Group Czech Branch providing ICT services were transfered back to ČSOB. ČSOB thus provides the majority of ICT services for themselves and for other companies from the ČSOB group.

For more details please refer to the Separate Financial Statements for the year 2015 (Note 18) and to the Consolidated Financial Statements for the year 2015 (Note 3).

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

For information on court disputes please refer to the Separate Financial Statements for the year 2015 (Notes 27 and 33) and to the Consolidated Financial Statements for the year 2015 (Notes 29 and 35).

The most significant ČSOB's court disputes as at 31 December 2015, are shown in the following tables including the dispute amount (without accessories).

Litigation against ČSOB (the Defendant)

Counterparty of the Dispute	Liability (CZKm)
ICEC-HOLDING, a.s., Boleslavova 710/19, Ostrava	11,893

According to ČSOB, this legal dispute does not constitute any risk, given its absolute unreasonableness. In addition, legal dispute has the risk of any potential defeat covered by the CNB's indemnity issued in connection with the sale of the company IPB according to the Bank.

Litigation Initiated by ČSOB (the Plaintiff)

Counterparty of the Dispute	Receivable (CZKm)
Czech National Bank, Na Příkopě 28, Praha 1	20,298

In August 2015, ČSOB commenced an arbitration proceedings against the CNB before ICC International Court of Arbitration, under Art. 5.5 of the Agreement and Indemnity, to enforce an advance payment in the case ICEC-HOLDING under Art. 1.9 of the Agreement (CNB refused to provide this advance payment voluntarily). In the proceedings, no decision on merits has been rendered yet.

Expenses on Research and Development

In 2015, ČSOB had outlays of CZK 142 m for research and development (2014: CZK 124 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 2015

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

Type of Service (CZKths; excluding VAT*)	ČSOB	Consolidated ČSOB Unit
Statutory audit of annual financial statements	18,230	29,319
Other assurance services	0	0
Tax advisory	0	217
Other non-audit services	0	0
Training / consultation	8	8
Total	**18,238**	**29,545**

** Published information includes relevant part of VAT, which is not deductible.*

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 2015 (CZKths)	ČSOB	Consolidated ČSOB Unit*
Basis for calculation of the contribution	1,087,480	1,303,699
The contribution	**21,750**	**26,074**

** Including Patria Finance (the company started to be consolidated from 1 January 2015).*

Contribution of ČSOB AM (CZK 1,589 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 2015.

Information Published within this Annual Report

Information	Reference [1)]
Important Events and Significant Changes in 2015	Report of the Board of Directors
	Managing and Supervisory Bodies
	Corporate Governance Policy
	Note 3 [2)]
New Products and Services Introduced in 2015	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 2015	Companies of the ČSOB group
	Note 3 [2)]
Expected Economic and Financial Situation of ČSOB in 2016	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 2015 (unless stated otherwise).
2) The content refers to a note in Notes to the Consolidated Financial Statements for the year 2015.
3) Together with this Annual Report, ČSOB also publishes the ČSOB Social Responsibility Report 2015.

Annex to Additional Information

Information according to Annex 14 of the 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
Corporate Governance	Managing and Supervisory Bodies
Additional Information	Bonds and Investment Certificates
Notes to the Consolidated Financial Statements for the year 2015	Events after the Reporting Period (Note 39)
Notes to the Separate Financial Statements for the year 2015	Events after the Reporting Period (Note 37)

Information on the Publication of the ČSOB Annual Report

ČSOB will publish its Annual Report 2015 on its Internet website at www.csob.cz.

The **Czech National Bank** will add the ČSOB Annual Report 2015 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 – **Obligatory Published Information** (Povinně uveřejňované informace):

https://www.csob.cz/portal/about-csob/obligatory-published-information#vyrocni-zpravy.

Annex to Additional Information

Information according to Annex 14 of the 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. 2015	Regulated Cons. Unit 31. 12. 2015
Items from Statement of Finacial Position	**Total Shareholders' Equity**	**82,708,590**	**90,544,624**
	Share capital	5,855,000	5,855,000
	Share premium	20,092,666	20,928,552
	Accumulated Other comprehensive income	5,942,488	6,553,557
	Reserve funds	18,686,648	18,851,324
	Retained earnings for the previous periods	17,350,797	24,357,619
	Own shares	0	0
	Net profit for the period	14,780,991	13,998,573
	Non-controlling interest	0	0
Adjustments to CET1	**Total Adjustments to CET1**	**(23,043,202)**	**(23,508,204)**
	Gains / (losses) on hedging instruments (Cash Flow Hedging)	(2,646,470)	(2,609,694)
	Additional value adjustment	(161,189)	(142,114)
	Goodwill	(2,247,186)	(2,100,077)
	Other intangible assets, net of tax	(2,370,212)	(3,293,375)
	Insufficient coverage of expected credit losses (lack of provissions)	(837,154)	(1,364,371)
	Unusable profit	(14,780,991)	(13,998,573)
	Non-controlling interest	0	0
	Other transitional adjustments to CET 1	0	0
Tier 2 Capital	**Total Tier 2 Capital**	**500,307**	**1,101,570**
	IRB Excess of provisions over expected losses eligible	500,307	1,101,570
	Total Capital	**60,165,695**	**68,137,991**
	Tier 1 (T1) Capital	**59,665,388**	**67,036,421**
	Common Equity Tier 1 (CET1) Capital	**59,665,388**	**67,036,421**
	Tier 2 (T2) Capital	**500,307**	**1,101,570**

Information about Capital and Capital Requirements pursuant to Article 438 (c) to (f) of Regulation (EU) 575/2013

(CZKths)			the Bank 31. 12. 2015	Regulated Cons. Unit 31. 12. 2015
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	80,865
	Exposures to corporates		0	422,314
	Retail exposures		0	45,594
	Exposures secured by mortgages on immovable property		0	82,955
	Exposures in default		0	13,187
	Exposures associated with particularly high risk		0	0
	Exposures in the form of covered bonds		0	0
	Items representing securitisation positions		0	15,000
	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		3,534,759	33,629
	Other items		0	261,209
Capital requirements calculated according to Article 92 (3) (b) and (c) of Regulation (EU) 575/2013	For position risk	Article 438 (e)	159,674	143,898
	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	489
	For settlement risk		0	0
	For commodity risk		44,979	44,979
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)	0	0
	Capital requirement pursuant to title III chapter 3		3,957,715	4,523,140
	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)	264,695	264,695
	Exposures to institutions		2,906,698	689,067
	Exposures to corporates		10,285,165	9,877,194
	Retail exposures		1,434,435	8,506,138
	Equity exposures		0	0
	Items representing securitisation positions		0	0
	Other assets not having the character of a credit liability		1,180,714	1,365,514
In the case of the equity exposures category this requirement is used for	Equity exposures traded on regulated markets		0	0
	Equity exposures not traded on regulated markets in sufficiently diversified portfolios and other exposures		893,186	386,362
	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*			*350,736*	*350,736*
** Risk exposure amount for Position, foreign exchange and commodities risks under internal models*			*1,030,448*	*1,030,448*

** This items was added for observance of required reporting CNB.*

Capital Ratios

	the Bank 31. 12. 2015	Regulated Cons. Unit 31. 12. 2015
Capital ratio for Equity capital Tier 1	18.33%	19.06%
Capital ratio for Tier 1 capital	18.33%	19.06%
Capital ratio for Total capital	18.48%	19.37%

Ratios Indicators

		the Bank 31. 12. 2015
Return on average assets (ROAA)		1.54%
Return on average Tier 1 capital (ROAE)		26.18%
Assets per employee*	CZKths	127,839
Administrative costs per employee*	CZKths	1,826
Profit after tax per employee*	CZKths	2,030

** According to CNB's methodology (Registered number of employees).*

DOCUMENTS

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2015

hereby declare that, to their best knowledge, the ČSOB Annual Report 2015 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, 21 April 2016

Československá obchodní banka, a. s.

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

Independent Auditor's Report

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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 2015, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes to the financial statements, including 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 Responsibilities for the Consolidated Financial Statements

Management is responsible for the preparation and presentation of consolidated financial statements that give a true and fair view 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 Responsibilities

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including 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 of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, 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.

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

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Other Information

Other information comprises information included in the annual report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information included and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and whether the annual report has been prepared in accordance with applicable law or regulation. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Jan Zedník, Auditor
License No. 2201

Douglas Burnham
Partner

21 April 2016
Prague, Czech Republic

A member firm of Ernst & Young Global Limited
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying separate financial statements of Československá obchodní banka, a. s., which comprise the separate statement of financial position as at 31 December 2015, and the separate statement of income, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information. For details of Československá obchodní banka, a. s., see Note 1 to the separate financial statements.

Management's Responsibilities for the Separate Financial Statements

Management is responsible for the preparation and presentation of separate financial statements that give a true and fair view 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing 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 about whether the separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of Československá obchodní banka, a. s., as at 31 December 2015, 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.

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 - Nove Mesto, has been incorporated in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

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Other Information

Other information comprises information included in the annual report other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information. In connection with our audit of the separate financial statements, our responsibility is to report on the other information.

Československá obchodní banka, a. s., has not prepared the separate annual report and intends to include the information in the consolidated annual report. Accordingly, our comments on the other information do not form part of this independent auditor's report.

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

Jan Zedník, Auditor
License No. 2201

Douglas Burnham
Partner

21 April 2016
Prague, Czech Republic

ABBREVIATIONS

Abbreviation	Business Company
ČSOB the Bank	Československá obchodní banka, a. s.
PSB	Poštovní spořitelna (Postal Savings Bank; part of ČSOB)
the 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, a.s.
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 Group Czech Branch	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 (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

Financial Calendar for 2016

ČSOB Group Unaudited Financial Results Releases
(according to EU IFRS)

Financial Results		Date of Release
as at 31 December 2015	4Q / FY 2015	18 February 2016
as at 31 March 2016	1Q 2016	12 May 2016
as at 30 June 2016	2Q / 1H 2016	11 August 2016
as at 30 September 2016	3Q / 9M 2016	17 November 2016
as at 31 December 2016	4Q / FY 2016	9 February 2017

Note:
This schedule is indicative only; terms might be subject to change during the year.

CONTACT DETAILS

Investor Relations

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

Tel.: +420 224 114 106
E-mail: investor.relations@csob.cz

The 2015 ČSOB Annual Report was released in electronic version at www.csob.cz on 28 April 2016.