Česká spořitelna, a.s.

Consolidated Financial Statements
for the Year Ended 31 December 2015
Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

I. Consolidated Statement of Comprehensive Income of Česká spořitelna, a.s. for the year ended 31 December 2015

Income statement

in CZK million	Notes	2015	2014
Net interest income	1	25,864	26,673
Net fee and commission income	2	10,254	11,306
Dividend income	3	70	50
Net trading and fair value result	4	2,823	2,287
Rental income from investment properties & other operating leases	5	732	823
Personnel expenses	6	(8,804)	(8,632)
Other administrative expenses	6	(7,628)	(7,331)
Depreciation and amortisation	6	(2,154)	(2,271)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	449	146
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(2,648)	(3,728)
Other operating result	9	(1,018)	(603)
Pre-tax result from continuing operations		**17,940**	**18,720**
Taxes on income	10	(3,645)	(3,650)
Post-tax result from continuing operations		14,295	15,070
Net result for the period		**14,295**	**15,070**
Net result attributable to non-controlling interests		2	(1)
Net result attributable to owners of the parent		**14,293**	**15,071**

Statement of Comprehensive Income

in CZK million	Notes	2015	2014
Net result for the period		**14,295**	**15,070**
Items that may be reclassified to profit or loss			
Available for sale reserve			
Gain/(loss) during the period	10	1,511	1,331
Cash flow hedge reserve			
Gain/(loss) during the period	10	2	149
Currency translation			
Gain/(loss) during the period		(27)	64
Deferred taxes relating to items that may be reclassified			
Gain/(loss) during the period	10, 25	(288)	(315)
Total		**1,198**	**1,229**
Total other comprehensive income		**15,493**	**16,299**
Total comprehensive income		**15,493**	**16,299**
Total comprehensive income attributable to non-controlling interests		2	(1)
Total comprehensive income attributable to owners of the parent		**15,491**	**16,300**

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

II. Consolidated Statement of Financial Position of Česká spořitelna, a.s. as of 31 December 2015

in CZK million	Notes	2015	2014
Assets			
Cash and cash balances	12	111,027	54,489
Financial assets - held for trading		14,725	23,231
Derivatives	13	13,995	18,740
Other trading assets	14,18	730	4,491
Financial assets – designated at fair value through profit or loss	15,18	907	1,272
Financial assets - available for sale	16,18	78,053	99,289
Financial assets - held to maturity	17,18	160,988	151,513
Loans and receivables to credit institutions	19	34,717	38,533
Loans and receivables to customers	20	532,524	500,039
Derivatives - hedge accounting	21	663	878
Property and equipment	23	12,318	13,431
Investment properties	23	4,949	7,342
Intangible assets	24	3,966	3,593
Current tax assets	25	740	543
Deferred tax assets	25	146	159
Other assets	26	3,861	8,277
Total assets		**959,584**	**902,589**
Liabilities and equity			
Financial liabilities - held for trading		14,956	23,431
Derivatives	13	14,944	20,654
Other trading liabilities	27	12	2,777
Financial liabilities – designated at fair value through profit or loss	28	4,019	9,664
Deposits from customers		4,019	8,874
Debt securities issued		-	790
Financial liabilities measured at amortised cost	29	811,679	751,959
Deposits from banks		83,915	54,570
Deposits from customers		709,817	671,565
Debt securities issued		15,493	23,043
Other financial liabilities		2,454	2,781
Derivatives - hedge accounting	21	496	169
Provisions	30	2,584	2,418
Current tax liabilities	25	100	45
Deferred tax liabilities	25	621	474
Other liabilities	31	5,166	6,646
Total equity	32	119,963	**107,783**
Equity attributable to non-controlling interests		(23)	(26)
Equity attributable to owners of the parent		119,986	107,809
Total liabilities and equity		**959,584**	**902,589**

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

These consolidated financial statements were prepared by the Group and authorized for issue by the Board of Directors on 1 March 2016 and are subject to approval at the General Meeting of shareholders.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

III. Consolidated Statement of Changes in Total Equity

in CZK million	Subscribed capital	Capital reserves	Retained earnings	Other capital instruments	Legal and statutory reserve	Cash flow hedge reserve	Available for sale reserve	Currency translation	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2014	**15,200**	**11**	**80,928**	**-**	**3,812**	**(95)**	**1,008**	**(204)**	**100,660**	**316**	**100,976**
Dividends paid	-	-	(9,120)	-		-	-	-	(9,120)	(22)	**(9,142)**
Changes in scope of consolidation	-	-	(52)	-	21	-	-	-	(31)	(319)	**(350)**
Total comprehensive income	-	-	15,071	-	-	121	1,044	64	16,300	(1)	**16,299**
Net result for the period	-	-	15,071	-	-	-	-	-	15,071	(1)	**15,070**
Other comprehensive income	-	-	-	-	-	121	1,044	64	1,229	-	**1,229**
As of 31 December 2014	**15,200**	**11**	**86,827**	**-**	**3,833**	**26**	**2,052**	**(140)**	**107,809**	**(26)**	**107,783**
As of 1 January 2015	**15,200**	**11**	**86,827**	**-**	**3,833**	**26**	**2,052**	**(140)**	**107,809**	**(26)**	**107,783**
Dividends paid	-	-	(11,400)	-	-	-	-	-	(11,400)	-	(11,400)
Issuance of other capital instruments	-	-		8,107	-	-	-	-	8,107	-	8,107
Realocation of statutory reserve	-	-	388	-	(409)	-	-	-	(21)	1	(20)
Total comprehensive income	-	-	14,293	-	-	2	1,223	(27)	15,491	2	15,493
Net result for the period	-	-	14,293	-	-	-	-	-	14,293	2	14,295
Other comprehensive income	-	-		-	-	2	1,223	(27)	1,198	-	1,198
As of 31 December 2015	**15,200**	**11**	**90,108**	**8,107**	**3,424**	**28**	**3,275**	**(167)**	**119,986**	**(23)**	**119,963**

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

IV. Consolidated Cash Flow Statement for the year ended 31 December 2015

in CZK million	Notes	2015	2014
Pre-tax result from continuing operations		**17,940**	**18,720**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	6, 23, 24	2,616	2,359
Allocation to and release of provisions (including credit risk provisions)	8, 9, 30	3,482	4,249
Gains/(losses) from the sale of assets		(45)	71
Change in fair values of derivatives		(420)	(1,153)
Accrued interest, amortisation of discount and premium		279	(114)
Other adjustments		(211)	396
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with the CNB		4,221	(9,304)
Loans and receivables to credit institutions		4,867	37,024
Loans and receivables to customers		(36,900)	(16,425)
Financial assets - held for trading		3,885	15,549
Financial assets – designated at fair value through profit or loss		407	2,935
Financial assets - available for sale		13,466	(16,407)
Other assets from operating activities		2,594	2,301
Deposits from banks		33,098	(31,647)
Deposits from customers		38,378	(42,193)
Financial liabilities - held for trading		(8,413)	(4,760)
Increase in non-controlling interests		(28)	(319)
Payments for taxes on income		(3,915)	(4,460)
Other liabilities from operating activities		(82)	(746)
Cash flow from operating activities		**75,219**	**(43,924)**
Proceeds of disposal			
Financial assets - held to maturity and associated companies		17,777	12,005
Property and equipment, intangible assets and investment properties		1,295	258
Equity investments		-	-
Acquisition of			
Financial assets - held to maturity and associated companies		(22,190)	(17,837)
Property and equipment, intangible assets and investment properties		(2,010)	(2,042)
Disposal of subsidiaries		(14)	87
Cash flow from investing activities		**(5,142)**	**(7,529)**
Issuance of other capital instruments		8,107	
Dividends paid to equity holders of the parent		(11,400)	(9,120)
Dividends paid to non-controlling interests		-	(22)
Other financing activities (mainly changes of subordinated liabilities)		(247)	755
Proceeds from bonds issued		575	2,817
Repurchase of bonds in issue		(7,602)	(6,200)
Cash flow from financing activities		**(10,567)**	**(11,770)**
Cash and cash equivalents at beginning of period		**32,768**	**95,991**
Cash flow from operating activities		75,219	(43,924)
Cash flow from investing activities		(5,142)	(7,529)
Cash flow from financing activities		(10,567)	(11,770)
Cash and cash equivalents at end of period	12	**92,278**	**32,768**
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(3,915)	(4,460)
Interest received		30,087	31,874
Dividends received		70	50
Interest paid		(2,748)	(4,589)
Dividends paid to equity holders of the parent		(11,400)	(9,120)

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

V. Notes to the Consolidated Financial Statements of Česká spořitelna, a.s. for the year ended 31 December 2015

A. GENERAL INFORMATION

Česká spořitelna, a.s. (‘the Bank’), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal bank offering retail, corporate and investment banking services within the Czech Republic.

Due to the group internal merger between EGB Ceps Holding GmbH and Erste Group Bank the Bank’s majority shareholder became Erste Group Bank AG (‘Erste Group Bank’) which is the ultimate parent. The Bank together with subsidiaries and associated companies forms the Group.

The Group is subject to the regulatory requirements of the Czech National Bank (‘CNB’) , the banking Act and EU guidelines/directives. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, interest rate risk, foreign currency positions and operating risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement, collective investment and brokerage services.

The Group offers a complete range of banking and other financial services, such as savings and current accounts, asset management, consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital and money market services and foreign exchange trading.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements of the Group for the 2015 financial year and the comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union (‘IFRS’) on the basis of IAS Regulation (EC) No. 1606/2002.

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets available-for-sale, derivative financial instruments and other financial assets and liabilities held for trading, and financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements have been prepared on a going concern basis.

Except as otherwise indicated, all amounts are stated in millions of Czech crowns (‘CZK’). The tables in this report may contain rounding differences.

b) Basis of consolidation

Subsidiaries

All subsidiaries directly or indirectly controlled by Česká spořitelna, a.s. are consolidated in the Consolidated financial statements on the basis of the subsidiaries’ annual accounts as of December 2015 and for the year then ended.

Subsidiaries are consolidated from the date upon 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 results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Group's subsidiaries are prepared for the same reporting year as that of Česká spořitelna, a.s. and using consistent accounting policies. All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable directly or indirectly to the owners of Česká spořitelna, a.s.. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Additions in 2015

No material additions of new subsidiaries occurred during the year 2015.

Disposals in 2015

In June 2015 entity Smíchov Real Estate, a.s., company established for the purpose of investment into real estate, was sold.
In September 2015 entity CPDP Shopping Mall Kladno, a.s., company established for the purpose of investment into real estate, was sold.
In November 2015 entity Trenčín Retail Park a.s., company established for the purpose of investment into real estate, was sold.

Additions in 2014

No material additions of new subsidiaries occurred during the year 2014.

Disposals in 2014

As of 31st March 2014 Česká spořitelna, a.s. and its subsidiary Fund Manager, Česká spořitelna - Penzijní společnost, a.s.,(ČS penzijní společnost) have decided to narrow the investment mandate of the Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. (Transformed pension fund) in order to align the purpose and design of the Transformed pension fund with the investment goals of the policy holders, limit the scope of the ČS penzijní společnost's decision making authority and restrict its exposure to variability of returns from remuneration and other interests (ie, the guarantee) that it holds in the Transformed pension fund. As a result of the above described changes ČS penzijní společnost no longer meets the definition of a principal under IFRS 10 and is considered to be an agent of the pension fund members instead. Consequently it is not required to consolidate Transformed fund into the consolidated financial statements of the Group for the year ended 2014.
The impact of deconsolidation is the following:

a) Change in the Net result for the period in amount of CZK 76 million
b) Change in the Net fee and commission income in amount of CZK 95 million
c) Change in the Taxes on income in amount of CZK 18 million
d) The release of AFS provision to the income statement in amount of CZK 344 million.

In May 2014 entity Atrium Center s.r.o, company established for the purpose of investment into real estate, was sold.
In October 2014 entity Polygon, company established for the purpose of investment into real estate, was sold.

Foreign currency translation

The consolidated financial statements are presented in Czech crowns. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, spot exchange rates quoted by the Czech National Bank are used. For Group entities with the euro as functional currency, these are the European Central Bank ('ECB') reference rates.

(i) Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement under the line item 'Net trading and fair value result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Translation of the statements of Group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Group's presentation currency, the Czech crown, at the rate of exchange as of the balance sheet date (closing rate). Their statements of comprehensive income are translated at average exchange rates calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement under the line item 'Other operating result'.

Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the statement of financial position and measured in accordance with their assigned categories.

The Group uses the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

IAS 39 categories of financial instruments are not necessarily the line items presented on the statement of financial position. Relationships between the statement of financial position line items and categories of financial instruments are described in the table at point (xii).

(i) Initial recognition

Financial instruments are initially recognised when The Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets stated at fair value are recognised at trade date and at settlement date for financial assets not stated at fair value. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

(ii) Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

(iii) Cash and cash balances

The Group considers cash and deposits with the CNB, treasury bills and treasury bonds with a residual maturity of three months or less and nostro and loro accounts with financial institutions to be cash equivalents.
Balances with central banks include only claims (deposits) against central banks which are repayable on demand. Repayable on demand means that it may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this position.

(iv) Derivative financial instruments

Derivatives used by The Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.
For presentation purposes derivatives are split into

- derivatives – held for trading; and
- derivatives – hedge accounting

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book are presented in this line item.

Changes in fair value (clean price) of derivatives – held for trading are recognised in the income statement in the line item 'Net trading and fair value result'.

Interest income/expense related to derivatives – held for trading is recognised in the income statement under the line item 'Net interest income' if held in the banking book or under the line item 'Net trading and fair value result' if held in the trading book.

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges fulfilling the conditions of IAS 39. In the balance sheet, they are presented in the line item 'Derivatives - hedge accounting' on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement in the line item 'Net trading and fair value result'.

Effective part of changes in fair value (dirty price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve'. Ineffective part of changes in fair value (clean price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading and fair value result'.

Interest income/expense related to derivatives in fair value hedges is recognised in the income statement in the line item 'Net interest income'. Interest income/expense from hedging derivatives in cash flow hedges is part of the dirty price measurement which is split into effective part and ineffective part as described above.

(v) Financial assets and financial liabilities - held for trading
Financial assets and financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed above in (iv).

Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the balance sheet, they are presented as 'Other trading assets' or 'Other trading liabilities' under the heading 'Financial assets / financial liabilities – held for trading'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the income statement under the line item 'Net trading and fair value result'. Interest income and expenses are reported in the income statement under the line item 'Net interest income'. Dividend income is shown under the line item 'Dividend income'.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Other trading liabilities'.

(vi) Financial assets or financial liabilities designated at fair value through profit or loss
Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

The Group uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio contains mostly items of Funds, Financials and Sovereigns.

Financial assets - designated at fair value through profit or loss are recorded on the balance sheet at fair value under the line item 'Financial assets - designated at fair value through profit or loss', with changes in fair value recognised in the income statement under the line item 'Net trading and fair value result'. Interest earned on debt instruments is reported under the line item 'Net interest income'. Dividend income on equity instruments is shown under the line item 'Dividend income'.

Furthermore, The Group uses the fair value option in case of some hybrid financial liabilities. This is relevant when:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk for financial liabilities designated at fair value through profit or loss is calculated by the method described by IFRS 7. This amount is the difference between the present value of the liability and the observed market price of the liability at the end of the period. The rate used for discounting the liability is the sum of the observed (benchmark) interest rate at the end of the period and the instrument-specific component of the internal rate of return determined at the start of the period.

Financial liabilities designated at fair value through profit or loss are reported in the balance sheet under the line item 'Financial liabilities designated at fair value through profit or loss' further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are recognised in the income statement under the line item 'Net trading and fair value result'. Interest incurred is reported under the line item 'Net interest income'.

(vii) Financial assets – available for sale
Available-for-sale financial assets include debt and equity securities as well as other interests in entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. On the statement of financial position, available-for-sale financial assets are disclosed under the line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income and reported in the 'Available for sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported in the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net' in case of sale or in the line item 'Net impairment loss on financial assets' in case of impairment.

Interest income on available-for-sale financial assets is reported under the line item 'Net interest income'. Dividend income is reported under the line item 'Dividend income'.

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost less impairment. This is the case when the range of reasonable fair value estimates as calculated by valuation models is significant and the probabilities of the various estimates cannot be reasonably assessed. There is no market for such investments.

(viii) Financial assets – held to maturity
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported on the balance sheet as 'Financial assets – held to maturity' if The Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement under the line item 'Net interest income'. Losses arising from impairment of such financial assets are presented as 'Net impairment loss on financial assets'. Occasional realised gains or losses from selling are recognised in the income statement under the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

(ix) Loans and receivables
The balance sheet line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these balance sheet line items.

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

- those that The Group intends to sell immediately or in the near term and those that The Group upon initial recognition designates as at fair value through profit or loss;
- those that The Group, upon initial recognition, designates as available for sale; or
- those for which The Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter 'Leasing'. Interest income earned is included under the line item 'Net interest income' in the income statement.

Impairment losses arising from loans and receivables are recognised in the income statement under the line item 'Net impairment loss on financial assets'.

(x) Financial liabilities measured at amortised cost
Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

For presentation in the balance sheet the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down by 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are reported in the line item 'Net interest income' in the income statement. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

(xi) 'Day 1' profit
Where the transaction price differs from the fair value derived from other observable transactions for the identical instrument in active market or derived using valuation techinique that has all significant inputs based on observable markets data, the Bank immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the income statement in line item 'Net trading and fair value result'.

(xii) Relationships between statement of financial position items, measurement methods and categories of financial instruments:

Statemt of financial position	Measurement principle			Financial instrument category
	Fair value	At amortised cost	Other	
Assets				
Cash and cash balances		x	Nominal value	n/a
Financial assets - held for trading				
Derivatives	x			Financial assets at fair value through profit or loss
Other trading assets	x			Financial assets at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets at fair value through profit or loss
Financial assets - available for sale	x			Available for sale financial assets
Financial assets - held to maturity		x		Held to maturity investments
Loans and receivables to credit institutions		x		Loans and receivables
Loans and receivables to customers		x		Loans and receivables
Derivatives - hedge accounting	x			n/a
Liabilities and equity				
Financial liabilities - held for trading				
Derivatives	x			Financial liabilities - at fair value through profit or loss
Other trading liabilities	x			Financial liabilities - at fair value through profit or loss
Financial liabilities - at fair value through profit or loss	x			Financial liabilities - at fair value through profit or loss
Financial liabilities measured at amortised cost		x		Financial liabilities measured at amortised cost
Derivatives - hedge accounting	x			n/a

Furthermore, two additional classes of financial instruments which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

Embedded derivatives

The Group, as part of its business, is confronted with debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host debt instruments if

- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- the embedded derivative meets the IAS 39 definition of derivative; and
- the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the statement of financial position under the line item 'Derivatives' in financial assets – held for trading.

At The Group, derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits that contain interest caps, floors or collars that were in the money at origination, contractual features linking payments to non-interest variables such as FX rates, equity and commodity prices and indices, or third-party credit risk.

Reclassifications of financial assets

IAS 39 provides various possibilities to reclassify financial assets between categories of financial instruments. It also places restrictions on some reclassifications. The Group makes use of reclassification alternatives only in the case of held-to-maturity financial assets. If a significant credit deterioration in a held-to-maturity financial asset results in a change in the intention and ability to hold the asset until maturity, the asset is reclassified into available-for-sale financial assets category. Such reclassifications are not included in the limit that triggers automatic reclassification of the entire held-to-maturity portfolio.

Derecognition of financial assets and financial liabilities

A financial asset (or where applicable part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset
- or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement;
- and either:
- it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
- has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as ‘repos’ or ‘sale and repurchase agreements’. Securities sold are not derecognised from the statement of financial position, as The Group retains substantially all the risks and rewards of ownership because the securities are repurchased when the repo transaction ends. Furthermore, The Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to The Group or are reflected in the repurchase price.

The corresponding cash received is recognised on the statement of financial position with a corresponding obligation to return it as a liability under the line item ‘Financial liabilities measured at amortised cost’, sub-items ‘Deposits from banks’ or ‘Deposits from customers’ reflecting the transaction’s economic substance as a loan to The Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item ‘Net interest income’ and is accrued over the life of the agreement. Financial assets transferred out by The Group under repurchase agreements remain on the Group’s statement of financial position and are measured according to the rules applicable to the respective statement of financial position item.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised on the statement of financial position. Such transactions are also known as ‘reverse repos’. The consideration paid is recorded on the statement of financial position under the respective line items ‘Loans and receivables to credit institutions’ or ‘Loans and receivables to customers’, reflecting the transaction’s economic substance as a loan by The Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item ‘Net interest income’.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by The Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, The Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lendings.

Securities borrowed are not recognised on the statement of financial position unless they are then sold to third parties. In this case, the obligation to return the securities is recorded as ‘Other trading liability’.

Impairment of financial assets and credit risk losses of contingent liabilities

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The Group uses the Capital requirements regulation (“CRR”) definition of default as a primary indicator of loss events. Default, as a loss event, occurs when

- the obligor is more than 90 days past due on any material credit obligation;
- as a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- the obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- the obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, the Group uses the incurred but not reported losses concept; indications of impairment are observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the Group at the moment of default. Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

(i) Financial assets carried at amortised cost
The Group first assesses individually for significant loans and held-to-maturity securities whether objective evidence of impairment exists. If no objective evidence of impairment exists for an individually assessed financial asset, The Group 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 an impairment loss 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 discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset also reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Impairment losses on financial assets carried at amortised cost are recognised as loss allowance. On the statement of financial position, loss allowances decrease the value of the assets. I.e. the net carrying amount of the financial asset presented in the statement of financial position is the difference between the gross carrying amount and the cumulative loss allowance. This treatment holds for all loss allowances for loans and receivables and for incurred but not reported losses (i.e. portfolio allowances) on held-to-maturity financial assets. Reconciliation of changes in these loss allowance accounts is disclosed in the notes. However, individual loss allowances for held to maturity financial assets are treated as direct reduction of the asset carrying amount and therefore reconciliation of changes is not disclosed in the notes.

In the income statement, impairment losses and their reversals are presented in the line item 'Net impairment loss on financial assets'.

Loans together with the associated allowance are removed from the statement of financial position when there is no realistic prospect of future recovery and all collaterals have been realised by The Group.

If in a subsequent year, the amount of the estimated impairment loss increases or decreases the previously recognised impairment loss is increased or reduced by adjusting the loss allowance.

(ii) Available-for-sale financial assets
In cases of debt instruments classified as available for sale, The Group assesses individually whether there is objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement. On recognising impairment, any amount of losses retained in the other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss under the line item 'Net impairment loss on financial assets'.

If, in a subsequent period, the fair value of a debt instrument increases, which can be related objectively to an event occurring after the impairment was recognized, impairmnet loss is reversed through the income statement under the line item 'Gains/losses' Impairment losses and their reversals are recognized directly against the assets on the statement of financial position.

In cases of equity investments classified as available for sale, objective evidence also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose at The Group, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline refers to a market price that is permanently below the acquisition cost for a period of nine months up to the reporting date.

Where there is evidence of impairment on equity investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is shown as an impairment loss in the income statement under the line item 'Net impairment loss on financial assets'. Any amount of losses previously recognised under the other comprehensive income item 'Available for sale reserve' has to be reclassified to the income statement as part of an impairment loss under the line item 'Net impairment loss on financial assets'.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets on the statement of financial position.

For investment in unquoted equity instruments carried at cost because their fair value cannot be determined reliably the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Contingent liabilities
Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included under the statement of financial position line item 'Provisions'. The related expense or its reversal is reported in the income statement under the line item 'Other operating result'.

Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of a hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by The Group are specified internally in hedge policy.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item 'Net trading and fair value result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading and fair value result' and adjusts the carrying amount of the hedged item.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised to the income statement under the line item 'Net interest income' until maturity of the financial instrument.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item 'Net trading and fair value result'. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly 'Net interest income'). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Determination of fair value

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

Details on valuation techniques applied for fair value measurement and on fair value hierarchy are disclosed in Note 40 Fair value of assets and liabilities.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease at The Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at The Group are classified as operating leases.

The Group as a lessor

The lessor in the case of a finance lease reports a receivable from the lessee under the line item 'Loans and receivables to customers' or 'Loans and receivables to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement under the line item 'Net interest income'.

In the case of operating leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement under the line item 'Rental income from investment properties & other operating leases'.

Lease agreements in which The Group is the lessor almost exclusively comprise finance leases.

The Group as a lessee
As a lessee, The Group has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the income statement on the line item ‘Other administrative expenses’ on a straight-line basis over the lease term.

Business combinations and goodwill
(i) Business combinations
Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement under the line item ‘Other operating result’ in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree’s identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the income statement line item ‘Other operating result’.

(ii) Goodwill and goodwill impairment testing
Goodwill arising on acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and unamortised intangible assets recognised for the CGU at the time of business combination.

The recoverable amount is the higher of a CGU’s fair value less costs of disposal and its value in use. Where available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU.

The cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement under the line item ‘Other operating result’. The impairment loss is allocated first to write down the CGU’s goodwill. Any remaining impairment loss reduces the carrying amount of the CGU’s other assets, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Property and equipment
Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item ‘Depreciation and amortisation’ and impairment under the line item ‘Other operating result’.

The estimated useful lives are as follows:

	Useful life in years
Buildings	15-50
Office furniture and equipment	4-10
Passenger cars	4-8
Computer hardware	4-6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item ‘Other operating result’.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented in the statement of financial position in the line item ‘Investment properties’.

Rental income is recognised in the line ‘Rental income from investment properties and other operating leases’. Depreciation is presented in the income statement in the line item ‘Depreciation and amortisation’ using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised under the income statement line item ‘Other operating result’.

Property Held for Sale (Inventory)

The Group also invests in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. This property is presented as ‘Other assets’ and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.

The cost of acquiring inventory includes not only the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised to the extent to which they directly relate to the acquisition of real estate.

Sales of these assets are recognised as revenues under the income statement line item ‘Other operating result’, together with costs of sales and other costs incurred in selling the assets.

Intangible assets

In addition to goodwill, The Group’s intangible assets include computer software and customer relationships, the brand, the distribution network and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Costs of internally generated software are capitalised if The Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the case of The Group, these are brands, customer relationships and distribution networks, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Computer software	4-8
Customer relationships	10-20
Distribution network	5.5

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within the cash-generating unit to which they belong, and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the income statement under the line item 'Other operating result'.

Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.

If any indication of impairment 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 the asset's or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

Financial guarantees

In the ordinary course of business, The Group provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39, a financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If The Group is in a position of being a guarantee holder, the financial guarantee is not recorded on the statement of financial position but is taken into consideration as collateral when determining impairment of the guaranteed asset.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. If no premium is received at contract inception, the fair value of a financial guarantee is nil, as this is the price that would be paid to transfer the liability in an orderly transaction between market participants. Subsequent to initial recognition, the financial guarantee contract is reviewed for the possibility that provisioning will be required under IAS 37. Such provisions are presented in the statement of financial position under the line 'Provisions'.

The premium received is recognised in the income statement under the line item 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. On the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions are reported under the line item 'Other operating result'.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Share capital

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.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of The Group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by The Group’s shareholders.

Recognition of income and expenses

Revenue is recognised to the extent that the economic benefits will flow to the entity and the revenue can be reliably measured. The description and revenue recognition criteria of the line items reported in the income statement are as follows:

(i) Net interest income

Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all financial liabilities categories.

In net interest income also interest on derivative financial instruments held in the banking book is included.

(ii) Net fee and commission income

The Group earns fee and commission income from a diverse range of services that it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

(iii) Dividend income

Dividend income is recognised when the right to receive the payment is established. This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale.

(iv) Net trading and fair value result
Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, for derivative financial instruments held in the trading book, net trading result also contains interest income or expense. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of net trading result as they are reported as 'Net interest income'. It also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses.

Fair value result relates to changes in the clean price of assets and liabilities designated at fair value through profit or loss.

(v) Rental income from investment properties & other operating leases
Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

(vi) Personnel expenses
Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies.

(vii) Other administrative expenses
Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses.

(ix) Depreciation and amortisation
This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

(x) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net
This line item includes selling and other derecognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of net impairment loss.

(xi) Net impairment loss on financial assets not measured at fair value through profit or loss
Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the statement of financial position.

(xii) Other operating result
Other operating result reflects all other income and expenses not directly attributable to The Group's ordinary activities. Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. Also included here are any impairment losses on goodwill.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

c) Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

Control
IFRS 10 "Consolidated Financial Statements" (adopted by The Group starting with 1 January 2014) defines investor's control over an investee in terms of the investor having all of the following: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as: (1) power stemming both from voting rights and from contractual arrangements (or mostly from the latter); (2) exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or (3) variable returns stemming from both readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter) .

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 40 Fair value of assets and liabilities.

Impairment of financial assets
The Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.

Disclosures concerning impairment are provided in Note 38 Risk management in the 'Credit risk' subsection '. The development of loan loss provisions is described in Note 8 Net impairment loss on financial assets not measured at fair value through profit or loss

Impairment of non-financial assets
The Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss that should be recorded in the income statement. Furthermore, cash-generating units to which goodwill is allocated are tested for impairment on a annual basis. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial assets calculations are described in the parts 'Business combinations and goodwill' and 'Impairment of non-financial assets (property and equipment, investment property, intangible assets)' in the Accounting Policies.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. 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. Disclosures concerning deferred taxes are in Note 25 Tax assets and liabilities.

Provisions
Recognition of provisions requires judgement with respect to whether The Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Provisions are disclosed in Note 30 Provisions and further details on provisions for contingent credit liabilities in Note 38.2 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 43 Contingent assets and liabilities.

Leases
From The Group's perspective as a lessor, judgement is required to distinguish whether a given lease is a finance or operating lease based on the transfer of substantially all the risk and rewards from the lessor to the lessee. Disclosures concerning leases are in Note 34 Leases.

d) Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2015. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective standards and interpretations
The following standards and their amendments have been mandatory since 2015, endorsed by EU:

- *Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycle*

In December 2013, the IASB issued two sets of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 July 2014. but in EU for annual periods beginning on or after 1 January 2015.
Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Application of other standards and amendments had no material effect on the financial statements of the Group.
Standards and interpretations not yet effective
The standards and interpretations shown below were issued by the IASB but are not yet effective.

Thereof, the following standards have been endorsed by the EU:

- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations*
- *Amendments to IAS 1: Disclosure Initiative*
- *Annual Improvements to IFRSs 2012-2014 Cycle*
- *Amendment to IAS 27 Separate Financial Statements*

Although they have been endorsed by the EU, the Group decided not to apply them before they become effective.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 38 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016.

The amendments prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (IASB Effective Date: 1 January 2016)
Amendments to IFRS 11 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments specify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 1: Disclosure Initiative (IASB effective date: 1 January 2016)
Disclosure Initiative (Amendments to IAS 1) makes the following changes:

_Materiality
The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

_Statement of financial position and statement of profit or loss and other comprehensive income
The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

_Notes
The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

These changes and clarifications are not expected to trigger significant changes in the presentation of Erste Group's IFRS consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle (IASB effective date: 1 January 2016)
In September 2014, the IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 January 2016.

Application of these amendments is not expected to have a significant impact on the Group's financial statements.

Amendments to IAS 27 Separate Financial Statements

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors.
Application of these amendment is not expected to have a significant impact on the Group's financial statements.

The standards and interpretations shown below were issued by the IASB but are not yet endorsed by EU.

IFRS 9: Financial Instruments
IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018.

IFRS addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement a fair value through other comprehensive income is applicable to financial assets which meet the condition a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income.

The standard brings uniform impairment model applied both to financial assets and off balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised to the extent of 12-month expected losses. Lifetime expected losses will be recognised for all instrument whose credit risk increases subsequently after initial recognition. Furthermore the standard brings new rules for accounting for losses resulting from modification of contractual conditions of financial assets.

The objective of the new hedge accounting model is to reflect in accounting actual risk management practices of entities hedging risks. For the Group, the following areas are expected to be relevant to achieve this objective: only the prospective effectiveness test is required and the retrospective effectiveness test with the 80%-125% corridor was abandoned; when options are used as hedging instruments, the volatility of the time value is recognised through OCI rather than profit or loss; the possibility of hedging synthetic items containing derivatives.

During the year 2015, the Group proceeded with the development of master business concepts and business requirements documentation addressing the changes in policies, procedures, processes and systems, assessed as necessary in preparation for transition to IFRS 9 on 1 January 2018. As part of this effort, iterative financial impact studies (notably with regards to classification/measurement and impairment of financial assets) were started and are planned to continue throughout 2016, along with gradually moving from the concept phase to the implementation phase of the documented business requirements.

On this basis, the Group upholds its original expectations that this standard will have a significant effect on balance sheet items and measurement methods for financial instruments. Thus, in the area of classification and measurement, the Group identified a risk that part of its loan portfolio will have to be re-measured at fair value through profit or loss, due to the contractual cash flow characteristics. In the same time, this risk is already actively managed, notably by mitigation activities which have been planned and partly started , in respect of the lending products assessed as being at risk of such re-measurement. On the other hand, some debt securities currently measured at fair value through other comprehensive income may be measured at amortised cost due to the ’held-to-collect contractual cash’ flows business model applied to them. In the area of impairment loss, allowances are expected to increase more than insignificantly for some non-defaulted exposures. Also, the Group expects that the structure of the financial statements (both main components and explanatory notes) will be have to be adapted, notably in the light of the new reporting and disclosure requirements of IFRS7, as triggered by IFRS9. Such adaptions would also consider any new regulatory reporting requirements (notably FINREP related) which EU or national regulators may contemplate as part of preparing for initial application of IFRS 9 at the level of the wider European and national banking sector. .

IFRS 9 provides an accounting policy in the area of hedge accounting. Entities can either continue to apply the hedge accounting requirements of IAS 39 until the macro hedging project is finalized, or can apply IFRS 9 (with the scope exception only for fair value macro hedges of interest rate risk). The Group plans to continue to apply IAS 39 until the macro hedging project is finalized

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2017.

IFRS 15 specifies how and when an entity will recognise revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.
As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on the Group’s financial statements.

IFRS 16 Leases (IASB Effective Date: 1 January 2019)
In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side of the balance sheet as well as a corresponding lease liability on the credit side of the balance sheet except for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.
The impact on the Group’s financial statements will be evaluated.

C. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF ČESKÁ SPOŘITELNA, A.S.

1. Net interest income

in CZK million	2015	2014
Interest income		
Financial assets held for trading	254	102
Financial assets designated at fair value through profit or loss	12	43
Available-for-sale financial assets	688	648
Loans and receivables	23,030	24,889
Held-to-maturity investments	4,907	5,114
Derivatives - Hedge accounting, interest rate risk	74	31
Other assets	9	6
Total interest income	**28,974**	**30,833**
Interest expenses		
Financial liabilities held for trading	(212)	(32)
Financial liabilities measured at amortised cost	(3,203)	(4,481)
Derivatives - Hedge accounting, interest rate risk	305	353
Total interest expenses	**(3,110)**	**(4,160)**
Net interest income	**25,864**	**26,673**

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to CZK 28,708 million (2014: CZK 30,688 million) and the total interest expense to CZK (2,898) million (2014: CZK (4,128) million). Net interest income for these items is therefore CZK 25,810 million (2014: CZK 26,560 million).

Interest income on impaired financial assets accrued amounted to CZK 417 million (2014: CZK 517 million).

2. Net fee and commission income

in CZK million	2015	2014
Securities	1,054	884
Clearing and settlement	248	302
Asset management	513	516
Custody	214	103
Payment services	5,344	5,973
Customer resources distributed but not managed	830	977
Lending business	1,985	2,792
Other	66	(241)
Net fee and commission income	**10,254**	**11,306**

3. Dividend income

in CZK million	2015	2014
Financial assets - designated at fair value through profit or loss	32	11
Financial assets – available for sale	38	39
Dividend income	**70**	**50**

4. Net trading and fair value result

in CZK million	2015	2014
Net trading result	**2,938**	2,344
Securities and derivatives trading	1,977	1,436
Foreign exchange transactions	961	908
Result from financial assets and liabilities designated at fair value through profit or loss	**(146)**	(71)
Result from measurement/sale of financial assets designated at fair value through profit or loss	(55)	71
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(91)	(142)
Gains or losses from hedge accounting	**31**	14
Net trading and fair value result	**2,823**	**2,287**

With effect from 4 February 2008, Česká spořitelna transferred its financial markets trading to make use of Erste Group Bank's business model. The market risk arising from the sales activities of the Financial Markets Division (i.e., transactions with retail and corporate clientele), with the exception of equity risk and transactions for the Erste Group's liquidity management purposes (money market), was transferred to Erste Group Bank using back-to-back transactions. Trading gains (i.e. from The Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Group and reported in the 'Net trading result'.

The basic principle underlying these rules involves Erste Group Bank absorbing potential loss in individual classes of assets in exchange for the risk premium derived from the Value at Risk ('VaR') indicator. The remaining positive result after deducting expenses (calculated using the Cost Income Ratio) is reallocated to individual participants in the model based on the results from the sale of assets in individual asset groups.

The net trading result includes the income from the market positions of Erste Group Bank structured as follows:

in CZK million	2015	2014
Realised and unrealised gains on trading assets	440	528
Derivative instruments	10	9
Foreign exchange trading	262	254
Total	**712**	**791**

5. Rental income from investment properties & other operating leases

in CZK million	2015	2014
Investment properties	639	760
Other operating leases	93	63
Rental income from investment properties & other operating leases	**732**	**823**

6. General administrative expenses

in CZK million	2015	2014
Personnel expenses	**(8,804)**	**(8,632)**
Wages and salaries	(6,292)	(6,228)
Compulsory social security	(1,974)	(1,929)
Other personnel expenses	(538)	(475)
Other administrative expenses	**(7,628)**	**(7,331)**
Deposit insurance contribution	(1,011)	(936)
IT expenses	(2,501)	(2,298)
Expenses for office space	(1,443)	(1,400)
Office operating expenses	(807)	(834)
Advertising / marketing	(941)	(848)
Legal and consulting costs	(349)	(382)
Sundry administrative expenses	(576)	(633)
Depreciation and amortization	**(2,154)**	**(2,271)**
Software and other intangible assets	(828)	(824)
Owner occupied real estate	(683)	(662)
Investment property	(184)	(213)
Office furniture and equipment and sundry property and equipment	(459)	(572)
General administrative expenses	**(18,586)**	**(18,234)**

Board of Directors and Supervisory Board Remuneration

in CZK million	2015	2014
Remuneration	88	68

Remuneration to the members of the Board of Directors and Supervisory Board is accounted for as short - term employee benefits.

Average headcount of full time employees per reporting date

	2015	2014
Staff	10,501	10,504

7. Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

in CZK million	2015	2014
From sale of financial assets available for sale	279	78
From sale of financial assets held to maturity	45	87
From repurchase of liabilities measured at amortised cost	125	(19)
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	**449**	**146**

8. Net impairment loss on financial assets not measured at fair value through profit or loss

in CZK million	2015	2014
Financial assets - measured at cost	-	-
Financial assets – available for sale	-	-
Loans and receivables	(2,651)	(3,732)
Allocation to risk provisions	(5,494)	(6,561)
Release of risk provisions	2,541	2,546
Direct write-offs	(144)	(79)
Recoveries recorded directly to the income statement	446	362
Financial assets - held to maturity	3	4
Net impairment loss on financial assets not measured at fair value through profit or loss	**(2,648)**	**(3,728)**

9. Other operating result

in CZK million	2015	2014
Result from properties/moveables/other intangible assets other than goodwill	(388)	(249)
Allocation to/release of other provision	(20)	(35)
Allocation to/release of provisions for commitments and guarantees given	(158)	100
Other taxes	-	(82)
Result from other operating expenses/income	(452)	(337)
Other operating result	**(1,018)**	**(603)**

10. Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in CZK million	2015	2014
Current tax expense	(3,774)	(3,624)
current period	(3,722)	(3,560)
prior period	(52)	(64)
Deferred tax expense / income	129	(26)
current period	129	(29)
prior period	-	3
Total	**(3,645)**	**(3,650)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss. multiplied by the nominal tax rate.

in CZK million	2015	2014
Pre-tax profit/loss	17,940	18,720
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,409)	(3,557)
Non-taxable income	231	536
Non-deductible expenses	(361)	(464)
Other	(54)	(104)
Prior period over/(under) accrual	(52)	(61)
Total	**(3,645)**	**(3,650)**
Effective tax rate	**20.32%**	**19.50%**

Tax effects relating to each component of other comprehensive income:

	2015			2014		
in CZK million	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
Available for sale-reserve	1,511	(288)	1,223	1,331	(287)	1,044
Unrealized profits / (losses) on revaluation	1,790	(341)	1,449	1,409	(318)	1,091
Reclassification adjustments to the income statement	(279)	53	(226)	(78)	31	(47)
Cash flow hedge-reserve	2	-	2	149	(28)	121
Gains and losses on the hedging instruments	2	-	2	149	(28)	121
Other comprehensive income	**1,513**	**(288)**	**1,225**	**1,480**	**(315)**	**1,165**

11. Appropriation of profit

Management of the Group has proposed that total dividends of CZK 12,798 million be declared in respect of the profit for the year ended 31 December 2015, which represents 84,2 CZK per both ordinary and preference share (2014: CZK 11,400 million, that is, CZK 75 per both ordinary and preference share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15% or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an European Union member country and whose interest in a subsidiary's share capital is no less than 10% and that hold the entity's shares for at least one year are not subject to withholding tax.

Management of the Group proposed that AT1 (see Note 32 Total equity for descripirition of AT1) distribution would be CZK 659 million from total nominal value of EUR 300 million. Management of the Group proposed futher starting 2016 to transfer the whole balance of the Bank's Legal and statutory reserve in amount of CZK 3,040 into Retained earnings. Both AT1 distribution and transfer of the Bank's Legal and statutory reserve are subject to the approval of the Annual General Meeting.

12. Cash and cash balances

in CZK million	2015	2014
Cash on hand	23,777	21,814
Cash balances at central banks	82,999	27,110
Other demand deposits	4,251	5,565
Cash and cash balances	**111,027**	**54,489**

A portion of 'Balances with central banks' includes mandatory reserve deposits in amount of CZK 10,141 million (2014: CZK 13,047 million). Mandatory reserve deposits accrue interest at the CNB's two week repo rate. The Group is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulations.

Cash and cash equivalents

in CZK million	2015	2014
Cash on hand	23,777	21,814
Nostro accounts at central banks	72,858	14,062
Treasury bills and treasury bonds with maturity of less than three months	4,301	9,910
Nostro accounts with financial institutions	3,300	2,258
Loro accounts with financial institutions	(11,958)	(15,276)
Total cash and cash equivalents	**92,278**	**32,768**

13. Derivatives – held for trading

	2015			2014		
in CZK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book						
Interest rate	315,224	9,927	(9,840)	311,185	13,899	12,668
Equity	3,552	65	(10)	7,318	235	13
Foreign Exchange	187,909	2,123	(2,177)	256,930	4,338	7,650
Credit	324	1	(1)	333	3	3
Commodity	2,654	161	(246)	4,675	265	320
Other	-	-	-	-	-	-
Total	**509,663**	**12,277**	**(12,274)**	**580,441**	**18,740**	**20,654**
Derivatives held in the banking book						
Interest rate	9,818	1 073	(23)	-	-	-
Equity	-	-	-	-	-	-
Foreign exchange	44,343	645	(2,647)	-	-	-
Credit	-	-	-	-	-	-
Commodity	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**54,161**	**1,718**	**(2,670)**	-	-	-

In 2015 the Group transferred portfolio of macro-hedge derivatives (economic hedge) hedging the interest rates of banking book's positions from the trading into the banking book.

14. Other trading assets

in CZK million	2015	2014
Equity instruments	11	1
Debt securities	619	3,144
General governments	120	2,360
Credit institutions	499	784
Loans and advances	100	1,346
Other trading assets	**730**	**4,491**

Money-market intruments classified as trading assets amounted to CZK 100 million (2014: CZK 1,346 million).

15. Financial assets designated at fair value through profit and loss

in CZK million	2015	2014
Equity instruments	570	898
Debt securities	337	374
General governments	17	30
Credit institutions	320	344
Financial assets - at fair value through profit and loss	**907**	**1,272**

16. Financial assets – available for sale

in CZK million	2015	2014
Equity instruments	2,222	802
Debt securities	75,831	98,487
General governments	64,068	89,300
Credit institutions	6,443	6,644
Other financial corporations	270	278
Non-financial corporations	5,050	2,265
Financial assets – available for sale	**78,053**	**99,289**

Equity intruments classified as available for sale amounted to CZK 2,222 million CZK (2014: 802 million CZK). Equity instruments consist of stocks and other equity instruments.

In November 2015 Visa Inc. announced its intention to acquire Visa Europe Ltd. in a deal valued at as much as 21.2 billion euros. The transaction price includes 16.5 billion euros upfront and as much as 4.7 billion euros more after the fourth anniversary of the deal's completion. Based on this information mentioned above was equity instrument revalued as of 31 December 2015.

17. Financial assets – held to maturity

	Gross carrying amount		Collective allowances		Net carrying amount	
in CZK million	2015	2014	2015	2014	2015	2014
General governments	148,370	138,121	-	(5)	**148,370**	**138,116**
Credit institutions	11,108	11,856	(3)	(1)	**11,105**	**11,855**
Other financial corporations	852	472	(1)	-	**851**	**472**
Non-financial corporations	664	1,073	(2)	(3)	**662**	**1,070**
Financial assets – held to maturity	**160,994**	**151,522**	**(6)**	**(9)**	**160,988**	**151,513**

18. Securities

	Loans and advances to customers and credit institutions		Trading assets		Financial assets: At fair value through profit or loss		Financial assets: Available for sale		Financial assets: Held to maturity		Total	
in CZK million	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Bonds and other interest-bearing securities	**2,285**	**1,698**	**619**	**3,144**	**336**	**374**	**75,830**	**98,487**	**160,988**	**151,513**	**240,058**	**255,216**
Listed	-	-	79	2,269	17	33	65,559	63,755	146,698	135,300	**212,353**	**201,357**
Unlisted	2,285	1 698	540	875	319	341	10,271	34,732	14,290	16,213	**27,705**	**53,859**
Equity-related securities	**-**	**-**	**11**	**1**	**571**	**898**	**2,126**	**705**	**-**	**-**	**2,708**	**1,604**
Listed	-	-	11	1	481	790	502	-	-	-	**994**	**791**
Unlisted	-	-	-	-	90	108	1,624	705	-	-	**1,714**	**813**
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**97**	**97**	**-**	**-**	**97**	**97**
Total	2,285	1,698	630	3,145	907	1,272	78,053	99,289	160,988	151,513	**242,863**	**256,917**

Investment funds are disclosed within equity-related securities.

Held-to-maturity financial assets include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity. Securities lending and repurchase transactions are disclosed in Note 36 Transfers of financial assets – repurchase transactions and securities lending.

19. Loans and receivables to credit institutions

Loans and receivables to credit institutions

in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 December 2015				
Debt securities	1,731	-	(9)	1,722
Credit institutions	1,731	-	(9)	1,722
Loans and receivables	33,000	(1)	(4)	32,995
Credit institutions	33,000	(1)	(4)	32,995
Total	**34,731**	**(1)**	**(13)**	**34,717**

Loans and receivables to credit institutions

in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 December 2014				
Debt securities	1,356	-	(7)	1,349
Credit institutions	1,356	-	(7)	1,349
Loans and receivables	37,186	(1)	(1)	37,184
Credit institutions	37,186	(1)	(1)	37,184
Total	**38,542**	**(1)**	**(8)**	**38,533**

As at 31 December 2015, the Group granted certain financial institutions loans of CZK 560 million (2014: CZK 817 million) under reverse repurchase transactions which were collateralised by securities amounting to 655 CZK million (2014: CZK 901million).

Allowances for loans and receivables to credit institutions

in CZK million	As of	Alloca-tions	Release	Transfer between allowances	As of
	Dec 14				Dec 15
Specific allowances	**(1)**	**(3)**	**4**	**(1)**	**(1)**
Loans and receivables	(1)	(3)	4	(1)	(1)
Credit institutions	(1)	(3)	4	(1)	(1)
Collective allowances	**(8)**	**(9)**	**4**	**-**	**(13)**
Debt securities	(7)	(2)	-	-	(9)
Credit institutions	(7)	(2)	-	-	(9)
Loans and receivables	(1)	(7)	4	-	(4)
Credit institutions	(1)	(7)	4	-	(4)
Total	**(9)**	**(12)**	**8**	**(1)**	**(14)**

in CZK million	As of	Alloca-tions	Release	Transfer between allowances	As of
	Dec 13				Dec 14
Specific allowances	**(31)**	**(70)**	**89**	**11**	**(1)**
Loans and receivables	(31)	(70)	89	11	(1)
Credit institutions	(31)	(70)	89	11	(1)
Collective allowances	**-**	**(11)**	**14**	**(11)**	(8)
Debt securities	-	(7)	-	-	**(7)**
Credit institutions	-	(7)	-	-	(7)
Loans and receivables	-	(4)	14	(11)	(1)
Credit institutions	-	(4)	14	(11)	(1)
Total	**(31)**	**(81)**	**103**	**-**	**(9)**

20. Loans and receivables to customers

Loans and receivables to customers

in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 December 2015				
Debt securities with customers	565	-	(2)	563
Non-financial corporations	565	-	(2)	563
Loans and receivables to customers	548,271	(14,307)	(2,003)	531,961
General governments	19,934	(1)	(1)	19,932
Other financial corporations	11,846	(127)	(17)	11,702
Non-financial corporations	204,971	(6,874)	(1,254)	196,843
Households	311,520	(7,305)	(731)	303,484
Total	**548,836**	**(14,307)**	**(2,005)**	**532,524**

in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 December 2014				
Debt securities with customers	342	**-**	**-**	**342**
Non-financial corporations	342	-	-	**342**
Loans and receivables to customers	517,847	(16,366)	(1,784)	**499,697**
General governments	20,418	(4)	(1)	**20,413**
Other financial corporations	17,231	(132)	(32)	**17,067**
Non-financial corporations	184,489	(6,771)	(1,174)	**176,544**
Households	295,709	(9,459)	(577)	**285,673**
Total	**518,189**	**(16,366)**	**(1,784)**	**500,039**

Allowances for loans and receivables to customers

in CZK million	As of	Alloca-tions	Use	Release	Interest income from impaired loans	Transfer between allowan-ces	Exchan-ge rate and other changes (+/-)	As of	Amounts written off	Recove-ries of amounts previous-ly written off
	Dec 14							Dec 15		
Specific allowances	**(16,366)**	**(4,634)**	**4,703**	**1,882**	**419**	**(342)**	**31**	**(14,307)**	**(144)**	**446**
Loans and receivables to customers	(16,366)	(4,634)	4,703	1,882	419	(342)	31	(14,307)	(144)	446
General governments	(2)	(8)	-	9	-	-	-	(1)	-	-
Other financial corporations	(131)	(8)	-	12	-	-	-	(127)	-	-
Non-financial corporations	(6,776)	(2,413)	1,480	957	185	(338)	31	(6,874)	(42)	245
Households	(9,457)	(2,205)	3,223	904	234	(4)	-	(7,305)	(102)	201
Collective allowances	**(1,784)**	**(848)**	**-**	**651**	**-**	**(25)**	**3**	**(2,005)**	**-**	**-**
Debt securities with customers	-	(2)	-	-	-	-	-	(2)	-	-
Non-financial corporations	-	(2)	-	-	-	-	-	(2)	-	-
Loans and receivables to customeres	(1,784)	(848)	-	651	-	(25)	3	(2,003)	-	-
General governments	(1)	(1)	-	1	-	-	-	(1)	-	-
Other financial corporations	(32)	(40)	-	55	-	-	-	(17)	-	-
Non-financial corporations	(1,175)	(576)	-	519	-	(25)	3	(1,254)	-	-
Households	(576)	(231)	-	76	-	-	-	(731)	-	-
Total	**(18,150)**	**(5,482)**	**4,703**	**2,533**	**419**	**(367)**	**34**	**(16,312)**	**(144)**	**446**

in CZK million	As of	Alloca-tions	Use	Release	Interest income from impaired loans	Transfer between allowan-ces	Exchan-ge rate and other changes (+/-)	As of	Amounts written off	Recove-ries of amounts previous-ly written off
	Dec 13							Dec 14		
Specific allowances	**(16,857)**	**(5,752)**	**3,976**	**1,795**	**517**	**(31)**	**(14)**	**(16,366)**	**(79)**	**362**
Loans and receivables to customers	(16,857)	(5,752)	3,976	1,795	517	(31)	(14)	(16,366)	(79)	362
General governments	(19)	(5)	-	22	-	-	-	(2)	-	-
Other financial corporations	-	(13)	-	5	-	(123)	-	(131)	-	-
Non-financial corporations	(7,598)	(2,698)	2,121	1,018	183	212	(14)	(6,776)	(35)	206
Households	(9,240)	(3,036)	1,855	750	334	(120)		(9,457)	(44)	156
Collective allowances	**(1,432)**	**(728)**	**-**	**648**	**-**	**(267)**	**(5)**	**(1,784)**	**-**	**-**
Loans and receivables to customeres	(1,432)	(728)	-	648	-	(267)	(5)	(1,784)	-	-
General governments	-	-	-	-	-	(1)	-	(1)	-	-
Other financial corporations	-	(6)	-	15	-	(41)	-	(32)	-	-
Non-financial corporations	(879)	(587)	-	506	-	(210)	(5)	(1,175)	-	-
Households	(553)	(135)	-	127	-	(15)	-	(576)	-	-
Total	**(18,289)**	**(6,480)**	**3,976**	**2,443**	**517**	**(298)**	**(19)**	**(18,150)**	**(79)**	**362**

21. Derivatives – hedge accounting

in CZK million	As of 31 December 2015			As of 31 December 2014		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**8,000**	**342**	**(6)**	**12,071**	**670**	**22**
Interest rate	8,000	342	(6)	12,071	670	22
Foreign exchange	-	-	-	-	-	-
Cash flow hedge	**29,806**	**321**	**(490)**	**7,550**	**208**	**3**
Interest rate	21,137	321	(97)	7,550	208	3
Foreign exchange	8,669	0	(393)			
Hedge of net investments in a foreign operation				**1,178**	**-**	**144**
Total	**37,806**	**663**	**(496)**	**20,799**	**878**	**169**

22. Unconsolidated structured entities

in CZK million	2015	2014
Carrying amount of assets	570	898
Carrying amount of financial liabilities	-	526
Notional amount off-balance sheet items given	-	36
Fair value of liquidity support drawn	38	-

The Group is involved as an investor in a number of unconsolidated public or private investment funds registered in Czech Republic or other foreign jurisdictions. Some of these funds are managed by asset management subsidiaries of the Group,but the Group is not a significant investor in these funds. The interests of the Group in these funds mostly take the form of redeemable fund unit investments measured at fair value on the Group's balance-sheet, and are classified as either available for sale or held for trading equity instruments.

23. Property, equipment and other assets

A) AT COST

	Property and equipment - Acquisition and production costs				
in CZK million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2014	**21,059**	**4,858**	**2,853**	**28,770**	**12,532**
Additions in current year (+)	543	260	154	957	12
Disposals (-)	(562)	(318)	(594)	(1,474)	(1,033)
Reclassification (+/-)	-	(28)	28	-	-
Exchange-rate fluctulations (+/-)	-	-	-	-	22
Balance as of 31 Dec 2014	**21,040**	**4,772**	**2,441**	**28,253**	**11,533**
Additions in current year (+)	520	215	91	826	22
Disposals (-)	(659)	(309)	(567)	(1,535)	(3,209)
Reclassification (+/-)	(10)	(13)	6	(17)	-
Exchange-rate fluctuations (+/-)	-	-	-	-	(11)
Balance as of 31 Dec 2015	**20,891**	**4,665**	**1,971**	**27,527**	**8,335**

B) ACCUMULATED DEPRECIATION

	Property and equipment - Accumulated depreciation				
in CZK million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2014	**(8,724)**	**(3,454)**	**(2,426)**	**(14,604)**	**(4,202)**
Depreciation (-)	(662)	(345)	(227)	(1,234)	(213)
Disposals (+)	340	301	593	1,234	309
Impairment (-)	(180)	(1)	(40)	(221)	(188)
Reversal of impairment (+)	-	3	-	3	100
Reclassification (+/-)	-	(39)	39	-	-
Exchange-rate fluctulations (+/-)	-	-	-	-	3
Balance as of 31 Dec 2014	**(9,226)**	**(3,535)**	**(2,061)**	**(14,822)**	**(4,191)**
Depreciation (-)	(683)	(306)	(153)	(1,142)	(184)
Disposals (+)	512	299	580	1,391	995
Impairment (-)	(651)	-	-	(651)	(30)
Reversal of impairment (+)	1	-	-	1	6
Reclassification (+/-)	2	8	4	14	-
Exchange-rate fluctuations (+/-)	-	-	-	-	18
Balance as of 31 Dec 2015	**(10,045)**	**(3,534)**	**(1,630)**	**(15,209)**	**(3,386)**

C) CARRYING AMOUNTS

	Property and equipment				
in CZK million	Land and buildings (used by the Group)	Office and plant equipment/other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2014	**12,335**	**1,404**	**427**	**14,166**	**8,330**
Balance as of 31 Dec 2014	**11,814**	**1,237**	**380**	**13,431**	**7,342**
Balance as of 31 Dec 2015	**10,846**	**1,131**	**341**	**12,318**	**4,949**

Carrying amount of investment properties includes investment properties under operating leases in amount of CZK 1 million (2014: CZK 1 million).

In 2015, rental income arising from investment property amounted to CZK 639 million (2014: CZK 760 million), see Note 5. Operating expenses related to investment property amounted to CZK 184 million (2014: CZK 213 million).

As at 31 December 2015, the fair value of investment property amounted to CZK 4,297 million (2014: CZK 7,429 million). Collateral held for investment property financing amounted to CZK 1,283 million in 2015(2014: CZK 2,448 million).

The balances as at 31 December 2015 shown above include CZK 636 million (2014: CZK 588 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 5,129 million as at 31 December 2015(2014: CZK 5,266 million).

24. Intangible assets

A) AT COST

	Acquisition and production costs			
in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2014	**43**	**9,496**	**6,272**	**15,811**
Additions in current year (+)	-	1,054	96	1,150
Disposals (-)	-	(223)	(109)	(332)
Reclassification (+/-)	-	105	(105)	-
Balance as of 31 Dec 2014	**43**	**10,432**	**6,154**	**16,629**
Additions in current year (+)	-	1,117	66	1,183
Disposals (-)	-	(143)	(529)	(672)
Reclassification (+/-)	-	41	(27)	14
Balance as of 31 Dec 2015	**43**	**11,447**	**5,664**	**17,154**

B) AMORTISATION

	Amortisation			
in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2014	**(9)**	**(6,706)**	**(5,763)**	**(12,478)**
Amortisation charge (-)	-	(714)	(110)	(824)
Disposals (+)	-	191	105	296
Impairment (-)	-	(19)	(11)	(30)
Balance as of 31 Dec 2014	**(9)**	**(7,248)**	**(5,779)**	**(13,036)**
Amortisation charge (-)	-	(732)	(96)	(828)
Disposals (+)	-	160	529	689
Impairment (-)	-	(3)	(1)	(4)
Reclassification (+/-)	**-**	(8)	(1)	(9)
Balance as of 31 Dec 2015	**(9)**	**(7,831)**	**(5,348)**	**(13,188)**

C) CARRYING AMOUNTS

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2014	**34**	**2,790**	**509**	**3,333**
Balance as of 31 Dec 2014	**34**	**3,184**	**375**	**3,593**
Balance as of 31 Dec 2015	**34**	**3,616**	**316**	**3,966**

Other intangible assets include licenses and know-how. In addition, the item includes CZK 1,665 million in intangibles under construction as at 31 December 2015(2014: CZK 908 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 7,583 million as at 31 December 2015(2014: CZK 7,119 million).

25. Tax assets and liabilities

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19%, depending on the year in which the relevant asset/liability will be realised/settled.

The Group has assessed tax losses totalling CZK 108 million (2014: CZK 1,729 million) that will expire in 2019 and which were not included in the calculation of the deferred tax asset as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

Temporary differences relate to the following items:

					Net variance 2015			Net variance 2014		
in CZK million	Tax assets 2015	Tax assets 2014	Tax liabilities 2015	Tax liabilities 2014	Total	Through profit or loss	Through other compre-hensive income	Total	Through profit or loss	Through other compre-hensive income
Loans and advances to credit institutions and customers	306	268	-	-	38	38	-	106	106	-
Financial assets - available for sale	-	-	(763)	(476)	(287)	1	(288)	(280)	7	(287)
Property and equipment	-	-	(472)	(529)	57	57		(211)	(211)	-
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	-	-	-	-	-	-	-	(17)	(17)	-
Financial liabilities at amortized cost (deposits and bond issues)	11	17	-	-	(6)	(6)	-	(9)	(9)	-
Sundry provisions	148	125	-	-	23	23	-	(34)	(34)	-
Carry forward of tax losses	-	-	-	-	0	0	-	(3)	(3)	-
Other	314	316	(19)	(36)	16	16	-	107	135	(28)
Effect of netting gross deferred tax position	(633)	(567)	633	567	-	-	-	-	-	-
Total deferred taxes	**146**	**159**	**(621)**	**(474)**	**(159)**	**129**	**(288)**	**(341)**	**(26)**	**(315)**
Current taxes	**740**	**543**	**(100)**	**(45)**						
Total taxes	**886**	**702**	**(721)**	**(519)**						

26. Other assets

in CZK million	2015	2014
Prepayments and accrued income	1,215	1,267
Assets under construction/unfinished goods/inventory	160	282
Sundry assets	2,486	6,728
Other assets	**3,861**	**8,277**

'Sundry assets' consist mainly of state subsidy of CZK 881 million (2014: CZK 1,031 million) and of not invoiced receivables from customers relations of CZK 526 million.

In 2014 'Sundry assets' included mainly of receivables from withdrawals from ATMs of CZK 808 million and receivables for payments with payment cards of CZK 254 million and receivables from factoring transactions of CZK 3,625 million.

The state subsidy receivable in 'Sundry assets' involves claims in respect of the participants of the building savings scheme offered by Stavební spořitelna České spořitelny, a.s. The state subsidy is provided to the participants from the Finance Ministry of the Czech Republic based on the amount of customer deposits at the year end with a limit of CZK 2,000 per participant.

27. Other trading liabilities

in CZK million	2015	2014
Short positions	-	328
Debt securities	-	328
Deposits	12	2,449
Credit institutions	-	200
Other financial corporations	11	2,248
Non financial corporations	1	1
Other trading liabilities	**12**	**2,777**

Short sales are short-term trading liabilities which mature between one and three months. Changes in the fair value of these trading liabilities are not analysed since the liabilities are different at each reporting date.

28. Financial liabilities designated at fair value through profit and loss

in CZK million	2015	2014
Deposits	4,019	8,874
General governments	3	3
Non financial corporations	24	48
Households	3,992	8,823
Debt securities issued	-	790
Bonds	-	790
Financial liabilities designated at fair value through profit and loss	**4,019**	**9,664**

Deposits classified as Financial liabilities designated at fair value through profit and loss represent hybrid (combined) instruments i.e. contain one or more embedded derivatives, which are not separated from those hybrid (combined) instruments.

Fair value changes that are attributable to changes in own credit risk

	Amount of change in fair values attributable to changes in credit risk for the period		Amount of cumulative change in fair values attributable to changes in credit risk	
in CZK million	2015	2014	2015	2014
Financial liabilities - at fair value through profit or loss				
Deposits from customers	(25)	(14)	7	32
Debt securities issued	-	(4)	-	-

The change in the fair value arising from the changes in the credit profile of the issuer (the Bank) is determined as equal to the difference between the fair values of the liabilities as at the previous and current reporting dates, net of the effect of the change in fair value due to the change in the risk-free interest rate.

Debt securities issued

in CZK million	ISIN	Date of issue	Maturity	Interest rate	2015	2014
Bonds	CZ0003702516	December 2010	January 2015	x)	-	790
Bonds issued					**-**	**790**

x) Bond bear no interest, yield is determined as the difference between the rate of issue and the bond value payable at its final maturity date.

The ISIN CZ0003702516 issue was placed as structured bonds, the yield of which is determined as equal to the difference between the issue rate and 'another value' in accordance with the issue terms and conditions. The amount of 'another value' will be based on a set of indexes and an equity bucket and will be payable as of the final maturity of the bonds. Issued bonds are not traded on any market.

29. Financial liabilities measured at amortised costs

in CZK million	2015	2014
Deposits	**793,732**	**726,135**
Deposits from banks	83,915	54,570
Deposits from customers	709,817	671,565
Debt securities issued	**15,493**	**23,043**
Bonds	15,493	22,781
Subordinated debt	-	262
Other financial liabilities	2,454	2,781
Financial liabilities measured at amortised costs	**811,679**	**751,959**

Other financial liabilities included mainly payables to creditors in amount of CZK 782 million (2014:CZK 973 million), payables to employees including social security charges in amount of CZK 552 million (2014: CZK 519 million) and Payables to securities clearing entities CZK 496 million (2014: CZK 531 million).

Deposits from banks

in CZK million	2015	2014
Overnight deposits	11,957	17,574
Term deposits	58,968	34,857
Repurchase agreements	12,990	2,139
Deposits from banks	**83,915**	**54,570**

Deposits from customers

in CZK million	2015	2014
Current accounts/Overnight deposits	596,080	535,151
General governments	44,619	42,035
Other financial corporations	15,449	15,687
Non financial corporations	114,234	92,466
Households	421,778	384,963
Term deposits	107,790	124,712
General governments	38	104
Other financial corporations	268	732
Non financial corporations	1,692	2,293
Households	105,792	121,583
Repurchase agreements	5,947	11,702
General governments	5,947	8,042
Other financial corporations	-	3,660
Non financial corporations	-	-
Deposits from customers	**709,817**	**671,565**
General governments	50,604	50,181
Other financial corporations	15,717	20,079
Non financial corporations	115,926	94,759
Households	527,570	506,546

Debt securities issued - Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	2015	2014
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	-	4,958
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	4,701	4,607
Mortgage bonds	CZ0002001068	June 2007	October 2015	4.50%	-	759
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,095	1,977
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	486	460
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,049	4,932
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	891	938
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	92	110
Mortgage bonds	CZ0002002306	April 2011	April 2015	0.30%	-	123
Mortgage bonds	CZ0002002330	June 2011	June 2016	0.30%	40	40
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	81	22
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	183	137
Mortgage bonds	CZ0002002769	December 2012	December 2016	1.50%	50	55
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	42	42
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	78	74
Bonds	CZ0003701054	September 2005	September 2017	x)	282	272
Bonds	CZ0003702037	October 2009	October 2016	xx)	576	547
Bonds	CZ0003702078	November 2009	November 2016	xx)	612	587
Depository bills of exchange					-	1,000
Cumulative change in carrying amount due to fair value hedging					235	1,314
Bonds issued					**15,493**	**22,781**

x) Bonds were issued with a combined yield.
xx) Bonds bear no interest, yield is determined as the difference between the rate of issue and the bond value payable at its final maturity date.

Of the aggregate carrying value of the mortgage bonds, CZK 8,318 million (2014: CZK 12,270 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with the applicable accounting policies, these mortgage bonds are remeasured at fair value to the extent of the hedged interest rate risk.

The ISIN CZ0003701054 issue was placed with a share index option which is recorded separately and is remeasured at fair value.

The ISINs CZ0002001647, CZ0002001654, CZ0002002330, CZ0002002744, CZ0002002751, CZ0002002769, CZ0002002777, CZ0002002785 mortgage bond issues and the ISINs CZ0003702037, CZ0003702078 bond issues are not traded on any regulated market. Other issues of mortgage bonds and bonds are traded on the official regulated market of the Prague Stock Exchange ('PSE'). The difference between the nominal values of the issued mortgage bonds and the carrying amounts of the relevant issues in the above table arises from the difference in valuation.

Assets in cover pools used for covered bond issuance amounted to CZK 82,294 million (2014: CZK 90,386 million).

Debt securities issued – Subordinated debt
in CZK million

ISIN	Date of issue	Maturity	Interest rate	Nominal value	2015	2014
CZ0003702342	24 March 2010	24 March 2020	6M PRIBOR+0.40%	1,000	-	262
Subordinated debt					**-**	**262**

ISIN CZ0003702342 issue represented subordinated debt in certificate form with option for premature repayment. The Bank exercised its option in March 2015 and repaid the CZ0003702342 issue bonds prematurely at 100% of the bonds' nominal value together with any unpaid interest to date.

30. Provisions

in CZK million	2015	2014
Pending legal issues and tax litigation	1,862	1,834
Commitments and guarantees given	406	248
Provisions for guarantees - off balance (defaulted customers)	139	67
Provisions for guarantees - off balance (non defaulted customers)	267	181
Other provisions	316	336
Provisions for onerous contracts	16	1
Other	300	335
Provisions	**2,584**	**2,418**

'Provisions for guarantees - off balance ' exposures are recorded to cover losses that result from off-balance sheet exposures.

'Provisions for legal disputes are explained in detail in Note 43.

Other provisions include an estimated amount for the Group's constructive obligation to meet any potential future claims of clients resulting from statute-barred deposits on anonymous passbooks.

31. Other liabilities

in CZK million	2015	2014
Deferred income and accrued expenses	376	422
Sundry liabilities	4,790	6,224
Other liabilities	**5,166**	**6,646**

Sundry liabilities consist mainly of unbilled supplies of CZK 908 million (2014: CZK 887 million), costs of staff bonuses for 2015 amounting to CZK 1,279 million (2014: CZK 1,359 million) and liabilities from payments clearing in amount of CZK 317 million (2014: CZK 682 million).

In 2014 Sundry liabilities consist payables from factoring transactions of CZK 1,606 million.

32. Total equity

in CZK million	2015	2014
Subscribed capital	**15,200**	**15,200**
Share capital	15,200	15,200
Additional paid-in capital	11	11
Other capital instruments	8,107	-
Retained earnings and other reserves	96,668	92,598
Owners of parent	119,986	107,809
Non-controlling interests	(23)	(26)
Total equity[1)]	**119,963**	**107,783**

[1)] Details on equity are provided in Section III, Statement of Changes in Total Equity

As of 31 December 2015, subscribed capital consists of 140,788,787 voting ordinary shares and 11,211,213 preference shares. Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

In December 2015 Česká spořitelna, a.s. has launched an issue of Additional Tier 1 Notes ("AT 1") , denominated in Euro, for a total of EUR 300 million, with characteristics compliant with Article 52 of the CRR (Regulation EU No 575/2013). This issue is reported within the line of Other capital instruments in Equity.

The main reasons for the issuance of AT1 is optimisation of capital structure, stabilisation of EUR long-term funding and preparation for regulatory changes (full implementation of CRR, TLAC/MREL) while using the currently favourable market conditions (interest rates and credit spreads).

Due to the fact, that the AT1 do not represent financial liabilities in terms of IAS 32.11, they should be classified as equity instruments.

Classification of the Notes within financial liabilities is not met from the following reasons:

- Based on the AT1 features (i.e. conditions of issue) the Group have right to avoid delivering cash or another financial asset to settle a contractual obligation – The Holders of the AT1 do not have a right to demand redemption of the AT1 and distribution from the AT1.
- Based on the AT1 features (i.e. conditions of issue) the AT1 do not have a maturity date.

Number of shares and share capital

Authorised, Issued and Fully Paid Share Capital Is as Follows:

	2015		2014	
	Number of shares	in CZK million	Number of shares	in CZK million
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Share capital	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Preference shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of liquidation, preference shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Preference shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Preference shares can only be issued to municipalities and local governments in the Czech Republic. The preference shares can only be transferred to entities other than municipalities and local governments of the Czech Republic subject to the approval of the Board of Directors.

Non-controlling interest

in CZK million	2015	2014
At 1 January	(26)	316
Profit for the year	2	(1)
Proceeds from sales of subsidiaries	-	-
Dividends paid to minority shareholders	-	(22)
Purchase of non-controlling interest	1	(319)
At 31 December	**(23)**	**(26)**

33. Segment reporting

The Group structure of segment reporting is in line with that of Erste Group Bank and has been divided into the following segments:

- Retail;
- Corporate Clientele ('SME');
- Real Estate ('RE');
- Asset and Liability Management and Local Corporate Center ('ALM & LCC');
- Large Corporate ('LC');
- Group Markets ('GM');

For segment reporting the rules used in the Group's management report apply. The report is prepared monthly for the Board of Directors as well as for the Erste Group Bank Board of Directors. The report is reconciled to the monthly reporting package and the same segments used in the Group's controlling report are used for Erste Group Bank segment reporting.

Retail, Corporate Clientele, RE, ALM and the Corporate Center form the main activities of the Group for which it is primarily responsible. Fully consolidated subsidiaries are allocated to the respective segments in the segment report (see the definitions below).

Retail

The retail segment comprises branch networks within which the Bank sells products to citizens, traders, entrepreneurs and micro-businesses. In addition, the retail segment contains the capital results of the subsidiaries Stavební spořitelna České spořitelny, a.s., Česká spořitelna penzijní společnost, a.s., ČS do domu, a.s, Věrnostní program iBod, a.s. and MOPET CZ, a.s..

Retail provides services to their clients through the branch network, external sales channels and direct banking. The product range is very broad: from lending products to assets under management. In order to better understand the retail clients (understanding their opportunities and meeting their needs) they are differentiated into the following subsegments:

- Mass market;
- Mass affluent;
- Erste Premier;
- MSE; and
- Municipality.

Corporate Clientele

The segment of corporate clients comprises:

- SME Segment - Clients with an annual turnover of between CZK 30 million and CZK 1,000 million, where service is provided by 13 Regional Corporate Centers and headquarters in Prague;
- Non-profit sector - Clients from non-governmental organizations (organizations that are neither part of the government nor conventional profit generating businesses) such as foundations, churches, trade unions. Service is provided from the headquarters in Prague; and
- Public sector - Governmental (mainly state branches, counties, statutory towns, health insurance funds, state funds, public universities and cities). Service is provided from the headquarters in Prague and by the Regional Corporate Centres (for cities, public universities and healthcare organizations).

In addition, the segment contains the capital results of the subsidiaries s Autoleasing, a.s., s Autoleasing SK, s.r.o., Factoring České spořitelny, a.s., Erste Leasing, a.s. and REICO investiční společnost České spořitelny, a.s.

Real Estate

The real estate segment covers commercial property projects financed by Česká spořitelna´s finance group.

Asset and Liability Management (ALM)

The asset and liability management section is responsible for the management of interest rate risk position of the balance sheet (ex trading), as well as for liquidity and FX risk management. It aims at optimizing net interest income over time via changes in internal pricing (funds transfer pricing) and market operations. The market operations consist both from derivatives to hedge the banking book and outright sales and purchases of mostly government bonds. The ALM segment profitability includes both transformation margin and contribution margin.

The corporate center segment includes the positions and items that cannot be directly allocated to a business segment. In addition, it contains the capital result of the subsidiaries Brokerjet České spořitelny, a.s., Czech TOP Venture Fund B.V., s IT Solutions CZ, s.r.o., CS Investment Limited, Grantika české spořitelny, a.s. and Erste Energy Services, a.s.

Corporate center also includes free capital which does not represent a segment, but the difference between total equity and allocated capital.

Large corporate

Segment comprises international and biggest domestic companies.

Group Markets

The group markets segment is responsible for trading in foreign exchange and interest rate products, as well as in securities for all customer groups. Moreover, it is tasked to design and develop products that cater to market demand in core markets. GM comprises the divisionalised business units such as Treasury Trading and Treasury Sales (retail, corporate and institutional transactions).

Business segments

	Retail		SME		Real estate		ALM & LCC		Large Corporate		GM		Total group	
in CZK million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Net interest income	19,913	18,981	3,552	3,534	823	728	779	2,573	735	720	62	137	25,864	26,673
Net fee and commission income	8,363	9,719	962	1,177	68	113	144	(276)	344	489	373	84	10,254	11,306
Dividend income	22	-	-	3	-	-	48	47	-	-	-	-	70	50
Net trading and fair value result	476	470	266	193	21	23	459	-	66	35	1,535	1,566	2,823	2,287
Rental income from investment properties & other operating leases	6	6	-	-	-	-	726	817	-	-	-	-	732	823
General administrative expenses	(14,307)	(14,353)	(2,080)	(1,969)	(121)	(107)	(1,090)	(959)	(405)	(357)	(583)	(489)	(18,586)	(18,234)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	(3)	(4)	-	91	-	-	452	41	-	19	-	(1)	449	146
Net impairment loss on financial assets not measured at fair value through profit or loss	(1,400)	(2,484)	(638)	(754)	(238)	(247)	(128)	(29)	(244)	(214)	-	-	(2,648)	(3,728)
Other operating result	35	123	(68)	(144)	-	-	(967)	(584)	(18)	0	-	2	(1,018)	(603)
Pre-tax result from continuing operations	**13,105**	**12,458**	**1,994**	**2,131**	**553**	**510**	**423**	**1,630**	**478**	**692**	**1,387**	**1,299**	**17,940**	**18,720**
Taxes on income	(2,467)	(2,316)	(398)	(421)	(105)	(97)	(315)	(439)	(95)	(131)	(265)	(246)	(3,645)	(3,650)
Post-tax result from continuing operations														
Net result for the period	**10,638**	**10,142**	**1,596**	**1,710**	**448**	**413**	**108**	**1,191**	**383**	**561**	**1,122**	**1,053**	**14,295**	**15,070**
Net result attributable to non-controlling interests	-	2	-	-	-	-	(2)	(1)	-	-	-	-	(2)	1
Net result attributable to owners of the parent	10,638	10,144	1,596	1,710	448	413	106	1,190	383	561	1,122	1,053	14,293	15,071
Operating income	28,780	29,177	4,780	4,907	912	863	2,156	3,162	1,145	1,244	1,970	1,786	39,743	41,139
Operating expenses	(14,307)	(14,353)	(2,080)	(1,969)	(121)	(107)	(1,090)	(959)	(405)	(357)	(583)	(489)	(18,586)	(18,234)
Operating result	**14,473**	**14,824**	**2,700**	**2,938**	**791**	**756**	**1,066**	**2,203**	**740**	**887**	**1,387**	**1,297**	**21,157**	**22,905**
Risk-weighted assets (credit risk, eop)	146,557	136,805	124,944	128,820	35,229	29,084	34,845	27,932	45,847	42,865	12,486	15,731	399,908	381,237
Average allocated capital	14,683	13,883	10,097	10,589	2,522	2,402	7,049	6,881	3,075	3,568	1,796	2,038	39,222	39,361
Cost/income ratio	49.7%	49.2%	43.5%	40.1%	13.3%	12.4%	50.6%	30.3%	35.4%	28.7%	29.6%	27.4%	46.8%	44.3%
Return on allocated capital	72.5%	73.1%	15.8%	16.2%	17.8%	17.1%	1.5%	17.3%	12.5%	15.7%	62.5%	51.6%	36.4%	38.3%
Total assets (eop)	**399,465**	**382,522**	**142,520**	**136,401**	**37,110**	**35,413**	**321,626**	**287,120**	**40,956**	**35,419**	**17,907**	**25,714**	**959,584**	**902,589**
Total liabilities excluding equity (eop)	**579,965**	**568,757**	**99,372**	**76,904**	**5,008**	**3,946**	**116,654**	**99,348**	**25,894**	**23,600**	**12,727**	**22,251**	**839,621**	**794,806**

The majority of revenue from external customers is generated in the Czech Republic.

34. Leases

a) Finance leases

Finance leases receivables are included under the statement of financial position item 'Loans and advances to customers'.

The principal assets held under lease arrangements include vehicles and other technical equipment. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in CZK million	2015	2014
Outstanding minimum lease payments	2,453	2,514
Gross investment	**2,453**	**2,514**
Unrealised financial income	(181)	(162)
Net investment	**2,272**	**2,352**
Present value of minimum lease payments	**2,272**	**2,352**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

in CZK million	2015	2014
< 1 year	503	640
1-5 years	1,491	1,650
> 5 years	459	224
Total	**2,453**	**2,514**

b) Operating leases

Under operating leases, the Group leases real estate to other parties.

Operating leases from the view of Česká spořitelna, a.s. as lessor

Minimum lease payments from non-cancellable operating leases were as follows:

in CZK million	2015	2014
< 1 year	7	11
1-5 years	18	8
Total	**25**	**19**

Operating leases from the view of Česká spořitelna, a.s. as lessee

Minimum lease payments from non-cancellable operating leases were as follows:

in CZK million	2015	2014
< 1 year	636	578
1-5 years	550	520
> 5 years	241	193
Total	**1,427**	**1,291**

35. Related party transactions

Related parties involve connected entities or parties that have a special relationship to the Group.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other in making financial or operational decisions. The Group is controlled by Erste Group Bank AG.

The parties that have a special relationship to the Group are considered to be members of the Group's statutory and supervisory bodies and management, legal entities exercising control over the Group (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Group's statutory and supervisory bodies, management, and entities exercising control over the Group, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Group and any other legal entity under their control, members of the CNB's Banking Board, and legal entities which the Group controls.

Pursuant to the definitions outlined above, the categories of the Group's related parties principally comprise Erste Group Bank, members of its Board of Directors and Supervisory Board, and other related parties, which include companies directly or indirectly controlled by Erste Group Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis and were settled exclusively in cash. The interest rates charged to and by related parties are at standard commercial rates. Outstanding balances at the year-end are unsecured.

For the year ended 31 December 2015 the Group provision for doubtful debts relating to amounts owed by related parties amounted to CZK 123 million (2014: CZK 0).

Loans and advances to and amounts owed to related parties

	2015			2014		
in CZK million	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Supervisory Board	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Supervisory Board
Assets						
Cash and cash balances	2,495	1,804	-	1,636	2,310	-
Financial assets - held for trading	4,374	195	-	5,910	491	-
Financial assets designated at fair value through profit or loss	3	-	-	9	-	-
Financial assets - available for sale	-	-	-	-	97	-
Financial assets – held to maturity	-	12,832				
Loans and receivables to credit institutions	25,610	11,918	-	26,355	1	-
Loans and receivables to customers	-	17,062	20	-	211	10
Derivatives Hedge Accounting	6	-	-	2	-	-
Other assets	3	227	-	-	43	-
Liabilities						
Financial liabilities held for trading	4,032	64	-	5,967	-	-
Financial liabilities measured at amortised costs	43,736	45,135	21	14,990	2,483	21
Derivatives Hedge Accounting	11	187				
Other Liabilities	59	302	-	75	79	-
Profit&Loss statement	-					
Net interest income	439	(35)	-	423	(3)	-
Net fee and commision income	16	1,309	-	5	375	-
Dividend income	-	6	-	-	10	-
Net trading and fair value result	607	(125)	-	1,341	6	-
Rental income from investment properties & other operating lease	-	40	-	-	12	-
Other administrative expenses	(161)	(1,833)	(88)	(151)	(632)	(68)
Other operating result	74	401	-	12	6	-
Loans commitments, financial guarantees and other commitments given	**14**	**5,352**	**-**	**20**	**36**	**-**
Loan commitments, financial guarantees and other commitments received	**-**	**-**	**-**	**576**	**771**	**-**

36. Transfers of financial assets – repurchase transactions and securities lending

	2015		2014	
in CZK million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Trading assets	-	-	-	-
Financial assets – available for sale	75	75	4,475	4,475
Financial assets – held to maturity	16,429	18,863	8,008	9,366
Total - repurchase agreements	**16,504**	**18,938**	**12,483**	**13,841**
Securities lendings				
Financial assets – held to maturity	-	-	7,395	9,248
Total	**16,504**	**18,938**	**19,878**	**23,089**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount of CZK 16,504 million (2014: CZK 19,878 million) represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of CZK 18,938 million (2014: CZK 23,089 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In case of the Group, these assets and liabilities relate to repo transactions.

	2015			2014		
in CZK million	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
Trading assets	-	-	-	-	-	-
Financial assets - available for sale	75	75	-	4,475	4,475	-
Financial assets - held to maturity	18,930	18,867	63	9,318	9,366	(48)
Total	**19,005**	**18,942**	**63**	**13,793**	**13,841**	**(48)**

37. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2015

			Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	14,658	14,658	8,922	1,824	-	3,912
Reverse repurchase agreements	560	560	-	-	655	(95)
Total	**15,218**	**15,218**	**8,922**	**1,824**	**655**	**3,817**

Financial liabilities subject to offsetting and potential offsetting agreements in 2015

			Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	15,440	15,440	8,922	171	-	6,347
Repurchase agreements	18,937	18,937	-	-	16,503	2,434
Total	**34,377**	**34,377**	**8,922**	**171**	**16,503**	**8,781**

Financial assets subject to offsetting and potential offsetting agreements in 2014

			Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	19,618	19,618	11,578	5,175	-	2,865
Reverse repurchase agreements	817	817	-	-	817	-
Total	**20,435**	**20,435**	**11,578**	**5,175**	**817**	**2,865**

Financial liabilities subject to offsetting and potential offsetting agreements in 2014

			Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	20,822	20,822	11,578	1,138	-	8,106
Repurchase agreements	13,841	13,841	-	-	13,793	48
Total	**34,663**	**34,663**	**11,578**	**1,138**	**13,793**	**8,154**

The Group uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements.

Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the amount of assets and liabilities which would be set off as a result of master netting agreements is presented in the column Financial instruments. If the net position is further secured by cash collateral the effect is disclosed in the respective columns Cash collateral received/pledged.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral.

Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge.

38. Risk management

Risk management strategy

Risk management is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Risk management strategy of the Group aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

The Group uses a control and risk management system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Group control and risk management systems have been developed to fulfil external and, in particular, regulatory requirements.

Given the Group business strategy, the key risks for the Group are credit risk, market risk, liquidity risk and operational risk. The most significant risk is credit risk. In addition, the investment portfolio of the Group is exposed to interest rate risk and liquidity risk. The risks attached to the trading portfolio include market risks, specifically foreign exchange, interest rate, commodity and equity risks and other risks relating to trading with complex instruments. All financial transactions and other banking activities also carry operational risk.

Risk management organization and decision bodies

Risk management for the Group is performed by a division of the Bank managed by a member of the Board of Directors exclusively responsible for risk management - the Chief Risk Officer. This division, which is completely independent of the business divisions of the Bank, centralises all departments tasked with risk management, namely:

- Compliance, Financial Crime and Anti-Fraud Management;
- Legal services;
- Strategic Risk Management;
- Credit Risk Management for Corporate Banking;
- Credit Risk Management for Retail Banking
- and
- Security.

The Management board deals with risk issues in its regular board meetings. All types of risks are reported periodically and actions are taken when needed. In addition, the board is concerned with current risk issues and, through the internal risk reporting receives ad hoc reports for all types of risk.

In order to carry out risk management activities and support the Management Board in its risk taking and risk managing decisions, certain committees have been established, including the following:

- Risk Management Committee of the ČS supervisory Board,
- Credit Risk Committee,
- Asset Liability Committee (ALCO),
- Operational Liquidity Committee,
- Financial Markets Risk Management Committee (FMRMC), and
- Compliance, Operational Risk and Security Committee.

Risk management activities in the Bank's subsidiaries are undertaken by persons independent of the business units. The Strategic Risk Management Department of the Bank provides specialist guidance to and oversees the staff involved in managing credit risk in the subsidiaries and is responsible for monitoring the subsidiaries' portfolios. Market risks including interest rate risk and liquidity within the Group are managed by the Bank.

Management and control systems are continuously reviewed by the Internal Audit which prepares a verification report annually.

38.1 Risk and capital management

Overview

The Group's risk and capital management framework has been continuously strengthened and developed into a comprehensive framework which is part of the Erste Group's enterprise risk management system. The fundamental pillar of this system is the Internal Capital Adequacy Assessment Process (ICAAP), as required under Pillar 2 of the Basel framework.

The risk and capital management and steering system is an integral part of the Group's overall steering and management system. To ensure all aspects of regulatory requirements and support the Group's management in pursuing its strategy the main components of this system can be clustered as follows:

- Risk appetite statement
- Risk materiality assessment incl. concentration risk management
- Stress testing
- Risk-bearing capacity calculation
- Risk planning & forecasting
- Capital allocation and risk adjusted performance measurement, and
- Recovery and resolution plans

Risk Appetite Statement and Risk Materiality Assessment

The risk appetite statement (RAS) serves as a formalised, high-level steering tool from which top-down targets for the bank's limit system on lower aggregation levels can be derived. The objective of ČS Group's RAS is to contain earnings volatility, avoid net losses and protect external and internal stakeholders. In order to reach these goals, general indicators are defined as well as indicators for credit, market, liquidity and operational risk. To ensure that the RAS is operationally efficient, the indicators are classified as either targets, limits or principles, where the main differences are in the mechanisms triggered in case of a breach of the RAS. Regular reviews are performed and management reports are prepared in order to ensure effective limit oversight and identify any excesses.

For the purpose of systematically and continuously assessing all relevant risk types and identifying risks that are significant for the Group, the Group has defined a clear and structured risk materiality assessment approach that is based on defined quantitative and qualitative factors for each risk type and is carried out annually. This process constitutes the basis for the determination of material risk types to be included in the risk-bearing capacity calculation and stress testing. Insights generated by the assessment are also used to improve risk management practices to further mitigate risks within the Group. The Group has implemented a framework to identify, measure, control, report and manage concentration risks. Concentration risks also comprise an integral part of stress test analyses. Additionally, the results of concentration risk assessments are used in defining the Risk Appetite Statement, defining stress factors for stress tests, and calibrating the Group's limit system.

Internal Capital Assessment Process and Stress Testing

With respect to the Internal Capital Adequacy Assessment Process ('ICAAP') the Group has been using the Erste Group Bank methodology, which serves as a uniform set of rules for capital management within the Group.

The Group methodology is continuously updated in order to reflect the latest trends, best practices and regulatory requirements. The Group's approach contains minor modifications driven by local regulatory requirements or other local specifics. Within ICAAP, all major risks are quantified and covered by internal capital. The Group's economic capital is measured at a confidence level of 99.9% and a 1-year holding period. From a modelling point of view, complex advanced approaches based on VaR methodology are used for market risk, operational and liquidity risks or IRB for credit risk. The Group also developed models for other risk types (business, strategic, reputational and concentration risk). The overall risk of the Group is calculated as the sum of individual risk requirements, i.e. no diversification effect is considered among risk types in order to keep a conservative approach. The resulting aggregate risk exposure is compared to internal capital resources derived from Pillar 1 capital resources with some adjustments (mainly profit of the current year is added to capital resources). Finally, the results of the economic capital quantification are allocated to business lines in order to compare their risk adjusted profitability.

Additionally, the Group performs stress testing which is used as an additional input for internal capital adequacy assessment. The results of stress testing are updated on a quarterly basis and are reflected into both pillars – regulatory pillar 1 and internal pillar 2.

The ICAAP results for the Group are submitted to the Board of Directors on a quarterly basis; the Board decides on any measures to be adopted with respect to ICAAP as well as risks and capital management in general. The Group meets the internal limits approved by the Board of Directors with a sufficient buffer.

The Group has also approved a recovery plan in line with BRRD requirements. The aim of the recovery plan is to be well prepared for severe unfavourable market developments and, if appropriate, to take adequate measures in a timely manner.

From the long-time perspective, the Group manages its capital with the objective of maintaining a strong capital base in order to support its business activities, to comply with all regulatory capital requirements including capital buffers (currently conservation, systemic risk, countercyclical and SREP buffers) and to ensure a stable return for shareholders.

Statement of capital for the Bank's capital adequacy calculation on a standalone basis as reported to the regulator in accordance with applicable rules* as of 31 December 2014:

in CZK million	2014
Total capital	**75,506**
Original capital (Tier 1)	75,289
Of which:	
Share capital (refer to Note 32)	15,200
Share premium	2
Reserve funds and retained earnings	71,869
Deductible items from original capital	(11,782)
Additional capital (Tier 2)	217
Aggregate amount of all deductible items from original and additional capital	-
Total risk exposure	**425,974**
Capital adequacy ratio for the year	**17.73%**
Capital adequacy ratio – Pillar I capital requirements	**8.00%**

* The Bank has not used the possibility stated in the Article 26/2 of the CRR to include in the Common Equity Tier 1 capital reported for the year end 2014 to the regulator the interim profits nor any credit risk adjustments.

Statement of capital for the Bank's capital adequacy calculation on a standalone basis *as reported to the regulator in accordance with applicable rules* as of 31 December 2015*:

in CZK million	2015
Original capital (Tier 1)	99,405
Tier 1 + Tier 2 capital	99,859
Risk exposure to credit risk	405,856
Risk exposure to market risk	5,475
Risk exposure to operational risk	56,919
Total risk exposure	**468,250**
Capital adequacy ratio for the year (Tier 1 ratio)	**21.2%**

*Reported figures are based on the methodology, where the Group has used the possibility stated in the Article 26/2 of the CRR to include in the Common Equity Tier 1 capital credit risk adjustments.

The Group meets all capital adequacy requirements as requested by regulators.

38.2 Credit risk

In the course of its business, the Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts owing in full when due.

Credit Risk Management Methodology

In managing credit risk, the Group applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy defines a comprehensive policy for the Group's credit risk management. It defines the basic principles related to identification, measurement, monitoring, controlling and credit risk management. It contains the basic lending rules including limitations for loan granting and describes individual credit risk management tools, such as the rating system, collateral management, limit setting, setting of approval policy, monitoring, provisioning, reporting, controlling and portfolio management. In addition it defines credit risk management organization and discloses the lending process.

Breakdown of the Portfolio for Credit Risk Management Purposes

For the purpose of determining impairment allowances the loans and advances are segmented into non-default (performing) loans where the principal and interest is not past due for more than 90 days or there are no other indications that would suggest that the repayment of the receivable is unlikely (bankruptcy proceedings, forced restructurings, etc.) and default (non-performing) loans. There are two large sub-portfolios within these receivables, i.e. receivables which are individually significant comprising receivables from corporate entities or receivables where the Group's credit exposure is higher than CZK 5 million, and receivables which are individually insignificant. Within these two sub-portfolios the Group also monitors five customer portfolios for individually significant receivables and 16 product portfolios for individually insignificant receivables. The Group monitors a number of risk parameters within these portfolios (PD - probability of default, LGD - loss given default, CCF - credit conversion factors). PD is further monitored at the level of various internal rating grades.

Receivables with debtor default correspond to individually impaired receivables (rating 'R'). Receivables without debtor default with internal ratings of 1 - 6 are considered to be unimpaired. Receivables with internal ratings of 7 - 8 are collectively impaired.

For credit risk management purposes, the Group's loan portfolio is broken down as follows:

- Retail receivables are receivables from individuals/households and small enterprises with an annual turnover of up to CZK 60 million and small municipalities ('MSE'). The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data.
- Receivables from corporate counterparties include receivables from small and medium sized enterprises with an annual turnover of between CZK 60 to 2,000 million ('SME') receivables from large businesses (with an annual turnover exceeding CZK 2,000 million) and public sector receivables, factoring receivables and lease receivables. While the methods of managing the credit risk of corporate receivables are based on statistical models (particularly for the portfolio of receivables from mid-size enterprises), great emphasis is also put on regular, discrete analysis of individual customers.
- Receivables arising from specific products provided by the subsidiaries represent specialised financial products that require their own risk management techniques reflecting their specifics. These largely include factoring receivables, leasing receivables, instalment sales, loans issued to finance the acquisition of securities and construction savings loans. The portfolios of these products are regularly monitored both on an individual basis (for individually significant exposures) and a portfolio basis.

With the exception of a limited number of borderline cases, the implemented breakdown of the portfolio corresponds to the asset classes as defined in CNB Regulation 163/2014 Coll. which implements the BASEL II rules.
For the purpose of provisioning, monitoring and predicting losses, the Group differentiates between individually significant and individually insignificant exposures. The credit risk attached to individually significant exposures is managed on an individual basis with the minor use of portfolio models. The Group aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis.

Individually significant loans predominantly include loans from the Group's corporate portfolio. These loans are additionally split into the following sub-portfolios:

- Large corporate clients with an annual turnover exceeding CZK 2,000 million (the exposure of which is managed using a unified method throughout Erste Group Bank and its subsidiaries ('the Erste Group') or at the Group level);
- Project finance and corporate mortgages;
- Small and medium sized enterprises (turnover from CZK 60 to 2,000 million);
- Municipality loans; and
- Loans in the Workout Department.

Corporate loans match the 'corporate' or 'special funding' asset class (segment) under BASEL II.

Individually insignificant loans (below CZK 5 million), including MSE loans, principally encompass the Group's retail loans. These loans are divided into 20 product portfolios. The key portfolios include mortgage retail loans (with 5 LTV segments), credit card loans, overdraft loans and consumer loans. The Group's retail loans match the 'Retail' asset class (segment) under BASEL II.

Collection of Key Risk Management Information

In managing credit risk, the Group refers not only to the Bank's portfolio information but also the portfolio information of other members of the Group. The Group also uses information obtained from external sources such as credit bureaus or ratings provided by reputable rating agencies. This data provides a basis for modelling credit risk and supports debt recovery, valuation of receivables and the calculation of credit losses.

Internal Rating Tools

The internal ratings of the Group reflect the ability of counterparties to meet their financial obligations. The degree of risk is reflected in the internal rating and corresponding probability of default of the debtor in the following twelve months. The definition of default is in line with the requirements set out in CRR (Regulation EU No 575/2013).
The Group allocates internal ratings to all clients with credit exposures. The Group uses the rating scale with thirteen grades for non-defaulted counterparties and one grade for default counterparties (internal rating 'R'). In the case of private individuals there are only eight rating grades for non-defaulted clients.

To allocate the internal rating grade the Group uses several rating models for different counterparty segments. All rating models comply with Erste Group Bank standards:

Segment	Rating tool
Government (sovereign) and banking	Unified model for the whole Erste Group. The model places great emphasis on independent external ratings combined with other information
Specialized financing	Unified model for the whole Erste Group, which is primarily based on projected cash flows
Corporate customers	Rating based on financial information and soft factors
MSE	In addition to the financial results of the company, information about the enterprise owner or the entrepreneur himself is also taken into account
Individuals	Behavioural and application scoring
Municipal clients	Model based on budget analysis

The Group reviews ratings on a regular basis. The ratings of counterparties from the banking, corporate and sovereign segments are reviewed at least annually. For retail customers the Group has developed a ‘behavioural rating’ and the client ratings are updated monthly.

The rating instruments are periodically adjusted to reflect changing economic conditions and the Group’s business plans, validation (consistency of results testing) and performance testing undertaken by the Credit Risk Controlling Department.

In the case of counterparties with an external rating provided by an external rating agency, the Group uses this information as an additional source of information. Based upon its historical experience, the Group has created a transfer bridge between its own internal ratings and the external ratings.

In addition to the internal ratings outlined above, the Group allocates each exposure a risk group according to CNB Regulation No. 163/2014 Coll. In accordance with this regulation, the Group maintains five groups of risk profiles namely, standard, watch, substandard, doubtful and loss.

In compliance with the regulatory requirements arising from BASEL II, rating instruments are subject to annual validations performed by the Credit Risk Controlling Department, Erste Group Bank Competence Centre and Internal Audit. The application of internal rating tools is limited for certain specialised products provided by the subsidiaries, hence the internal rating tools are not used by all of the entities included in the Group, specifically s Autoleasing a.s., Erste Factoring, a.s. and brokerjet České spořitelny, a.s. The principal reason relates to the lack of appropriate input data used in arriving at the internal rating and monitoring receivables which the clients are obliged to provide to the Group. As such, these products require an increased level of loan collateral.
For the purpose of external reporting, internal rating grades of Group are grouped into the following four risk categories:

Low risk: Typically regional customers with well-established and rather long-standing relationships with the Group or large internationally recognised customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention: Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Non-performing: One or more of the default criteria under Basel II are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, Group applies the customer view. Accordingly, if an customer defaults on one product then all of that customer’s performing products are classified as non-performing.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Group may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Group strives to protect its revenues and capital from concentration risk.

The Group has changed the methodology of Credit VaR calculation in 2014.

- Until 2013 the indicator was limited to top 20 exposures, which was an approximation justified by historical shape of portfolio, where unexpected loss from top 20 exposures covered most significant / dominant part of the Group's total unexpected loss.
- However, size and granularity of credit portfolio has changed and top 20 exposures represent only a fraction of overall portfolio. This is why VaR calculation has been extended to entire Wholesale (non-retail) portfolio.
- Also confidence interval has been changed. While 95% confidence interval has been used until 2013, starting from 2014 the interval 99.9% is in place. This new setting corresponds to regulatory expectations, as well as industry standards.

The VaR of Wholesale portfolio increased from 2.25% (or CZK 14,250 million) in 2014 to 2.49% (or CZK 16,064 million) in 2015. In terms of expected loss riskiness of porttfolio improved from 0.41% in 2014 to 0.32% in 2015.

This change is affected by significantly higher concentration in low risk segments (CEE countries sovereigns and corporate clients with strong rating), offset by decrease of exposure to higher risk segments (corporate portfolio in weaker rating). This effect is causing change of the shape of the loss distribution.
Also in terms of comparison of VaR to Tier 1 capital the indicator increased from 18.71% to 21.34%.

Structure of Approval Authorities

The structure of approval authorities is based on the materiality of the impact of a potential loss from a provided exposure on the Group's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee and/or Statistical Model Committee of the Board of Directors, with the Credit Committee of the Supervisory Board only having an advisory role. Lower approval authorities are categorised taking into account the seniority of the staff of the Corporate Credit Risk Management Department and the Retail Credit Risk Management Department.

Risk Parameters

The Group uses its own internal models in determining the risk parameters, namely PD, LGD and CCF risk parameters. All of the models are developed according to BASEL II requirements and are subject to regular independent validation and review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for the quantitative management of portfolio credit risk.

The Group currently employs risk parameters for portfolio monitoring, non-performing (defaulted) loan portfolio management, portfolio protection measurement, risk valuation and prediction of the Group's risk profile development under different scenarios.

All models are back tested at least annually and validated by the Group's specialists who are independent of the Risk Management Department.

Impairment Allowance for Loan Losses

The Group recognises impairment allowances for incurred losses. These losses are determined and recognised in accordance with IAS 39. The Group uses adjusted risk parameters estimated as part of the implementation of the BASEL II rules to assess the amount of loss.

Loan loss impairment allowances are determined for all impaired loans. The impairment methodology is regularly reviewed and adjusted if necessary.

Management of Credit Risk in the Trading Portfolio

The credit risk inherent in the trading portfolio is managed through the limits system applied to all counterparties.

Collateral

The Group defines collateral as assets that can be realized in case the primary source of repayment fails. Collateralisation of the Group's receivables represents the Group's protection as a creditor that may be used as a secondary source of payment. The selection of individual collateral instruments required to secure a specific deal depends on the Group's loan products, requirements and professional assessment by the Group's responsible employees. The possibility to pledge the collateral is always assessed before the collateral is accepted by the Group.

The value of collateral (base value of collateral) is determined with reference to the market prices of similar types of collateral. If more than one market price for the collateral is determined using various valuation techniques in a particular business transaction, the lowest market price is used.

If the collateral instrument involves real estate, movable assets, a business or its branch, trademarks, an asset declared as a historical monument etc., the price has to be determined on the basis of an appraisal made by an expert appraiser contracted by the Group or an internal appraiser for the purpose of evaluating the loan application. The expert appraisal or price estimate should not be older than six months at the date on which the loan contract is entered into. For real estate valuation purposes a detailed, in-house methodology is used.

The realisable value of collateral is determined by using the valuation rates set in the Collateral Catalogue. In determining the valuation rates, it is necessary to assess individual instruments by their specific features, e.g. real estate by the character of its construction, etc. and always following a physical inspection. The overall setup of maximum valuation rates is reviewed annually.

The expert valuation always has to be reviewed. Other conditions taken into account in determining the realisable value of collateral are, among others, as follows:

- A comprehensive assessment of all available and, with respect to the particular case, significant circumstances and background documentation;
- Any insurance or pledges of receivables from insurance proceeds in favour of the Group;
- The possibility of realising the collateral at a particular time and place and the amount of realisation costs which, in most cases, needs to be viewed as a sale in distress; and
- Comparison to market trends.

The Collateral Catalogue also includes requirements for the periodic revaluation of collateral. Typically, the collateral value is analysed and updated upon the regular monitoring/credit review of clients. With respect to product portfolios of retail mortgages, the Group uses portfolio models for updating base collateral values. In addition, the Group regularly monitors the loan-to-value ratio, mainly in respect of mortgage loans and project financing loans.

Credit risk pricing

The accepted risk is reflected in risk margins used in the pricing of individual types of counterparties and deals. The risk margins are based on estimated risk parameters, the expected development of the macroeconomic environment and changes in the credit process within the Group, which may have an impact on risk level within the credit portfolio.

Stress testing

The Group regularly performs stress testing of the sensitivity of its portfolio to the deterioration of the credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Group performs scenario analyses modelling the impact of adverse developments in macroeconomic factors (such as changes in the economic growth rate, changes in interest rates and changes in inflation). The breakdown of credit risk by industries is shown in Note 38.2.

Forborne exposures

The Group implemented the new forbearance methodology according to the EBA regulation in 2014. Forborne exposures are exposures where the debtor is considered unable to comply with the contract due to its financial difficulties and the Group decided to grant a concession to a debtor. Forbearance measure can be either modification of terms and conditions or refinancing of the contract. Modification of terms includes payment schedule changes (deferrals or reductions of regular payments, extended maturities, etc.), interest rate reductions or penalty interest waivers.

Forborne exposure initially receives default rating “R”; such exposure is classified as non-performing defaulted forborne exposure. After minimum 12 months and when the pre-defined conditions are fulfilled the exposure can be reclassified into performing forborne exposure. The performing forborne exposure has to be closely monitored during the probation period which takes minimum 2 years. When the exposure within the probation period defaults the exposure is downgraded into the non-performing forborne exposures. If after 2 years’ probation period the stated conditions are met the exposure ceases to be classified as forborne.

Quantitative information in respect of Forbearance is attached in the table below f) Exposures with forbearance measures as at 31 December 2015.

Write-offs

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. The loan is written-off against the related account ‘Net impairment loss on financial assets not measured at fair value through profit or loss’ in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant impairment charge is released into income. The relevant amount and recoveries of loans and advances previously written-off are also reflected in the income statement through ‘Net impairment loss on financial assets not measured at fair value through profit or loss’.

a) *Structure of Credit Risk by On-balance Sheet and Off-balance Sheet Items*

The Group is exposed to credit risk arising from the following items:

in CZK million	2015
Credit risk NET exposures relating to on-balance sheet items	
Other demand deposits	4,251
Financial assets held for trading – derivatives	13,995
Financial assets held for trading – debt securities	719
Financial assets designated at fair value through profit or loss – debt securities	337
Available-for-sale financial assets – debt securities	75,831
Loans and receivables to credit institutions	34,717
Loans and receivables to customers	532,524
- General governments	19,932
- Other financial corporations	11,702
- Non-financial corporations	197,406
- Households	303,484
Held-to-maturity investments	160,988
Derivatives – Hedge accounting	663
Credit risk exposure relating to off-balance sheet items	
Irrevocable financial guarantees given	20,960
Irrevocable loan commitments given	87,876
Total	**932,861**

in CZK million	2014
Credit risk NET exposures relating to on-balance sheet items	
Balances at central banks and other demand deposits	32,675
Financial assets held for trading – derivatives	18,740
Financial assets held for trading – debt securities	4,490
Financial assets designated at fair value through profit or loss – debt securities	374
Available-for-sale financial assets – debt securities	98,487
Loans and receivables to credit institutions	38,533
Loans and receivables to customers	500,039
- General governments	20,413
- Other financial corporations	17,067
- Non-financial corporations	176,887
- Households	285,672
Held-to-maturity investments	151,513
Derivatives – Hedge accounting	878
Credit risk exposure relating to off-balance sheet items	
Irrevocable financial guarantees given	21,410
Irrevocable loan commitments given	72,413
Total	**939,552**

Starting 2015 the Group started to use new NPL / NPE EBA definition. Based on this definition cash and cash balances at central banks are treated as a separate portfolio, which is excluded from the total credit risk exposure.
The resulting credit exposure as at 31 December 2015 and 2014 represents a worst case scenario, without taking into account any collateral held or other related credit enhancements. For presented assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 60,5% of the total exposure is derived from loans and advances to financial institutions and customers (2014: 57,3%); 25,4% represents investments in debt securities (2014: 27,1%).

The Group has no outstanding exposure to the sovereign debt of Greece, Italy, Ireland, Portugal or Spain.

Collateral securing the above receivables is as follows:

in CZK million	2015	2014
Loans and advances to credit institutions	2,225	1,965
Loans and advances to customers	234,652	265,302
Contingent liabilities	-	10,477
Total	**236,877**	**277,744**

Type of collateral securing the above receivables is as follows:

in CZK million	2015	2014
Guarantees	17,336	27,382
Real estate	199,477	221,770
Other (securities & other financial assets)	20,064	28,592
Total	**236,877**	**277,744**

The value of collateral is the lower of the collateral's nominal value multiplied by a valuation rate and the receivable balance. It is not always certain that the estimated collateral values will be realised. For details of the determination of collateral fair values, refer to the description above.

b) Credit risk exposure by industry and financial instrument

The following tables present Group's credit risk exposure by industry, broken down by financial instruments, as of each reporting date indicated.

Gross credit risk exposure by industry and financial instrument in 2015

				Debt instruments						
	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent liabilities	Credit risk exposure
in CZK million	At amortised cost					Fair value				
Agriculture and forestry	-	-	14,262	-	-	-	-	106	1,243	15,611
Mining	-	-	2,052	-	-	-	-	-	86	2,138
Manufacturing	-	-	49,894	121	-	-	1,142	452	19,509	71,118
Energy and water supply	-	-	21,207	-	-	-	810	805	7,268	30,090
Construction	-	-	7,459	-	-	-	-	12	12,149	19,620
Trade	1	-	35,156	-	-	-	-	146	9,604	44,907
Transport and communication	-	-	13,817	540	-	-	3,098	902	12,286	30,643
Hotels and restaurants	-	-	2,975	-	-	-	-	6	283	3,264
Financial and insurance services	4,250	34,731	10,878	12,044	599	337	6,714	8,435	1,601	79,589
Real estate and housing	-	-	67,511	3	-	-	-	297	5,540	73,351
Services	-	-	11,827	-	-	-	-	35	3,945	15,807
Public administration	-	-	34,536	148,286	120	-	64,067	3,362	2,066	252,437
Education, health and art	-	-	6,301	-	-	-	-	94	786	7,181
Private households	-	-	270,961	-	-	-	-	6	32,470	303,437
Other	-	-	-	-	-	-	-	-	-	-
Total	**4,251**	**34,731**	**548 836**	**160,994**	**719**	**337**	**75,831**	**14,658**	**108,836**	**949,193**

Gross credit risk exposure by industry and financial instrument in 2014

				Debt instruments						
	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent liabilities	Credit risk exposure
in CZK million	At amortised cost					Fair value				
Agriculture and forestry	-	-	14,176	-	-	-	-	167	1,094	**15,437**
Mining	-	-	1,997	-	-	-	-	1	102	**2,100**
Manufacturing	-	-	39,164	127	-	-	200	634	17,333	**57,458**
Energy and water supply	-	-	16,555	-	-	-	-	1,027	5,528	**23,110**
Construction	-	-	6,593	-	-	-	-	19	10,316	**16,928**
Trade	-	-	33,732	-	-	-	-	170	8,793	**42,695**
Transport and communication	-	-	11,667	943	-	-	2,065	734	4,036	**19,445**
Hotels and restaurants	-	-	3,287	-	-	-	-	5	224	**3,516**
Financial and insurance services	32,675	38,542	16,697	12,417	2,131	374	6,921	12,728	873	**123,358**
Real estate and housing	-	-	64,373	3	-	-	-	368	5,420	**70,164**
Services	-	-	9,904	-	-	-	-	51	4,498	**14,453**
Public administration	-	-	19,466	138,032	2,359	-	89,301	3,576	5,401	**258,135**
Education, health and art	-	-	7,561	-	-	-	-	108	1,369	**9,038**
Private households	-	-	271,239	-	-	-	-	28	28,836	**300,103**
Other	-	-	1,778	-	-	-	-	2	-	**1,780**
Total	**32,675**	**38,542**	**518,189**	**151,522**	**4,490**	**374**	**98,487**	**19,618**	**93,823**	**957,720**

c) Credit risk exposure by risk category

The following table presents the credit risk exposure of Group divided by risk category as of 31 December 2015, compared with the credit risk exposure as of 31 December 2014.

Gross credit risk exposure by risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 31 Dec 2015	847,451	72,620	5,983	23,139	949,193
Share of credit risk exposure	89.3%	7.7%	0.6%	2.4%	100.0%
Total exposure as of 31 Dec 2014	864,696	59,217	10,715	23,092	957,720
Share of credit risk exposure	90.3%	6.2%	1.1%	2.4%	100.0%
Change in credit risk exposure in 2015	(17,245)	13,403	(4,732)	47	(8,527)
Change	(2.0%)	22.6%	(44.2%)	0.2%	(0.9%)

Credit risk exposure by industry and risk category
The following tables present the credit risk exposure of the Group broken down by industry and risk category as of 31 December 2015 and 31 December 2014, respectively.

Gross credit risk exposure by industry and risk category in 2015

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	12,657	2,394	215	345	**15,611**
Mining	1,799	331	0	8	**2,138**
Manufacturing	55,260	11,104	991	3,763	**71,118**
Energy and water supply	25,684	3,603	487	315	**30,090**
Construction	13,963	3,302	549	1,805	**19,620**
Trade	32,975	8,156	496	3,280	**44,907**
Transport and communication	27,998	2,011	429	206	**30,643**
Hotels and restaurants	1,454	793	160	857	**3,264**
Financial and insurance services	74,750	4,210	309	320	**79,589**
Real estate and housing	55,445	15,401	569	1,937	**73,351**
Services	10,228	4,816	337	426	**15,807**
Public administration	251,194	1,209	34	-	**252,437**
Education, health and art	5,488	1,550	15	128	**7,181**
Private households	278,556	13,740	1,392	9,749	**303,437**
Other	-	-	-	-	**-**
Total	**847,451**	**72,620**	**5,983**	**23,139**	**949,193**

Gross credit risk exposure by industry and risk category in 2014

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	13,338	1,528	249	322	**15,437**
Mining	2,076	14	1	9	**2,100**
Manufacturing	45,339	7,111	2,023	2,984	**57,457**
Energy and water supply	18,415	3,372	979	343	**23,109**
Construction	11,143	3,321	1,155	1,310	**16,929**
Trade	32,592	6,850	1,381	1,846	**42,669**
Transport and communication	17,544	937	565	399	**19,445**
Hotels and restaurants	1,499	905	525	587	**3,516**
Financial and insurance services	117,941	5,416	177	213	**123,747**
Real estate and housing	56,823	9,385	1,645	2,311	**70,164**
Services	10,899	2,581	152	822	**14,454**
Public administration	255,628	2,462	39	7	**258,136**
Education, health and art	7,194	1,610	99	135	**9,038**
Private households	272,487	13,725	1,725	11,804	**299,741**
Other	1,778	-	-	-	**1,778**
Total	**864,696**	**59,217**	**10,715**	**23,092**	**957,720**

d) Financial Assets Past Their Due Dates

As at 31 December 2015 and 2014, the Group reports the following financial assets which are past their due dates, but not individually impaired:

As at 31 December 2015	Credit risk exposure				
in CZK million	Total	Thereof 31 -60 days past due	Thereof 61 -90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
Central banks	-	-	-	-	-
General governments	4	-	-	-	-
Credit institutions	134	-	-	-	-
Other financial corporations	31	98	1	-	-
Non-financial corporations	4,220	212	92	3	9
Households	2,250	760	340	2	21
Total	**6,639**	**1,070**	**433**	**5**	**30**

As at 31 December 2014	Credit risk exposure				
in CZK million	Total	Thereof 31 -60 days past due	Thereof 61 -90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
Central banks	-	-	-	-	-
General governments	18	7	-	2	-
Credit institutions	6	-	-	-	-
Other financial corporations	2	1	-	-	-
Non-financial corporations	1,572	217	83	8	18
Households	4,707	1,021	448	15	8
Total	**6,305**	**1,246**	**531**	**25**	**26**

e) Analysis of Individually Impaired Financial Assets

in CZK million	2015	2014
General governments	5	4
Credit institutions	135	222
Other financial corporations	158	268
Non-financial corporations	11,094	12,297
Households	9,555	13,106
Total	**20,947**	**25,897**

f) Exposures with forbearance measures – quantitative information

All exposures with forbearance measures relates to financial assest's category loans and advances. There are no exposures with forbearance measure reported by the Group resulting from debt instruments or loan commitments.

Analysis of performing and non-performing forborne exposures

2015

in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
General governments	5	5		
Non-financial corporations	3,091	309	2,783	2,303
Households	3,781	823	2,957	2,847
Total	**6,877**	**1,137**	**5,740**	**5,150**

2014

in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
Non-financial corporations	2,361	445	1,916	1,084
Households	3,908	1,140	2,768	2,655
Total	**6,269**	**1,585**	**4,684**	**3,739**

Analysis of the credit quality of financial assets as required by IFRS 7 including level of impairment and collateral as of 31.12.2015

in CZK million	Outstanding					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborne	Provisions	Collateral
General governments	5	-	-	5		
Households	834	99	2,847	3,780	1,243	1,478
Non-financial corporations	717	72	2,303	3,092	1,018	1,329
Total	**1,556**	**171**	**5,150**	**6,877**	**2,261**	**2,807**

Analysis of the credit quality of financial assets as required by IFRS 7 including level of impairment and collateral as of 31.12.2014

in CZK million	Outstanding					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborne	Provisions	Collateral
General governments	-	-	-	-		
Households	1,109	88	2,711	3,908	1,073	1,679
Non-financial corporations	440	11	1,910	2,361	728	458
Total	**1,549**	**99**	**4,621**	**6,269**	**1,801**	**2,137**

The carrying amount of forborn assets in comparison with other assets remaining the portfolio

in CZK million	2015			2014		
	Total portfolio	Forborne portfolio	Share on total portfolio	Total portfolio	Forborne portfolio	Share on total portfolio
General governments	19,932	5	0.0%	20,413	-	0.0%
Credit institutions	34,717	-	0.0%	38,533	-	0.0%
Other financial corporations	11,702	-	0.0%	17,067	-	0.0%
Non-financial corporations	197,407	2,073	1.1%	176,886	1,633	0.9%
Households	303,484	2,537	0.8%	285,673	2,835	1.1%
Total	**567,242**	**4,615**	**0.8%**	**538,572**	**4,468**	**0.8%**

The Bank does not report data in respect of carrying amount of the newly recognised assets for original forborne assets, which have been derecognised during the reporting period.

Level of the collective and specific impairment allowance held against forborne assets

	2015			2014		
in CZK million	Specific allowances	Collective allowances	Total	Specific allowances	Collective allowances	Total
Households	1,146	97	1,243	1,003	70	1,073
Non-financial corporations	908	110	1,018	667	61	728
Total	**2,054**	**207**	**2,261**	**1,670**	**131**	**1,801**

Reconciliation from the opening balance to the closing balance of forborn assets

2015

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2015)	-	2,360	3,907	6,267
Inflow (+)	5	2,067	1,662	3,734
Outflow (-)	-	(1,200)	(1,659)	(2,859)
Changes in outstanding (+/-)	-	(136)	(129)	(265)
Closing balance (31 December 2015)	**5**	**3,091**	**3,781**	**6,877**

2014

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2014)	38	4,702	3,749	8,489
Inflow (+)	-	612	2,425	3,037
Outflow (-)	(38)	(3,205)	(2,224)	(5,467)
Changes in outstanding (+/-)	-	251	(43)	208
Closing balance (31 December 2014)	**-**	**2,360**	**3,907**	**6,267**

Loss from the forborne exposures

2015

in CZK million	Loss	Direct write-offs
General governments	-	-
Non-financial corporations	92	-
Households	176	-
Total	**268**	-

2014

in CZK million	Loss	Direct write-offs
General governments	-	-
Non-financial corporations	77	-
Households	217	-
Total	**294**	-

Interest income from the forborne exposures

in CZK million	2015*)
General governments	1
Non-financial corporations	113
Households	256
Total	**370**

*) Data for 2014 are not available.

38.3 Market Risk

The Group is exposed to the impact of market risks. Market risks arise from open positions in interest rate, currency, equity, commodity financial instruments and even the credit spread included in the relevant positions within the Banking book (i.e. the credit spread is a part of a discounting factor). The value of open positions changes subject to general and specific financial market movements. The Group is exposed to the market risk arising from open positions in the Trading book. However, a significant component of market risk is also the interest rate risk associated with assets and liabilities and credit spread risk associated with marked-to-market positions included in the Banking book. There are several reasons why the credit spread risk is included: 1. The requirement in calculating economic capital to include the credit spread and to cover the impact of this risk factor; 2. A more precise calculation of security prices; and 3. To reflect the credit rating of issuers/counterparties.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Managing open positions in the interbank, derivative and capital markets arising from above mentioned activities.

The Group trades in the following derivative financial instruments through the OTC market:

- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps;
- Interest rate options such as swaptions, caps and floors;
- Commodity derivatives; and
- Credit derivatives.

In the area of exchange traded derivatives, the Group trades the following instruments:

- Bond futures;
- Equity and equity indices futures;
- Interest rate futures;
- Commodity futures; and
- Options in respect of bond futures.

The Group also trades, on behalf of its clients, with other less common currency options, such as digital or barrier. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the banking book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (foreign exchange swaps and cross currency swaps).

The majority of open positions arising from client transactions in the Group's trading book are transferred to the Erste Group Bank portfolio through back-to-back transactions. As such, the market risk arising from the Group's OTC transactions is managed within the Erste Group Bank portfolio. The Group retains in the trading portfolio the money market risk due to liquidity management (money market), equity risk and partially a residual risk from previously closed transactions. This residual risk is dynamically hedged at a macro level in line with the Group's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Group uses the value at risk methodology (VaR) to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The VaR values are calculated in the market risk system KvaR+ on a confidence level of 99% and one day horizon.. The KvaR+ system uses historical simulation for the VaR calculation based on two years history. VaR on different probability level and/or different time horizon is derived from the VAR 99% on 1 day horizon using the scaling assuming a normal distribution of profit and losses. For other purposes the VaR is also determined for a period of one month or one year and the probability levels (99.9%, 99.98%). The Board of Directors establishes VaR limits for the trading and banking book portfolio as the Group's maximum acceptable exposure to market risk. For the trading portfolio VaR sub-limits (1 day, 99%) in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, equity prices, interest rates, volatility, commodity and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is used for the Banking book too. For the purposes of the VaR calculations the Banking book loans and deposits are represented by equivalent interest rate positions. The Banking book VaR (1 month, 99%) is reported to the Assets and Liabilities Committee ('ALCO') on a monthly basis while compliance with the limit is monitored by Risk Management on a daily basis. The acceptable level of risk is based on the assessment of the capital available to cover risks based on the 'ICAAP' methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the Banking book, taking into account both the perspective of strategic portfolio management and the accounting measurement of securities portfolios.

The table below summarizes the VaR values as at 31 December 2015 and 2014 on the confidence level of 99%. The table has been extended because of the inclusion of credit spread risk into the relevant positions of the banking book and the trading book portfolios. The table shows only the Bank's amounts:

As at 31 December 2015 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Commodity Risk	Credit Spread risk
Trading book							
Daily value	11	(4)	11	4	-	-	-
Monthly value	52	(21)	52	19	1	-	-
Average of daily values per year	8	(3)	7	2	-	-	1
Average of monthly values per year	38	(12)	34	10	-	1	4
Banking book							
Daily value	312	(90)	301	4	-	-	96
Monthly value	1,463	(421)	1,413	19	-	-	452
Average of daily values per year	317	(68)	238	1	-	-	140
Average of monthly values per year	1,487	(318)	1,117	4	-	-	656

As at 31 December 2014 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Commodity Risk	Credit Spread risk
Trading book							
Daily value	5	(3)	3	3	-	-	2
Monthly value	23	(13)	14	12	-	-	10
Average of daily values per year	7	(3)	5	3	-	-	2
Average of monthly values per year	31	(23)	26	14	1	2	11
Banking book							
Daily value	238	(124)	197	2	6	-	157
Monthly value	1,114	(581)	923	9	27	-	736
Average of daily values per year	212	(86)	153	2	10	-	133
Average of monthly values per year	994	(400)	719	8	45	-	622

In addition, the Group uses stress testing or an analysis of impacts of adverse developments in market risk factors on the market value of the Trading book and on the parts of the Banking book revalued to market values. The Scenarios are based on the historical extremes and experts' opinion of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to FMRMC. In the Comprehensive Stress testing the complex scenario impact on the Group is analysed on quarterly basis. The Group monitors financial news, analyses market movements and prepares for different scenarios with respect to the position of the economy.

INTEREST RATE RISK

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group manages the interest rate risk of the Banking book by monitoring the repricing dates of the Group's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Group's net interest income.

For monitoring and measuring the banking book interest rate exposures, the Group uses shifts in the yield curves focused on monitoring potential impacts of market interest rate movements on the net interest income. A basic analysis focuses on the sensitivity of the net interest income to one-off changes of market interest rates ('rate shock').

The banking book interest rate exposures analyses are performed on a monthly basis. The current level of the interest rate risk exposure is assessed by ALCO on a monthly basis in the context of the overall development of financial markets and the Czech banking sector, as well as any structural changes in the Group's statement of financial position.

In order to measure the interest rate risk exposure within the trading portfolio, the Group uses the present value of a basis point ('PVBP) defined as a sensitivity to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency.

The following table is based on the exposure of the Group to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. A new calculation method which also takes credit spreads into account was implemented from 2014. The following table shows the impact on the income statement and other comprehensive income of the Group if the CZK or EUR yield curves sharply increased/decreased by 100 points at the beginning of the respective year and other interest rates remained unchanged.

	2016		2015	
in CZK million	Interest rate increase	Interest rate decrease	Interest rate increase	Interest rate decrease
CZK				
Income statement	1,849	(465)	1,412	(324)
Other comprehensive income	(1,582)	880	(1,901)	1,073
EUR				
Income statement	95	(29)	(53)	79
Other comprehensive income	(131)	33	(87)	21

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the value of financial instruments in both the trading and banking books will fluctuate due to changes in foreign exchange rates. The Group manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition, the Group monitors special sensitivity limits for foreign currency option contracts known as ‘greeks’ sensitivity analysis. The foreign currency risk of all financial instruments is transferred via the currency positions which are managed by the Trading Department in accordance with set currency sensitivity limits. In addition to the monitoring of limits, the Group uses the VaR concept for measuring the risk arising from open positions in all currency instruments.

Foreign currency exposures are primarily carried by the Bank and real estate companies within the Group as they generate the bulk of their rental income in EUR. The foreign currency risk of other Group entities is limited. With regard to real estate companies, the Group uses ‘inherent’ hedging where the companies exposed to foreign currency risk as a result of EUR denominated rental income are refinanced by loans denominated in EUR.

EQUITY RISK

To monitor and manage the equity risk inherent in the trading and banking books, the Group uses VaR methodology and sensitivity analysis which is based on the exposure to the risk of changes in the price of shares as of the reporting date. With respect to the increased volatility of share prices, the equity risk represents a significant component of risks despite smaller volumes of share positions.

COMMODITY RISK

The commodity instruments appear solely in the trading portfolio as supporting instruments for client transactions. The major part of commodity derivatives is secured on a ‘back-to-back’ basis with a third party.

The Group is active in trading on electricity energy market where it hedges on macro basis transactions closed with its customers. Residual position is then managed on the Group´s trading book and is managed by Structured products trading desk within approved market limits.

38.4 Liquidity Risk

Definition and overview

The liquidity risk is defined in the Group in line with the principles set out by the Basel Committee on Banking Supervision and the CNB. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group entities cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that credit institutions in the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group’s own refinancing cost or spread.

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period for significant currencies. This analysis determines the maximum period during which the entity can survive a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time customers' deposits significant outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions estimating the effect from collateral outflow in case of adverse market movements.

As far back as 2011, the Bank's risk control has been based on the new Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). In the past years, the Bank took part in the Quantitative Impact Study (QIS) coordinated by the European Banking Authority (EBA) that is monitoring Group LCR and NSFR on a quarterly basis. Internally, the ratios are monitored on entity level, and from 2012 on internal targets are set for them. In 2014, the Bank successfully started the official monitoring phase. At the end of 2015 both LCR and NSFR for fhe Group were above 100%.

In 2013 the Bank introduced Intraday Liquidity Buffer for intraday liquidity risk management. The Buffer consists of highly liquid assets (central bank reserves, CZ T-bills) which can be used intraday in case of abrupt crisis. The Buffer is constructed to cover intraday operational and counterparty stress. The internal limit is set based on central bank clearing account transfers and is reviewed periodically to reflect current market conditions. The other entities of the Group take only minor part in intraday transactions therefore the Buffer is applied only for the Bank on individual level.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by Erste Group.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets and Intraday liquidity buffer target. Limit breaches are reported to the Asset Liability Committee. The Comprehensive Contingency Funding Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each significant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. For demand deposits, expected cash flows are calculated based on their liquidity profile which is provided by ALM and also used for FTP.

The following table shows the liquidity gaps as of 31 December 2015 and 31 December 2014

	< 1 month		1 -12 months		1-5 years		> 5 years	
in CZK million	2015	2014	2015	2014	2015	2014	2015	2014
Liquidity GAP	183,946	156,223	(105,167)	(88,023)	(6,230)	(10,701)	16,242	39,016

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Group has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Group regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation.

The term structure of the Group's counterbalancing capacity as of year-end 2015 and year-end 2014 are shown in the tables below:

As at 31 December 2015 in CZK million	< 1 week
Cash, excess reserve	93,562
Liquid assets	187,611
Other central bank eligible assets	-
Thereof retained covered bonds	-
Thereof credit claims	-
Counterbalancing capacity	**281,172**

As at 31 December 2014 in CZK million	< 1 week
Cash, excess reserve	36,329
Liquid assets	194,843
Other central bank eligible assets	1,556
Counterbalancing capacity	**232,728**

The figures above show the total amount of potential liquidity available for the Group in a going concern situation.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2015 and 31 December 2014 respectively, were as follows:

As at 31 December 2015 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5- years	> 5 years
Non-derivative liabilities	**815,710**	**818,068**	**676,673**	**72,395**	**50,058**	**18,942**
Deposits by banks	83,915	83,375	38,523	10,281	20,975	13,596
Customer deposits	713,836	716,206	635,683	56,803	22,566	1,154
Debt securities in issue	15,493	16,021	1	5,311	6,517	4,192
Subordinated liabilities	-	-	-	-	-	-
Other financial liabilities	2,466	2,466	2,466	-	-	-
Derivative liabilities	**15,440**	**15 593**	**88**	**1,448**	**6,512**	**7,545**
Contingent liabilities	**108,836**	**108,836**	**1,319**	**68,750**	**25,825**	**12,942**
Financial guarantees	20,960	20,960	1,309	9,262	8,147	2,242
Irrevocable commitments	87,876	87,876	10	59,488	17,678	10,700
Total	**939,986**	**942,497**	**678,080**	**142,593**	**82,395**	**39,429**

As at 31 December 2014 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5- years	> 5 years
Non-derivative liabilities	**764,399**	**759,661**	**613,773**	**71,414**	**56,645**	**17,829**
Deposits by banks	54,770	55,210	22,602	2,489	15,259	14,860
Customer deposits	682,687	676,647	586,296	62,104	26,344	1,903
Debt securities in issue	23,571	24,392	1,766	6,817	15,015	794
Subordinated liabilities	262	303	-	4	27	272
Other financial liabilities	3,109	3,109	3,109	-	-	-
Derivative liabilities	**20,823**	**14,502**	**3,161**	**11,341**	**-**	**-**
Contingent liabilities	**93,823**	**93,823**	**819**	**59,758**	**31,114**	**2,132**
Financial guarantees	21,410	21,410	339	7,023	11,919	2,129
Irrevocable commitments	72,413	72,413	480	52,735	19,195	3
Total	**879,045**	**867,986**	**617,753**	**142,513**	**87,759**	**19,961**

38.5 Operational Risk

In accordance with regulatory requirements, the Group defines operational risk as the risk of losses arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of losses arising from external events, including losses due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Group put in place a standardised categorisation of operational risks. This classification became the basis of the 'Book of Risks of Česká spořitelna', developed in cooperation with the Risk Management and Internal Audit departments. The Book of Risks is a tool used to achieve unification of risk categorisation in order to ensure consistent risk monitoring and evaluation.

The Group has cooperated with an external supplier in developing a specialised software application to collect data about operational risk which conforms to the data collection requirements. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. In addition to monitoring actual occurrence of operational risk, the Group also pays attention to how the operational risk is perceived by management. In this respect, the Group has introduced and is further expanding methods with the aim of identifying severe potential threats in order to implement preventative measures before losses materialise. For this purpose, the following tools are used: Risk and Control Self-Assessment, Key Risk Indicators and Scenario Analysis. The Group also actively manages risks related to outsourced activities. Depending on the specific method, this type of assessment is done on a continuous, monthly or annual basis.

The Group successfully passed validation for managing of operational risk according to Advanced Measurement Approaches (AMA). Based on this method a capital charge related to operational risk is properly computed and allocated since July 1st, 2009.

An important tool in mitigating losses arising from operational risks is the Group's insurance programme which was put in place in 2002. This insurance programme involves insurance against property damage as well as risks arising from banking activities and liability risks. Since 2004, the Group has been a member of the Erste Group insurance programme which enhances the insurance protection specifically with regard to damages that may materially impact the income statement.

Top management of the Bank is informed quarterly about the risk profile and the most important operational risk events via the CORS (Compliance, Operational Risk and Security) committee. The chairman of the committee is the Chief Risk Officer (member of the Board of Directors responsible for risk management).

39. Hedge accounting

The interest rate and FX risk of the banking book is managed by The Group's ALM department. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives applied in accordance with IFRS. The main guideline for interest rate risk positioning is the Group Interest Rate Risk Strategy that is approved by the Group ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Group statement of financial position. In general, the Group policy is to swap substantial fixed or structured issued bonds to floating items and as such to manage the targeted interest rate risk profile by other statement of financial position items. Interest rate swaps are the most common instruments used for fair value hedges. Concerning loans, purchased securities and securities in issuance, fair value is also hedged by means of cross-currency swaps, swaptions, caps, floors and other types of derivative instruments.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise net interest income. The most common such hedge in The Group consists of interest rate swaps hedging variable cash flows of floating assets into fixed cash flows. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, CZK 31 million (2014: CZK 14 million) was taken from the cash flow hedge reserve and recognised as expense in the consolidated income statement; while CZK 105 million (2014: CZK 186 million) was recognised directly in other comprehensive income. The majority of the hedged cash flows are likely to occur within the next five years and will then be recognised in the consolidated income statement.

As at 31 December 2015, the loss on hedging derivatives used for fair value hedging was CZK 286 million (2014: loss CZK 229 million); the gain due to changes in the fair value of hedged items was CZK 317 million (2014: gain CZK 244 million).

Fair values of hedging instruments are disclosed in the following table:

	2015		2014	
in CZK million	**Positive fair value**	**Negative fair value**	**Positive fair value**	**Negative fair value**
Hedging instrument - fair value hedge	342	5	670	22
Hedging instrument - cash flow hedge	321	491	208	147
Total	**663**	**496**	**878**	**169**

At the end of 2015 the Bank had 42 CF hedge structures with maturity from 2018 to 2023. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor).

Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million
2018	2,000	
2019	2,350	
2020	1,300	20
2021	3,050	250
2022	9,910	575
2023	-	50
Total	**18,610**	**895**

40. Fair value of assets and liabilities

Determination of fair value

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

The best indication of an asset's or liability's fair value is provided by quoted market prices in an active market. Where quoted market prices in an active market are available, they are used to measure the asset's or liability's value (level 1 of the fair value hierarchy). The measurement of fair value by the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Where no market prices are available, fair value is determined on the basis of valuation models that are based on observable market information (level 2 of the fair value hierarchy). In some cases, the fair value of an asset or liability can be determined neither on the basis of market prices nor of valuation models that rely entirely on observable market data. In such cases, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions (level 3 of the fair value hierarchy). For level 3 valuations typically market PDs determined from historical PDs mapped to a basket of liquid bonds/CDS are used as unobservable parametres.

If any unobservable input in the valuation model is significant and the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy.

Fair values of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the statement of financial position

The measurement of fair value at The Group, a.s. is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of the valuation models and inputs

The Group, a.s. uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Securities

For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modeling techniques including also methods described for OTC-derivatives. The fair value of financial liabilities designated at Fair Value through Profit and Loss under the fair value option is determined in consistency with similar instruments held as assets. The spread adjustment for Erste Group's own credit risk is derived from buy-back levels of own issuances. Techniques for equity securities may also include models based on earnings multiples.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps, commodity swaps) are valued by standard valuation models. These models include discounting cash flow models and option models of Black-Scholes-. Models are calibrated on quoted market data (including implied volatilities). Valuation model for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

The Group values derivatives at mid-market levels. Moreover the Group daily calculates, on the portfolio level, bid/ask adjustment for derivatives position.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. Modeling of the expected exposure is based on option replication strategies for most of the counterparties and products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counterparties with small threshold amounts no CVA/DVA was taken into account.. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Group's probability of default has been derived from the buy-back levels of the Erste Group's issuances.

According to the described methodology the cumulative CVA-adjustments amounts to CZK (472) million and the total DVA-adjustment amounts to CZK 304 million.

Description of the valuation process for fair value measurements categorised within Level 3

A level 3 position involves one or more significant inputs that are not directly observable on the market. The responsibility for valuation of a position of measured at fair value is independent from trading units.

Fair value hierarchy

The table below details the methods used to determine the fair value with respect to levels of fair value hierarchy.

	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
in CZK million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
ASSETS								
Financial assets - held for trading	89	2,345	13,438	19,757	1,198	1,129	**14,725**	**23,231**
Derivatives	-		12,797	17,611	1,198	1,129	**13,995**	**18,740**
Other trading assets	89	2,345	641	2,146	-	-	**730**	**4,491**
Financial assets designated at fair value through profit or loss	498	30	319	1,134	90	108	**907**	**1,272**
Financial assets - available for sale	66,061	62,989	10,272	35,887	1,720	413	**78,053**	**99,289**
Equity instruments	502	-	-	388	1,720	413	**2,222**	**801**
Debt securities	65,559	62,989	10,272	35,499	-	-	**75,831**	**98,488**
Derivatives Hedge Accounting	-	-	663	878	-	-	**663**	**878**
Total assets	**66,648**	**65,364**	**24,692**	**57,656**	**3,008**	**1,650**	**94,348**	**124,670**
LIABILITIES								
Financial liabilities held for trading	-	329	14,926	23,102	30	-	**14,956**	**23,431**
Derivatives	-	-	14,914	20,654	30	-	**14,944**	**20,654**
Other trading liabilities	-	329	12	2,448	-	-	**12**	**2,777**
Financial liabilities designated at fair value through profit or loss	-	-	4,019	9,664	-	-	**4,019**	**9,664**
Deposits from customers	-	-	4,019	8,874	-	-	**4,019**	**8,874**
Debt securities issued	-	-		790	-	-	**-**	**790**
Derivatives Hedge Accounting	-	-	496	169	-	-	**496**	**169**
Total liabilities	**-**	**329**	**19,441**	**32,935**	**30**	**-**	**19,471**	**33,264**

Changes in volumes of Level 1 and Level 2

This paragraph describes the changes in Volumes of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

	2015		2014	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	(1,615)	(1,539)	(1,397)	1,397
Net transfer from Level 2	1,539	1,615	345	(345)
Purchases/sales/expiries	1,360	(28,011)	8,056	(16,220)
Changes in derivatives	-	(5,029)	(88)	(3,469)
Total year-to-date change	**1,284**	**(32,964)**	**6,916**	**(18,637)**

The reclassification from Level 1 to Level 2 resulted from decreases in market depth for the relevant securities.

The quoted bond and equities were reclassified from Level 2 to Level 1 as a result that quoted price (observable input) exists as at 31 of December 2015.

Movements in Level 3 of financial instruments measured at fair value

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in CZK million	Dec 2014	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ Settle-ments	Transfer into Level 3	Transfer into Level 3	Currency translation	2015
ASSETS									
Financial assets - held for trading	**1,129**	172	-	118	-	168	(389)	-	**1,198**
Derivatives	**1,129**	172	-	118	-	168	(389)	-	**1,198**
Financial assets designated at fair value through profit or loss	**108**	(28)	-	13	-	-	-	(3)	**90**
Financial assets - available for sale	**413**	0	1,343	22	(58)	-	-	-	**1,720**
Total assets	**1,650**	**144**	**1,343**	**153**	**(58)**	**168**	**(389)**	**(3)**	**3,008**

in CZK million	Dec 2013	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ Settle-ments	Transfer into Level 3	Currency translation	2014
ASSETS								
Financial assets - held for trading	-	-	-	-	-	1,129	-	**1,129**
Derivatives	-	-	-	-	-	1,129	-	**1,129**
Financial assets designated at fair value through profit or loss	109	(20)	-	17	-	-	2	**108**
Financial assets - available for sale	331	-	93	48	(62)	-	3	**413**
Total assets	**440**	**(20)**	**93**	**65**	**(62)**	**1,129**	**5**	**1,650**

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 because credit
valuation adjustment (CVA) has a material impact in market value for these derivatives and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs). Part of Level 3 derivatives was recategorized into Level 2 because CVA has not a material impact in market value of these derivatives any more.

Gains or losses on Level 3 instruments held at the reporting period's end and which are included in profit or loss are as follow:

in CZK million	2015 Unrealized gain/loss in profit or loss	2014 Unrealized gain/loss in profit or loss
ASSETS		
Financial assets held for trading	172	
Financial assets designated at fair value through profit or loss	(28)	(20)
Total	**144**	**(20)**

The volume of Level 3 financial assets can be allocated to the following two categories:

- Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.

Sensitivity analysis for Level 3 measurements

The following table shows the sensitivity analysis using reasonably possible alternatives per product type:

	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
in CZK million	**Dec 14**	**Dec 15**	**Dec 14**	**Dec 15**
Derivatives	84	66	(124)	(92)
Income statement	84	66	(124)	(92)
Equity instruments	18	99	(37)	(166)
Income statement	2	2	(5)	(4)
Other comprehensive income	16	97	(32)	(162)
Total	**102**	**165**	**(161)**	**(258)**
Income statement	**86**	**68**	**(129)**	**(96)**
Other comprehensive income	**16**	**97**	**(32)**	**(162)**

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding market values.

Following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

- for debt securities range of credit spreads between +100 basis points and – 75 basis points,
- for equity related instruments the price range between -10% and +5%,
- for CVA on derivatives PDs rating upgrade/downgrade by one notch, the range for LGD between -5% and +10%.

The Group has considered the impact of the revaluation of Visa Europe Ltd. equity instrument and recalculated the fair value of its holding in Visa Europe Ltd. to reflect the market conditions (the movement is reported in the line Equity insruments Other comprehensive income of the above mentioned sensitivity analysis).

Financial instruments whose fair value is disclosed in the notes

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2015 and for the year-end 2014.

2015 in CZK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	111,027	111,027	-	-	-
Financial assets - held to maturity	160,988	198,187	167,490	30,697	-
Loans and receivables to credit institutions	34,717	35,194	-	-	35,194
Loans and receivables to customers	532,524	552,385	-	576	551,809
LIABILITIES					
Financial liabilities measured at amortised costs	811,679	826,718	-	31,313	795,405
Deposits from banks	83,915	83,223	-	-	83,223
Deposits from customers	709,817	709,728	-	-	709,728
Debt securities issued	15,493	31,313	-	31,313	-
Other financial liabilities	2,454	2,454	-	-	2,454
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	20,960	20,960	-	-	20,960
Irrevocable commitments	87,876	87,876	-	-	87,876

2014 in CZK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	54,489	54,489	-	-	-
Financial assets - held to maturity	151,513	175,215	160,498	14,717	-
Loans and receivables to credit institutions	38,533	38,384	-	-	38,384
Loans and receivables to customers	500,039	493,145	-	371	492,774
LIABILITIES					
Financial liabilities measured at amortised costs	751,959	755,936	-	23,573	732,363
Deposits from banks	54,570	54,520	-	-	54,520
Deposits from customers	671,565	674,062	-	-	674,062
Debt securities issued	23,043	24,573	-	23,573	1,000
Other financial liabilities	2,781	2,781	-	-	2,781
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	21,410	27,108	-	-	27,108
Irrevocable commitments	72,413	71,288	-	-	71,288

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available, otherwise it is estimated by taking into consideration the actual interest rate environment and in this case they are allocated to Level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads, and these are allocated to Level 3.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated market value and the notional amount of the hypothetical loan equivalents represents the fair value of these contingent liabilities.

Fair values of non-financial assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year-end 2015 and 2014:

2015

in CZK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Assets whose Fair Value is disclosed in the notes					
Investment property	4,949	4,297	-	-	4,297

2014

in CZK million	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Assets whose Fair Value is disclosed in the notes					
Investment property	7,342	7,429	-	-	7,429

Investment Property

The valuations of investment property is based on the valuation of accredited independent valuer with a recognised and relevant professional qualification. The valuation of investment property is carried out using the comparative and investment methods. The assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the property, taking into account size, location, terms, covenant and other material factors.

41. Financial instruments per category according to IAS 39

The Group classifies financial instruments into trading and banking (investment) portfolios in accordance with BASEL II rules as per CNB Regulation No. 163/2014 Coll., on the performance of the activityof banks, savings and lending associates and securities traders (henceforth 'Regulation 163/2014'). The Group applies various techniques to the management of the risk within the banking and trading books (refer to Note 38).

The table below shows the classes of financial assets and liabilities reported by the Group according to IFRS 7 requirements.

	As of 31 December 2015								
	Category of financial instruments								
in CZK million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
ASSETS									
Cash and cash balances	111,027	-	-	-	-	-	-	-	**111,027**
Loans and receivables to credit institutions	34,717	-	-	-	-	-	-	-	**34,717**
Loans and receivables to customers	518,302	-	-	-	-	-	-	14,222	**532,524**
Derivative financial instruments	-	-	13,995	-	-	-	663	-	**14,658**
Trading assets	-	-	730	-	-	-	-	-	**730**
Financial assets - at fair value through profit or loss	-	-	-	907	-	-	-	-	**907**
Financial assets - available for sale	-	-	-		78,053	-	-	-	**78,053**
Financial assets - held to maturity	-	160,988	-		-	-	-	-	**160,988**
Total financial assets	**664,046**	**160,988**	**14,725**	**907**	**78,053**	**-**	**663**	**14,222**	**933,604**
LIABILITIES									
Deposits from banks	-	-	-	-	-	83,915	-	-	**83,915**
Deposits from customers	-	-	-	4,019	-	709,817	-	-	**713,836**
Debt securities in issue	-	-	-		-	15,493	-	-	**15,493**
Other financial liabilities	-	-	-		-	2,454	-	-	**2,454**
Derivative financial instruments	-	-	14 944	-	-	-	496	-	**15,440**
Trading liabilities	-	-	12	-	-	-	-	-	**12**
Subordinated liabilities	-	-	-	-	-	-	-	-	**0**
Total financial liabilities	**-**	**-**	**14,956**	**4,019**	**-**	**811,679**	**496**	**-**	**831,150**

	As of 31 December 2014								
	Category of financial instruments								
in CZK million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
ASSETS									
Cash and cash balances	54,489	-	-	-	-	-	-	-	**54,489**
Loans and receivables to credit institutions	38,533	-	-	-	-	-	-	-	**38,533**
Loans and receivables to customers	487,176	-	-	-	-	-	-	12,863	**500,039**
Derivative financial instruments	-	-	18,740	-	-	-	878	-	**19,618**
Trading assets	-	-	4,491	-	-	-	-	-	**4,491**
Financial assets - at fair value through profit or loss	-	-	-	1,272	-	-	-	-	**1,272**
Financial assets - available for sale	-	-	-		99,289	-	-	-	**99,289**
Financial assets - held to maturity	-	151,513	-		-	-	-	-	**151,513**
Total financial assets	**580,198**	**151,513**	**23,231**	**1,272**	**99,289**	**-**	**878**	**12,863**	**869,244**
LIABILITIES									
Deposits from banks	-	-	-	-	-	54,570	-	-	**54,570**
Deposits from customers	-	-	-	8,874	-	671,565	-	-	**680,439**
Debt securities in issue	-	-	-	790	-	22,781	-	-	**23,571**
Other financial liabilities	-	-	-		-	2,781	-	-	**2,781**
Derivative financial instruments	-	-	20,654	-	-	-	169	-	**20,823**
Trading liabilities	-	-	2,777	-	-	-	-	-	**2,777**
Subordinated liabilities	-	-	-	-	-	262	-	-	**262**
Total financial liabilities	**-**	**-**	**23,431**	**9,664**	**-**	**751,959**	**169**	**-**	**785,223**

42. Audit fees and other consultancy fees

The following table contains fundamental audit fees and other fees charged by the auditors (of Česká spořitelna, a.s. and subsidiaries; the auditors primarily being Ernst & Young) in the financial years 2015 and 2014:

in CZK million	2015	2014
Audit fees	44	37
Other consultancy fees	4	5
Total	**48**	**42**

43. Contingent assets and liabilities

In the ordinary course of business, the Group becomes party to various financial transactions that are not reflected in the statement of financial position and are referred to as off-balance sheet financial instruments. The following represent the notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

It is not practicable to disclose the information about uncertainties relating to the amounts or timing of any outflows related to contingent liabilities or the possibility of any related reimbursements.

Legal Disputes

At the reporting date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Group is named are resolved.

The Group is involved in various claims and legal proceedings of a special nature. The Group also acts as a defendant in a number of legal disputes filed with the arbitration court. 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.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Group believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

If, in connection with the litigation, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Group recognises a provision for legal disputes (refer to Note 30).

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to commitments to extend credit represents a potential loss for the Group. The Group estimates the potential loss on the basis of historical developments of CCFs, PDs and LGDs. CCFs indicate the likelihood of the Group paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Group believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments is minimal.

In 2015, the Group recorded impairment allowances for off-balance sheet risks to cover potential losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2015, the aggregate balance of these allowances was CZK 406 million (2014: CZK 248 million). Refer to Note 30.

in CZK million	2015	2014
Amounts owed under guarantees and letters of credit	20,960	21,410
Undrawn loan commitments	87,876	72,413
Total	**108,836**	**93,823**

44. Analysis of remaining maturities

The breakdown of the Group's assets and liabilities based on contractual maturities as at 31 December 2015 and 2014 was as follows:

in CZK million	2015		2014	
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
Cash and cash balances	111,027	-	54,489	-
Financial assets held for trading	14,364	361	23,231	-
Financial assets designated at fair value through profit or loss	473	435	500	772
Available-for-sale financial assets	2,619	75,435	30,179	69,110
Loans and receivables	132,452	434,790	139,103	399,469
Held-to-maturity investments	7,413	153,574	18,797	132,716
Derivatives – Hedge accounting	663	-	878	
Tangible assets	-	12,318	-	13,431
Investment property	-	4,949	-	7,342
Intangible assets	-	3,966	-	3,593
Tax assets	740	146	590	112
Other assets	3,858	-	8,104	173
TOTAL ASSETS	**273,609**	**685,974**	**275,871**	**626,718**
Financial liabilities held for trading	14,956	-	23,431	-
Financial liabilities designated at fair value through profit or loss	3,610	409	6,263	3,401
Financial liabilities measured at amortised cost	346,299	465,380	253,784	498,175
Derivatives – Hedge accounting	496	-	169	-
Provisions	-	1,862		1,833
Commitments and guarantees given	-	406	3	245
Other provisions	2	314	1	336
Tax liabilities	100	621	197	322
Other liabilities	4,983	183	6,443	203
TOTAL LIABILITIES	**370,446**	**469,175**	**290,291**	**504,515**

45. Details of the companies wholly or partly owned by the Group a.s. as of 31 December 2015

The tables below present material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments.

Company name, registered office		2015 Interest in %	2014 Interest in %
Fully consolidated subsidiaries			
Credit institutions			
Stavební spořitelna České spořitelny, a.s.	Prague	100.0%	100.0%
Other financial institutions			
brokerjet České spořitelny, a.s.	Prague	100.0%	100.0%
CEE Property Development Portfolio 2 a.s. (‘CPDP 2 a.s.’)	Prague	100.0%	100.0%
CEE Property Development Portfolio B.V. (‘CPDP B.V.’)	The Netherlands	20.0%	20.0%
CS Investment Limited	Guernsey	100.0%	100.0%
CS Property Investment Limited (‘CSPIL’)	Cyprus	100.0%	100.0%
Czech and Slovak Property Fund B.V. (‘CSPF B.V.’)	The Netherlands	20.0%	20.0%
Czech TOP Venture Fund B.V.(‘CTVF B.V.’)	The Netherlands	84.0%	84.0%
Česká spořitelna – penzijní společnost, a.s.	Prague	100.0%	100.0%
Erste Leasing, a.s.	Znojmo	100.0%	100.0%
Factoring České spořitelny, a.s.	Prague	100.0%	100.0%
MOPET CZ a.s.	Prague	100.0%*	93.9%
REICO investiční společnost České spořitelny, a.s.	Prague	100.0%	100.0%
s Autoleasing SK, s.r.o.	Slovakia	100.0%	100.0%
s Autoleasing, a.s.	Prague	100.0%	100.0%
Other			
BECON s.r.o.	Prague	100.0%	100.0%
BGA Czech, s.r.o.	Prague	100.0%	100.0%
Campus Park a.s.	Prague	100.0%	100.0%
CP Praha s.r.o.	Prague	100.0%	100.0%
CPDP 2003 s.r.o.	Prague	100.0%	100.0%
CPDP Logistics Park Kladno I a.s.	Prague	100.0%	100.0%
CPDP Logistics Park Kladno II a.s.	Prague	100.0%	100.0%
CPDP Prievozská a.s.	Slovakia	100.0%	100.0%
CPDP Shopping Mall Kladno, a.s.	Prague	0.0%	100.0%
CPP Lux S.A.R.L.	Luxemburg	99.9%	99.9%
ČS do domu, a.s.	Prague	100.0%	100.0%
Erste Corporate Finance, a.s.	Prague	100.0%	100.0%
Erste Energy Services, a.s.	Prague	100.0%	100.0%
Erste Grantika Advisory, a.s.	Brno	100.0%	100.0%
Euro Dotácie, a.s.	Slovakia	66.0%	66.0%
Gallery MYŠÁK a.s.	Prague	100.0%	100.0%
Nové Butovice Development s.r.o.	Prague	100.0%	100.0%
Realitní společnost České spořitelny, a.s.	Prague	100.0%	100.0%
s IT Solutions CZ, s.r.o.	Prague	100.0%*	40.0%
Smíchov Real Estate, a.s.	Prague	0.0%	100.0%
Trenčín Retail Park a.s.	Slovakia	0.0%	100.0%
VĚRNOSTNÍ PROGRAM IBOD, a.s.	Prague	100.0%	100.0%
Other investments			
Other financial institutions			
DINESIA a.s.	Prague	100.0%	100.0%
Other			
CBCB - Czech Banking Credit Bureau, a.s.	Prague	20.0%	20.0%
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	40.0%	40.0%
Investičníweb s.r.o**)	Prague	100.0%	100.0%
ÖCI-Unternehmensbeteiligungs G.m.b.H.	Austria	40.0%	40.0%
Procurement Services CZ, s.r.o.	Prague	40.0%	40.0%
První certifikační autorita, a.s.	Prague	23.3%	23.3%
RVG Czech, s.r.o	Prague	100.0%	100.0%
s IT Solutions SK, spol. s r.o.	Slovakia	23.5%	23.5%
S SERVIS, s.r.o.	Znojmo	100.0%	100.0%
Holding Card Service, s.r.o.	Prague	100.0%	0%
Trenčín Retail Park 1 a.s.	Slovakia	100.0%	100.0%
Trenčín Retail Park 2 a.s.	Slovakia	100.0%	100.0%

*) Increase (movement) in ownership was not registered by the Commercial Register as of 31 December 2015.
**) Česka spořitelna, a.s. purchased the interest in Investičníweb s.r.o. from its subsidiary Brokerjet, this movement was not registered by the Commercial Register as of 31 December 2015

The Group fully consolidates the investments in the real estate funds CPDP B.V., and CSPF B.V. in its consolidated financial statements. While the Group holds 20% of the issued share capital of CPDP B.V., and CSPF B.V., and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Group receiving substantially all of the rewards and bearing substantially all of the risks of the investment.

During the year ended 31 December 2015, the portfolio of subsidiary and associate undertakings underwent the following changes:

- In June 2015 sold 100 % of its interest in Smíchov Real Estate, a.s.
- In September 2015 sold 100 % of its interest in CPDP Shopping Mall Kladno, a.s.
- In September 2015 the Bank increased its share in MOPET CZ a.s. throughout the emission of additional shares in amount of CZK 25 million and increased the share capital held by the Bank from 93,9 % to 95,4%.
- In November 2015 sold 100 % of its interest in Trenčín Retail Park a.s.
- In December 2015 the Bank bought additional shares in MOPET CZ a.s. for CZK 1 million and increased the share capital held by the Bank from 95,4 % to 100% - this change was not acknowledged by the Commercial Register as of 31 December 2015.
- In December 2015 the Bank bought additional shares in s IT Solutions CZ, s.r.o. for CZK 24 million from the existing shareholders and increased the share capital held by the Bank from 40 % to 100%.- this change was not acknowledged by the Commercial Register as of 31 December 2015.

During the year ended 31 December 2014, the portfolio of subsidiary and associate undertakings underwent the following changes:

- In February 2014 Genesis Private Equity Fund B L.P. closed its business.
- In April 2014 GRANTIKA České spořitelny, a.s changed its name to Erste Grantika Advisory, a.s.
- In May 2014 sold 100 % of its interest in Atrium Center s.r.o. .
- In June 2014 the Bank bought additional shares in Brokerjet a. s. for CZK 87 million from the existing shareholders and increased the share capital held by the Bank from 51% to 100%.
- In August 2014 MOPET CZ a.s. decided to increase its share capital by CZK 25 million and the Bank as the only shareholder participated in this shares'subscription ; the share capital held by the Bank increased from 91% to 94%.
- In October 2014 CPDP 2 N.V. moved its registered seat and head office from Netherland into Czech Republic and changed legal status from joint - stock company (N.V.) to joint - stock company (a.s.) - i.e. to CPDP 2 a.s.. This change was acknowledged by the Czech commercial register in October 2014.
- In October 2014 sold 100 % of its interest in Polygon s.r.o. for CZK 103 million.
- In December 2014 the Bank bought additional shares in Stavební spořitelna České spořitelny, a.s. for CZK 318 million. from the existing shareholders and increased the share capital held by the Bank from 95 % to 100%.

46. Events after the balance sheet date

In its Resolution of 25 September 2015 Municipal Court of Prague approved the final restructuring plan of CP Praha s.r.o. and simultaneously in its Resolution of 25 January 2016 Municipal Court of Prague confirmed the intention of CP Praha s.r.o. to register this plan into the Commercial Register. This does not anyhow affect the fact, that Group controls CP Praha s.r.o. as of 31 December 2015.

In July 2015 Erste Group Bank AG (Erste Group) the majority shareholder of the Group announced it has entered into an agreement with Global Payments Inc., a leading worldwide provider of payment technology solutions, to establish a joint venture providing merchant acquiring and payment processing services to retailers in the Czech Republic, Romania and Slovakia.

Upon completion of the transaction and pending regulatory approvals, Erste Group will sell 51% of its merchant acquiring businesses in the three countries resulting in a joint venture where Erste Group will hold a 49% stake.

The transaction (i.e. business combination) is expected to be finalized during Q2 2016.