

Annual Report
2015

Basic Consolidated Financial Indicators

in accordance with International Financial Reporting Standards (IFRS)

Statement of Financial Position Indicators

CZK million	2015	2014	2013	2012	2011
Total assets	959,584	902,589	968,723	920,403	892,598
Loans and advances to financial institutions	34,717	38,533	75,348	65,320	77,433
Loans and advances to clients, net	532,524	500,039	489,194	470,859	465,576
Securities	240,678	256,565	267,788	296,719	254,790
Amounts owed to financial institutions	83,915	54,570	73,036	44,344	52,862
Amounts owed to clients	709,817	671,565	713,977	688,624	658,016
Shareholders' capital attributable to equity holders of the parent	119,986	107,809	100,660	93,190	79,810

Income Statement Indicators

CZK million	2015	2014	2013	2012	2011
Net interest income	25,864	26,673	27,252	29,657	31,244
Net fee and commission income	10,254	11,306	11,294	11,768	12,381
Operating income	39,743	41,139	41,609	43,575	44,073
Operating expenses	(18,586)	(18,234)	(18,743)	(18,259)	(18,424)
Operating profit	21,157	22,905	22,866	25,316	25,649
Net profit attributable to equity holders of the parent	14,293	15,071	15,588	16,612	13,638

Basic Ratios

	2015	2014	2013	2012	2011
ROE	13.0%	14.5%	16.2%	19.3%	18.2%
ROA	1.5%	1.7%	1.6%	1.8%	1.5%
Operating costs/operating income	46.8%	44.3%	45.0%	41.9%	41.8%
Non-interest income/operating income	34.9%	35.2%	34.5%	31.9%	29.1%
Net interest margin on interest-bearing assets	3.3%	3.5%	3.6%	3.7%	3.9%
Client receivables/client payables	74.6%	73.5%	67.3%	69.4%	73.5%
Standalone capital adequacy	21.7%	18.8%	17.7%	16.0%	13.1%

Key Operating Indicators

Number:	2015	2014	2013	2012	2011
staff (average headcount)	10,536	10,471	10,651	10,760	10,556
Česká spořitelna branches	621	644	653	658	654
clients	4,786,644	4,920,744	5,258,892	5 297,398	5 202,572
private accounts	2 713,012	2 534,094	2,379,625	2 294,577	2 264,722
active cards	3 118,624	3 144,314	3,233,725	3 178,184	3 174,161
Of which: credit cards	268,615	289,722	319,271	347,834	392,205
active SERVIS 24 and BUSINESS 24 users	1,661,415	1,629,336	1 591,355	1 475,517	1 409,933
ATMs and payment machines	1,589	1,561	1,530	1,466	1,413

Rating

Rating agency	Long-term rating	Short-term rating	Outlook
Fitch	A-	F2	stable
Moody's	A2	Prime-1	stable
Standard & Poor's	A-	A-2	negative

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Profile of Česká spořitelna

The Modern Bank with the Longest Tradition

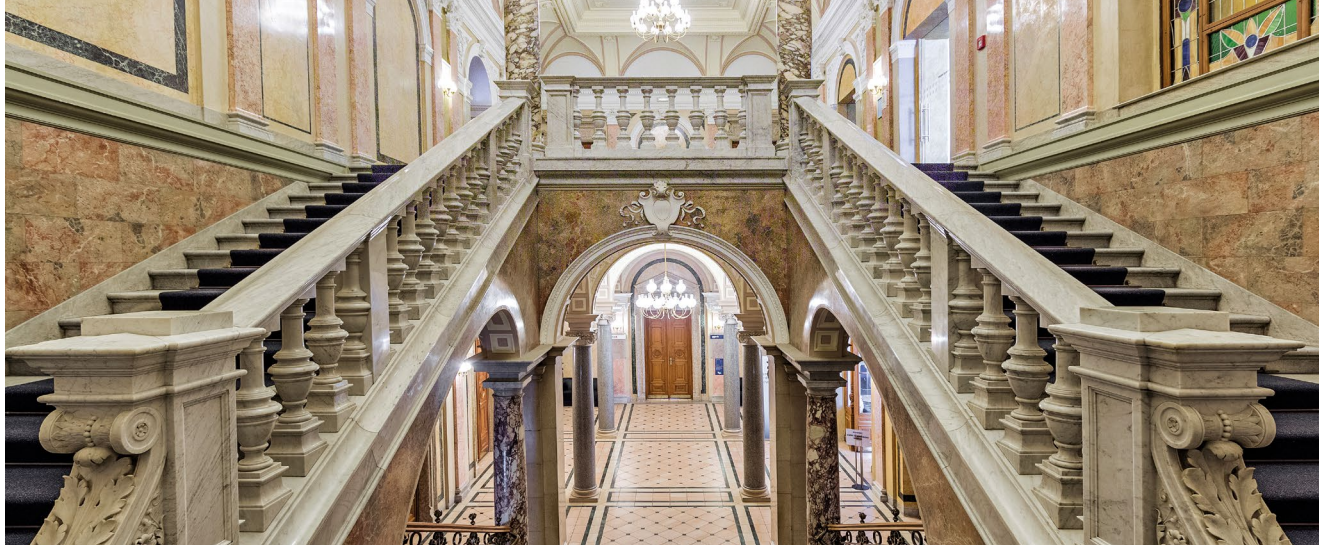
We're a modern bank focused on retail clients, small- and medium-sized enterprises, municipalities and cities and we play an important role in financing large corporations and providing financial market services. With nearly 5 million clients, we're the Czech Republic's largest bank. Having celebrated our 190th anniversary in 2015, we boast the longest tradition among all banks on the Czech market. In 2015, we were named Most Trustworthy Bank of the Year in the Fincentrum Bank of the Year competition for the twelfth year running. We provide our clients with the broadest range of banking services in the Czech Republic through a network of 621 branches and 1,589 ATMs and payment terminals.

Quality comes first

A longstanding pillar of the Czech banking system, we have been able to rely on the strong backing of the Central European financial group Erste Bank since 2000 as we continue to improve our services. Our aim is to offer clients precisely those services they need. Our position enables us to pave the way in the introduction of contemporary banking services and technological innovations.

Helping do good

Our Bank was founded in 1825 to help people stand on their own two feet, a mission we continue proudly to carry out. We provide education in the interest of staying competitive, committing some CZK 10 million annually to support education. In addition, since 2012 we have worked to improve teaching in the sciences and engineering through the Nadace Depositum Bonum foundation, which has 21 regional centres. Moreover, through our Nadace České spořitelny foundation, we offer aid those on whom society has turned its back – since 2002, we've provided in excess of CZK 217 million to help individuals in need. We adapt our services and approach to clients living with disabilities, which is one reason we launched the [Bank without Barriers](#) web portal in 2015. Also in 2015, we received the Zlatá koruna [Golden Crown] prize for social responsibility. Our products contribute to sustainable environmental development, in recognition of which we have become the first ever recipient of the GEEN Zelená banka [Green Bank] award.



The Year 2015 in Review

January

Online payments with Česká spořitelna cards are more secure than ever now thanks to compulsory activation of the 3D Secure service, the highest level of security available for online card payments. Every online transaction is authorized and confirmed by a one-time SMS code.

Česká spořitelna provided senior acquisition financing of CZK 125 million to the new owner of the company Profimedia and also provided advisory to the selling fund Genesis Capital. Profimedia is the Czech Republic's largest photo bank, offering usage licenses for more than 100 million photos taken by the world's best photographers.

The Česká spořitelna Foundation awarded the Floccus Prize for organizations and individuals who offer aid to those at the fringes of society. The public and Česká spořitelna employees voted for their favourites, with more than 6 thousand people participating in the online vote.

The Pilsen Card for public transport was recognized in an international competition in Budapest for Quality Innovation of the Year in the public and non-profit sector category. Card holders can, in addition to paying for transit passes and fares, also replenish their electronic wallets at 90 Česká spořitelna ATMs to pay for cultural events, parking, transit or school lunches.

February

On 12 February 2015, Česká spořitelna celebrated a milestone birthday. Its legal predecessor, Schraňovací pokladnice pro hlavní město Prahu a pro Čechy, started operation 190 years ago with the objectives of helping the poor and teaching them to think ahead and manage their finances. It was modelled on the Erste Oesterreichische Spar-Casse in Vienna.

The new MY BALANCE mobile application quickly, easily and securely shows balances of all savings products to complement the SERVIS 24 transaction application.

Česká spořitelna was one of two banks providing club financing for the acquisition of the company Moravia IT by the U.S. private equity fund Clarion Capital Partners, LLC. Moravia IT started out as a Czech family firm and has become a world leader in software and web content localization.

A new version of SERVIS 24 internet banking gave clients the added option of displaying a debit card PIN directly in SERVIS 24 or sending a PIN for a new or replacement card directly to internet banking.

March

A new agreement with the European Investment Fund (EIF) allows Česká spořitelna to offer funding to innovative Czech firms in an aggregate amount of CZK 2.8 billion (EUR 100 million) with the support of a guarantee provided by the EIF under the Horizon 2020 program. This is one of the first two InnovFin SME guarantees in the Czech Republic of a total of eight in Europe, which enables Česká spořitelna to provide innovative enterprises with additional funding under advantageous conditions.

Česká spořitelna was a lead co-arranger and agent for acquisition financing of EUR 69 million to help the Czech-Slovak soft drink bottler Kofola carry out the largest acquisition in its history. Kofola Group purchased the Slovenian company Radenska, that country's market leader in mineral waters.

Users of the SERVIS 24 Mobile Bank service can take advantage of a number of new functions allowing them to block and unblock a card or order a replacement card. For clients, being able to block debit cards using a mobile phone is a priority.

Česká spořitelna introduced the new marketing concept "The Paleček's". A unique, 3D animated world depicting a typical Czech family, it is designed to be a fun and playful way to introduce Česká spořitelna products and services to clients. Television tales of the Paleček family will promote the Česká spořitelna brand and increase awareness of the advisory role of its branches.

The millionth customer signed up for the multi-partner loyalty program iBOD [iPOINT]. The iBOD program allows clients to collect ipoints by using the financial services of Česká spořitelna or making purchases at dozens of commercial partners throughout the Czech Republic.

April

The Česká spořitelna Ordinary General Meeting held 24 April 2015 in Prague approved (among other agenda items) a dividend payment of CZK 75 per share.

Česká spořitelna was the lead arranger and agent for a syndicate of banks providing operational financing to the company Pražská plynárenská, a.s., one of the nation's most important energy suppliers. The client credit limit totalled CZK 4 billion.

The nation's oldest university, Charles University, and oldest bank, Česká spořitelna, decided to join forces in support of education and science in the Czech Republic. The two institutions entered into a Memorandum on Partnership and Cooperation in which they expressed their interest in cooperating on the Elixir for Schools project administered by the Depositum Bonum Foundation.

In collaboration with the Palata Home for the Blind, the non-traditional campaign "Make her Happy Today by Paying with your Card" was conducted in April and May 2015. Thanks to the clients who made payments using their Česká spořitelna card, the Bank was able to donate CZK 1,018 thousand to the Palata Home.

May

In May 2015, Investiční společnost České spořitelny (ISČS) [Česká spořitelna Investment Company] was named by The European magazine as Best Investment Company in Central and Eastern Europe. The jury of this international professional journal praised Investiční společnost České spořitelny for the longstanding high quality of its investment process and asset management.

Česká spořitelna received the Zlatá koruna [Gold Crown] prize for social responsibility. The greatest number of respondents spontaneously identified Česká spořitelna as the country's most socially responsible financial institution. This particular prize was awarded for the first time in the Zlatá koruna competition.

June

The future of banking advisory was born. In June, a pilot project was launched at selected branches – the My Health Finances (MHF) service. This new banking advisory method helps clients make better decisions with their money, teaches them how to better manage their household budget and reduce their living expenses, addresses their needs and wishes, contributes to the growth of their wealth and builds a lifelong client partnership based on trust. The MHF service is also a clear reference to the Bank's history via which Česká spořitelna will return to its original mission of helping clients save.

The company Škoda Transportation successfully issued its first bond offering at a value of CZK 2.31 billion with 5-year maturity. The total order book exceeded CZK 2.8 billion. Domestic institutional investors showed the greatest interest. Česká spořitelna was the lead co-arranger and administrator of the issue.

The SERVIS 24 Mobile Bank placed third in the Mobile Application of the Year survey for 2015 in the Client Service category and was ranked number one in banking applications. The application's quality was praised by both an expert jury and the general public. The SERVIS 24 Mobile Bank also won this prestigious title the year before.

Česká spořitelna participated as one of the lead arrangers in a long-term club loan of EUR 250 million to fund a strategic investment plan of Duslo, a.s. to construct an ammonia production plant. The investment is intended to build a sustainable and competitive company and strengthen its position as a leading manufacturer of fertilizers in Europe. The loan was one of the largest transactions on the Slovak market in 2015.

July

As arranger and creditor, Česká spořitelna participated in long-term syndicated loans totalling CZK 32.2 billion for the company Česká telekomunikační infrastruktura a.s. that was created through a spin-off of the telecommunications infrastructure of O2 Czech Republic a.s.

August

Česká spořitelna was one of the lead arrangers of a long-term club loan totalling CZK 1 billion to fund a strategic investment of the company Lovochemie, a.s. to build a universal granulating line. The investment is intended to build a sustainable and competitive company and strengthen its market position as a leading manufacturer of fertilizers in Europe.

The number of users of the SERVIS 24 Mobile Bank application exceeded 200,000.

Česká spořitelna began to test cashless transactions at two pilot branches in Opava and Ostrava. Cash transactions are only conducted at these branches via a withdrawal and deposit ATM; advisors devote their time to sales and cashless transactions and educating clients in the use of self-service equipment.

Česká spořitelna became the first ever recipient of the Green bank prize in the GEEN Green Bank rating organized by the websites www.vstribnabanka.cz and www.bankovnipoplatky.com. The GEEN Green Bank project for the first time evaluated the scope of environmental activities and their impact through presentations of these steps by the banks themselves. The products Česká spořitelna offers that are designed to reduce energy use include preferential financing from the Green Energy global loan, financing energy savings in apartment blocks or projects to introduce the use of alternative energy sources.

September

In September 2015, a new service, the prepaid Biip card, was launched. It provides parents and kids with clever solutions for giving kids their pocket money. It is also an attractive tool to develop the financial literacy of kids and teenagers and help them spend their money sensibly. The service takes the form of an anonymous prepaid card and mobile application with a host of functions.

The Česká spořitelna Extraordinary General Meeting was held on 18 September 2015 and approved the transfer of a part of the branch Merchant Acquiring, which processes debit card transactions made at payment terminals (acquiring), to a new company established by strategic partner Global Payments.

Česká spořitelna initiated a refinancing and recapitalization project for the Florentinum, a prestigious office building in the heart of Prague, which also comprises the largest office premises under one roof in the Czech Republic. It is owned by Penta Investments. Financing totalled EUR 150 million, of which Česká spořitelna subscribed 50%.

At its Strakonice branch, Česká spořitelna installed its 100th ATM. The Bank has long inspired clients and the general public to gradually use cash less often in a step-by-step move toward becoming what is known as a cashless bank.

Česká spořitelna is the financial institution that has the greatest appeal in the world of social media. The Bank's 50,000 Facebook fans attest to this fact. The Bank uses its Facebook page to actively engage with clients and talk about a host of finance, education and lifestyle topics. The Bank endeavours to address all fan questions within an average response time of 20 minutes.

October

Česká spořitelna was the first bank on the Czech market to launch a barrier-free website at www.bankabezbarier.cz. Česká spořitelna provides an entire range of special services to its clients with disabilities, and therefore created a dedicated website where all relevant information can be found easily in one place. The Bank worked with the organization Konto Bariéry [Barrier Account] to create the site.

The Erste Premier brand celebrated five years on the market, confirming its solid position on the market for above-standard banking services for wealthy clients. In 2015, the Erste Premier service was expanded to include the new Erste Premier Centre in Zlín. In addition to Zlín, there are four Erste Premier Centres in Prague and one each in Brno, Ostrava, Olomouc, České Budějovice, Plzeň, Liberec, Hradec Králové and Pardubice.

Česká spořitelna introduced a consumer loan that forgives up to 12 instalments, thus building on a favourite customer benefit in the form of a reward for timely repayment.

The offering of mixed open-ended mutual funds through the Česká spořitelna network grew to include the Optimum Fund, where real estate market investments represent a major investment strategy reinvention. Successful sales saw Optimum Funds assets increase to more than CZK 1.7 billion at the year-end.

Just over one year ago, Česká spořitelna launched the service BLUE, which is unique in its complexity and ability to effectively address all of a client's financial needs. The BLUE brand is targeted to middle-income clients who expect their bank to provide comprehensive service and a wide range of personal banking services at a high standard. With BLUE, Česká spořitelna further promotes a lifelong client relationship, and has therefore created the BLUE service to effectively meet clients' needs at every stage of their lives, from their first job through to retirement.

Česká spořitelna received the Progress Prize, awarded to the best product innovations, for a new online Credit Configurator that enables external partners to model a mortgage loan so the advisor and client see in real time whether or not the client is eligible. The aim of the Progress Prize awarded by the Chytrý Honza [Clever Johnny] Society is to support and motivate financial sector innovation.

November

An expert jury awarded Česká spořitelna the top prize in the Fincentrum Bank of the Year main category for 2015. This was the Bank's sixth time receiving the award, making it the most decorated bank in the history of this category. For the 12th year in a row, Česká spořitelna also won top prize from the general public as Most Trustworthy Bank of the Year for 2015.

In the same Fincentrum Bank of the Year competition, Česká spořitelna – penzijní společnost was recognized by the expert jury as the best pension company.

Česká spořitelna executed an agreement for a syndicated consumer loan with the Independent State of Papua New Guinea for construction of a new diagnostic and surgical centre at Goroka Hospital at a total amount of EUR 47 million. Česká spořitelna provided this financing together with Erste Group Bank.

Česká spořitelna initiated the refinancing of the Stock Spirits Group, a leading producer of alcoholic beverages in Central Europe. Financing totalled EUR 200 million plus an accordion feature of EUR 100 million. Česká spořitelna subscribed one third of the total amount and obtained a proportional allocation of EUR 40 million owing to the transaction's over-subscription.

The restructuring of the Austrian Investment Group Erste Asset Management GmbH (EAM) gave rise to a merger of the companies Investiční společnost České spořitelny (ISČS) and EAM. As a result, ISČS became fully integrated into the EAM organizational structure as its branch in the Czech Republic. This step in no way impacted clients, fund shareholders or their investments. The funds continue to be administered in the Czech Republic. The legal successor of ISČS is EAM, which operates in the Czech Republic via a branch created under the name Erste Asset Management GmbH, pobočka Česká republika (EAM ČR).

Česká spořitelna confirmed its position as a leader among stock and bond traders. It was the only bank in the Czech Republic to bring an IPO to market, i.e. shares of the company Kofola, a.s. The primary subscription raised some CZK 140 million, enabling Kofola to carry out its plans for further expansion on the local and foreign markets.

Česká spořitelna was named Firm of the Year 2015: Equal Opportunity by the charitable trust Gender Studies. The competition rates a firm's systematic approach to equal opportunity and the possibility of achieving a good work/life balance. In 2015, the jury focused on support for the career advancement of women and awarded first prize to Česká spořitelna for its efforts in this area. The Bank was also recognized in previous years of the competition, having racked up two first-place and one second-place finish as well as a special jury prize. Diversity in an integral part of the corporate culture of Česká spořitelna.

December

In the role of mandated lead arranger, Česká spořitelna took part in the provision of a medium-term syndicated loan of CZK 12 billion to the company O2 Czech Republic a.s., the largest integrated provider of telecommunications services on the Czech market. The loan was used to refinance current debt and to finance the company's general needs, including a planned share buyback.

In the third annual Visa Awards, Česká spořitelna defended its title of the previous year and was once again named Best Card Issuer for 2015. The award is given by the card association Visa Europe, which recognized Česká spořitelna for being a leader in the area of contactless payments and for its consistent approach to developing contactless technology for the market.

The PLATBA 24 service, an online payment system in the client internet banking environment, met with great success during the year. Clients can pay for purchases at more than 1,800 e-shops using the PLATBA 24 service. More than 750,000 clients have made at least one payment with PLATBA 24.

Česká spořitelna introduced the donor application Melinda, which can be used to easily send various charitable projects and non-profit organizations donations generated by rounding up debit card purchases. Clients maintain full control of their donations and can use the application to track how even small donations can make a difference.

At the end of the year, Česká spořitelna introduced new security for its internet banking services SERVIS 24 and BUSINESS 24 in the form of a tool that better detects malicious code and identifies fraudulent websites or attempts to steal client login information.

Foreword by the Chairman of the Board of Directors



Tomáš Salomon
Chairman of the Board
of Directors

Dear Ladies and Gentlemen,

Česká spořitelna celebrated the 190th anniversary of its founding last year. So, I'm especially pleased to report it was another successful year in which – thanks mainly to our clients – we affirmed our excellent market position. Thanks also to all my Česká spořitelna colleagues. Personally, I would like to highlight the work of Pavel Kysilka, who successfully managed the Bank for 5 years and kept it in tip-top shape.

Last year brought us the good news that Czechs once again had faith in the Czech economy. This was confirmed by strong growth in retail and corporate loans. We also met the needs of households in the area of housing and increased lending to firms. Our investment in new digital applications focused on greater accessibility for those clients who prefer digital services. We upgraded our Servis 24

application and introduced the Můj stav [My Balance] application as a new Web API platform enabling us to offer clients our banking services together with the services of our partners.

Our appreciation and thanks for the awards bestowed upon us this last year by clients and the professional and lay public. We take pleasure not only in having been named Most Trustworthy Bank of the Year, but also Company of the Year for our support of the career advancement of women at our Bank.

Our ambition in the coming period is to monitor trends and effectively respond to the needs of our clients in a dynamically changing world. We want to continue improving financial literacy. We see ourselves having an important role here in connection with the historic mission of the Erste Group, of which we are a part. We believe it is a key way in which to help individuals, regions and society achieve prosperity.

We thank you for your trust.

Yours sincerely,

Tomáš Salomon
Česká spořitelna Board of Directors Chairman



Česká spořitelna Board of Directors

as of 2015

Pavel Kysilka

Date of birth: 5 September 1958

Chairman of the Board of Directors

Reference address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Kysilka is a graduate of the Faculty of Economics of the University of Economics in Prague. He additionally completed postgraduate research in 1986. From 1986 to 1990, he worked at the Institute of Economics of the Czechoslovak Academy of Sciences. From 1990 to 1991, Mr. Kysilka served as chief economic advisor to the minister for economic policy. In the 1990s, he held various positions culminating in the post of executive governor of the Czech National Bank, where he also oversaw the splitting of the Czechoslovak currency in 1993. From 1994 to 1997, he served as an expert advisor to the International Monetary Fund and participated in the launch of national currencies in several eastern European countries. In the 1990s, he served as president of the Czech Economic Society. Before joining Česká spořitelna, Mr. Kysilka worked for Erste Bank Sparkassen (CR) in Prague as the executive director responsible for IT, administration, human resources and services. In 2000, he joined Česká spořitelna as its chief economist and a member of the Senior Management Team

On 5 October 2004, the Česká spořitelna Supervisory Board appointed Mr. Kysilka as a member of the Board of Directors and since 1 January 2011 was the chairman of the Board of Directors. As of 31 December Mr. Kysilka resigned on post of the chairman of the Board of Directors.

Membership in bodies of other companies: the managing board of the University of Economics in Prague, the managing board of the Smetanova Litomyšl music festival, the managing board of the Nadace Leoše Janáčka foundation in Brno, the managing board of the Česká spořitelna Foundation, the managing board of the Depositum Bonum Foundation, the supervisory board of the Dobrý anděl Foundation.

Tomáš Salomon

Date of birth: 1 March 1966

Member of the Board of Directors

Reference address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Salomon is a graduate of Faculty of Economics of Services and Tourism of Slovak University of Economics in Bratislava. He started banking career in 1997 at GE Capital Multiservis where he worked as the Chairman of the Board of Directors and CEO. In 2000 he was appointed Director of Retail Banking and Member of the Board of Directors at GE Capital Bank with responsibility for Sales and Marketing. In the years 2004-2007 he worked as the Chairman of the Board of Directors and CEO of Poštová Banka, a.s. in Slovakia. In the period 2008 to 2012 he focused on private investment projects and initiated a project for the formation of a platform for the realization of mobile payments in the Czech Republic and participated in the establishment of Mopet CZ where he worked as a Member of the Board of Directors and CEO. In 2013 he began working in Slovenská sporiteľňa where he was later appointed Member of the Board of Directors responsible for Retail.

From 1 January 2015 Mr. Salomon was a member of the Board of Directors of Česká spořitelna responsible for Retail Banking. From 1 January 2016 Mr. Salomon is the chairman of the Board of Directors of Česká spořitelna.

Membership in bodies of other companies: Stavební spořitelna České spořitelny, a.s.

Wolfgang Schopf

Date of birth: 12 August 1961

Vice-chairman of the Board of Directors

Reference address: Olbrachtova 62, Prague 4, Czech Republic

After completing high school and graduating from a business academy, Mr. Schopf embarked on his career in 1980 at Girocentrale und Bank der österreichische Sparkassen AG, where he was responsible for accounting and reporting. He joined Erste Bank in 1997 as head of accounting. In 2004, Mr. Schopf became director of the Controlling Division at Erste Group Bank, and later he managed the Performance Management program. He held these positions until leaving Erste Group Bank in July 2013.

Mr. Schopf has been the vice-chairman of the ČS Board of Directors since August 2013. He is responsible for financial management.

Membership in bodies of other companies: Stavební spořitelna České spořitelny, a.s., Depositum Bonum Foundation.

Daniel Heler

Date of birth: 12 December 1960

Member of the Board of Directors

Reference address: Evropská 2690/17, Prague 6, Czech Republic

Mr. Heler is a graduate of the Prague University of Economics, Faculty of International Trade. He held internships with J.P. Morgan, Goldman Sachs, S. Montague, UBS, N.M. Rothschild, Shearson and Bayerische Hypobank. He also completed a number of courses on global banking, banking profitability, retail banking strategy, treasury and risk management. He has worked in the banking sector since 1983. He first held various positions in the Department of Foreign Exchange and Money Markets and then, in 1990, he became director of the Financial Markets Division of Československá obchodní banka Praha. In 1992, he was appointed treasurer and member of the Board of Directors of Crédit Lyonnais Bank Praha. In 1998, he was appointed as a member of the Board of Directors of Erste Bank Sparkassen (CR) responsible for financial markets. In 1999, he became vice-chairman of the Board of Directors of Erste Bank Sparkassen (CR).

Since 1 July 2000 Mr. Heler has been a member of the Board of Directors of Česká spořitelna responsible for asset management and retail investment products, corporate finance and investment banking, treasury sales and trading, capital markets, balance sheet management, financial institutions and correspondent banks. Since 1 January 2011, he has also been responsible for corporate clients, real estate business, municipal financing and trade financing.

Membership in bodies of other companies: Burza cenných papírů Praha, a.s., Erste Corporate Finance, a.s., Investiční společnost České spořitelny, a.s., Česká spořitelna Foundation, brokerjet ČS, Fond pojištění vkladů.

Karel Mourek

Date of birth: 20 September 1967

Member of the Board of Directors

Reference address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Mourek is a graduate of the Czech Technical University in Prague and later obtained his MBA from Thunderbird University in the US. He began his career in 1992 at Creditanstalt, and later joined the Corporate Client Division of Bank Austria Creditanstalt Czech Republic. From 2001 to 2011, he worked at Česká spořitelna, where he managed the Commercial Center. From 2011 to July 2013, Mr. Mourek worked at Erste Group Immorent as the Board of Directors member responsible for Risk management.

Mr. Mourek has been a member of the ČS Board of Directors since 1 August 2013. He is responsible for risk management.

Membership in bodies of other companies: s Autoleasing, a.s., Erste Reinsurance S.A.



Česká spořitelna Supervisory Board and Audit Committee

in 2015

John James Stack

Date of birth: 4 August 1946

Chairman of the Supervisory Board

Reference address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Stack, a US citizen, studied mathematics and economics at Iona College (BA, 1968) and specialized in finance and management at the Harvard Graduate School of Business Administration (MBA, 1970). From 1970 to 1976, he worked in the New York City administration. From 1977 to 1999, he worked for Chemical Bank, which later merged with Chase Manhattan Bank, where he held a number of key posts, including executive vice-president. From 2000 to 2007, Mr. Stack was chairman of the Board of Directors and CEO of Česká spořitelna. From 2005 to 2007, he was a member of the Czech Banking Association. At present, Mr. Stack is a member of the Supervisory Board of Erste Group Bank and serves on the boards of a number of US companies.

On 22 April 2013, Mr. Stack was elected a member of the Supervisory Board. He has been Supervisory Board chairman since September 2013.

Membership in bodies of other companies: Erste Group Bank AG, Ally Bank, Ally Financial Inc., Mutual of America Capital Management Corp., Depositum Bonum Foundation.

Andreas Treichl

Date of birth: 16 June 1952

Vice-chairman of the Supervisory Board

Reference address: Am Graben 21, Vienna, Austria

From 1971 to 1975, Mr. Treichl studied economic sciences at Vienna University. After completing a training program in New York, he began his career at Chase Manhattan Bank in 1977. He was later seconded to Brussels (1979-1981) and Athens (1981-1983). In 1983, he first worked for Die Erste. In 1986, he became CEO at Chase Manhattan Bank in Vienna, which purchased Credit Lyonnais in 1993. In 1994, he was appointed to the administrative board of Die Erste. In July 1997, he was appointed CEO. In August 1997, the shareholders approved a merger with GiroCredit, in which Die Erste

had acquired a majority interest in March 1997. Under his management, Erste, which until that time had been strictly a local savings bank, became a leading financial services provider in Central and Eastern Europe with a focus on retail and SME clients. In addition to serving as Board of Directors chairman and CEO of Erste Group Bank, Mr. Treichl's other responsibilities include strategy, group communications, human resources, audit and investor relations.

Mr. Treichl has been a Supervisory Board vice-chairman since September 2013.

Membership in bodies of other companies: Banca Commerciale Romana SA, DONAU Versicherungs AG Vienna Insurance Group, Erste Bank der oesterreichischen Sparkassen AG, Erste Group Bank AG, Felima Privatstiftung, Ferdima Privatstiftung, Haftungsverbund GmbH, Österreichischer Sparkassenverband, Sparkassen Versicherung AG Vienna Insurance Group, Leoganger Bergbahnen.

Peter Bosek

Date of birth: 5 June 1968

Member of the Supervisory Board

Reference address: Am Graben 21, Vienna, Austria

Mr. Bosek graduated from Vienna University Law School and began his career in Vienna. He joined Erste Bank der oesterreichischen Sparkassen AG in 1996, starting in its Legal Department before moving on to the Real Estate and Retail departments. Since 2007, Mr. Bosek has been the Board of Directors member responsible for Retail banking, Corporate clients, the Public sector, Real Estate, Marketing and Product Management.

Mr. Bosek has been a member of the Supervisory Board since April 2013.

Membership in bodies of other companies: aws Gründerfonds Beteiligungs GmbH & Co KG, aws Gründerfonds Equity Invest GmbH & Co KG, Bausparkasse der österreichischen Sparkassen AG, BeeOne GmbH, ERP-Fond, Erste Bank der oesterreichischen Sparkassen AG, Erste Group Bank AG,

Finanzpartner GmbH, Haftungsverbund GmbH, Österreichischer Sparkassenverband, Vereinigung der Österreichischen Industrie (Industriellenvereinigung), Wien 3420 Aspern Development AG, WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Wirtschaftsagentur Wien. Ein Fonds der Stadt Wien.

Eliška Bramborová

Date of birth: 4 December 1953

Member of the Supervisory Board

Reference address: Olbrachtova 62, Prague 4, Czech Republic

Mrs. Bramborová is a graduate of the Charles University Law School. She began her career at ČKD, and has been an attorney with Česká spořitelna since 1992. She is currently the head of the Corporate Banking Legal Support Department. Mrs. Bramborová also represents ČS on the Legal Committee of the Czech Banking Association and is a member of the Internal Committee of the Česká spořitelna, a.s. Ladies' Investment Club.

Mrs. Bramborová was elected to the ČS Supervisory Board by the Bank's employees in October 2008.

Stefan Dörfler

Date of birth: 24 February 1971

Member of the Supervisory Board

Reference address: Boersegrasse 14, Vienna, Austria

Mr. Dörfler graduated from the Vienna University of Technology in 1995, where he majored in technical mathematics. After completing his studies, he joined GiroCredit Bank AG Sparkassen in Vienna. He has been with Erste Bank since 1997, the year that Erste Österreichischen Sparkassen and GiroCredit merged. In 1999 and 2000, he headed up the Interest Rate and Currency Derivatives Department, and from 2000 to 2004 he was Director of bond trading and sales. From 2004 to 2009, he was a manager in the Erste Bank Capital Markets Division, and has been the head of this department since 2009.

Mr. Dörfler was elected to the ČS Supervisory Board by the General Meeting in April 2012.

Membership in bodies of other companies: Erste Securities Polska S.A., Erste Asset Management, RINGTUM Kapitalanlagegesellschaft m.b.H., VBVPensionskasse AG, Zertifikate Forum Austria, CEESEG AG, Wiener Börse AG.

Maximilian Hardegg

Date of birth: 26 February 1966

Member of the Supervisory Board

Reference address: Am Graben 21, Vienna, Austria

Mr. Hardegg is a graduate of the Faculty of Agricultural Sciences in Weinhenstephan, Germany. From 1991 to 1993, he worked at AWT Trade and Finance Corp., a part of Creditanstalt Group, while serving as an advisor to the Czech Ministry of Agriculture during agricultural privatization. Since 1993, he has worked in agriculture

management and participated in Phare, Sapard and Leader + titles projects designed to support agricultural system cooperation throughout the EU. He belongs to lobbying groups in Austria and the EU whose aim is to support sustainable development in land use and agriculture.

Mr. Hardegg has been a member of the ČS Supervisory Board since May 2002.

Membership in bodies of other companies: Die Erste österreichische Spar-Casse Privatstiftung, Erste Group Bank AG, Depositum Bonum Foundation.

Zdeněk Jirásek

Date of birth: 31 July 1950

Member of the Supervisory Board

Reference address: Masarykova 645, Kutná Hora, Czech Republic

Mr. Jirásek is a graduate of the Czech Technical University in Prague and completed postgraduate studies at the University of Economics in Prague. He began his career in 1974 at ČKD Kutná Hora, where he worked in several interesting positions in distribution and sales before becoming foundry manager. In 1994, he joined Česká spořitelna, where he held management positions until 2000. After ČS joined Erste Group Bank, he moved into a non-managerial position as a sales trainer. In 2007-2014, he was chairman of the Bank's Trade Union Committee and since June 2014 he has been vice-chairman of the Group-wide Trade Union Committee.

Mr. Jirásek was elected to the ČS Supervisory Board by the Bank's employees in October 2008.

Membership in bodies of other companies: KH Tebis, s.r.o.

Aleš Veverka

Date of birth: 26 January 1973

Member of the Supervisory Board

Reference address: Národních hrdinů 3127/7, Břeclav, Czech Republic

Mr. Veverka graduated high school in Břeclav before doing a Business Academy qualification course in economics. After completing his studies and his basic military service, he joined the Břeclav branch of Česká spořitelna in 1983 as an advisor to MSE clients. He has continued to devote his time to MSE clientele. In June 2014 he was elected chairman of the Group-wide Trade Union Committee.

Mr. Veverka was the member of the ČS Supervisory Board from 30 November 2011 to 29 November 2015.

The members of administrative, management and supervisory bodies represent that they are unaware of any potential conflicts of interest between their statutory duties and their personal interests or other obligations.

Audit Committee

John James Stack

Date of birth: 4 August 1946

Chairman

Reference address: Olbrachtova 62, Prague 4, Czech Republic

Mr. Stack, a US citizen, studied mathematics and economics at Iona College (BA, 1968) and specialized in finance and management at the Harvard Graduate School of Business Administration (MBA, 1970). From 1970 to 1976, he worked in the New York city administration. From 1977 to 1999, he worked for Chemical Bank, which later merged with Chase Manhattan Bank, where he held a number of key posts, including executive vice-president. From 2000 to 2007, Mr. Stack was chairman of the Board of Directors and CEO of Česká spořitelna. From 2005 to 2007, he was a member of the Czech Banking Association. At present, Mr. Stack is a member of the Supervisory Board of Erste Group Bank and serves on the boards of a number of US companies. Mr. Stack has been a member of the ČS Supervisory Board since April 2013.

Since 23 April 2014, Mr. Stack has been a member of the Audit Committee. On 23 June 2014 Mr. Stack became chairman of the Audit Committee.

Maximilian Hardegg

Date of birth: 26 February 1966

Vice-chairman

Home address: 2062 Seefeld-Kadolz, Austria

Mr. Hardegg is a graduate of the Faculty of Agricultural Sciences in Weinhenstephan, Germany. From 1991 to 1993, he worked at AWT Trade and Finance Corp., a part of Creditanstalt Group, while serving as an advisor to the Czech Ministry of Agriculture during agricultural privatization. Since 1993, he has worked in agriculture management and participated in Phare, Sapard and Leader + titles projects designed to support agricultural system cooperation throughout the EU. He belongs to lobbying groups in Austria and the EU whose aim is to support sustainable development in land use and agriculture. In May 2002, he became a member of the ČS Supervisory Board.

Mr. Hardegg has been a member of the Audit Committee since 7 October 2009.

Mario Catasta

Date of birth: 6 September 1954

Member

Home address: Sankt Veit-Gasse 11, Austria

Mr. Catasta completed his studies at the University of Economics in Vienna in 1980. After his dissertation was accepted in 1982, he joined an audit firm affiliated with the Austrian National Bank as an independent auditor. He has been with Erste Group Bank since 1987, first as an internal auditor and, since 1983, as head of Compliance. In 1994, he became head of the Internal Audit Department. Following the merger between Erste österreichischen Sparkassen and GiroCredit, he became head of the Corporate Client Department. He has been Erste Group Bank's director of internal audit since 2003.

Mr. Catasta has been a member of the Audit Committee since 7 October 2009.

Zlata Gröningerová

Date of birth: 4 July 1957

Member

Home address: Počernická 3226/2f, Prague 10, Czech Republic

Mrs. Gröningerová completed her studies at the University of Economics in Prague, where she became an academic assistant at the Faculty of Finance and Credits after graduating in 1982. From 1991 to 1993, she was deputy CEO of the company SUEZ INVESTIČNÍ, a.s., where she specialized in advisory and consulting in enterprise search and acquisition. From 1995 to 2004, Mrs. Gröningerová held several senior positions (director of equity investment financing, senior director of credit transactions and business specialists) and was a member of the Board of Directors and Banking Counsel of the Czech Consolidation Agency. From 2005 to 2007, she was CEO and Board of Directors chair of Technometra Radotín, a.s. From 2007 to 2009, she provided economic and organizational advisory services. She then joined the Czech Ministry of Finance as a section director. Since early 2011, she has worked in the International Division of ČEZ, a.s. Her professional residencies and courses include a managerial development program and residencies in corporate finance and financial management at universities in Paris and Lyon.

Mrs. Gröningerová has been a member of the Audit Committee since 7 October 2009.



Macroeconomic Development in the Czech Republic in 2015

In 2015, the Czech economy significantly accelerated its growth, which was the second highest in the European Union. This was reflected in a labour market where, aside from a dip in unemployment, we saw a recovery in real wage growth. Inflation stayed just below zero in 2015, its development having been adversely affected by food and oil prices.

The Czech economy grew 4.3 % in 2015, supported not only by solid domestic and foreign demand, but also by significant public investments connected with the need to complete a number of EU co-funded projects by year's end. Total investment thus became the key contributor to real economic growth. Another contributor was household consumption, which benefited from labour market growth and positive household sentiment. Households not only looked favourably on the current economic situation, but also had hopes for positive future development. This was expressed in a greater willingness to spend, primarily on durable goods. Recovery in Europe, aided greatly by falling oil prices, also contributed to higher Czech economic growth. The increase in foreign demand was reflected in strong growth in industrial production and new orders. Another factor contributing to export volume growth was a weaker Czech crown-to-euro exchange rate, which the CNB maintained per its exchange rate commitment.

Price growth remained very low in 2015 with average inflation for the year of only 0.3%, the lowest since 2003. While it was primarily food and oil prices that accounted for this development, economic growth in the Eurozone also had an impact, exerting downside pressure on the Czech economy. In contrast, positive Czech economic growth is gradually being reflected in demand-pull inflation growth. However, this impact was weaker than the negative effects of the Eurozone and supply-side factors.

Robust Czech economic growth was also reflected in higher corporate demand for workforce, which resulted in a relatively fast drop in unemployment. This reached roughly its natural rate, and started to be reflected favourably in wage growth. Nominal wages have so far risen in a subdued manner, but in real terms, i.e. net of price developments, wage growth approached its pre-crisis level in the course of the year, and this was subsequently reflected in the favourable development of consumption.

The Czech National Bank continued in 2015 to use the exchange rate as a monetary policy instrument, maintaining its exchange rate commitment at 27 CZK/EUR. The crown remained significantly below the level of this commitment in early 2015 before rapidly gained in strength in Q2 due to the recovery experienced in Europe. In the summer months, this phenomenon was bolstered by a speculative influx of capital, as a number of foreign speculators expected that the CNB would go the Swiss route and abandon its exchange rate commitment. In the event, however, the CNB held to its commitment without difficulty despite the need for foreign exchange interventions, which positively impacted Czech export volumes.

Czech government bond yields continued their decline in 2015 due in great part to the easing of monetary conditions in the Eurozone and surplus liquidity in the Czech banking sector. The influx of capital into the Czech economy associated with speculation over the CNB's abandoning of its commitment also had a significant impact and played a role in the fact that 6-year government bond yields were negative at the end of the year.



Report of the Board of Directors

on the Company's Business Activities and Statement of Financial Position for 2015

In 2015, Česká spořitelna entered a very interesting stage of its history. This single year **interconnected its long history, successful present and attractive future**. First, **Česká spořitelna celebrated its 190th birthday on 12 February 2015**. **Česká spořitelna's legal predecessor, the Savings Treasury for the Capital City of Prague and for Bohemia, started its activities in 1825**, with the aim of helping the poorer population and teaching them to think of the future and take care of their financial resources. Česká spořitelna was established based on the model of Erste Oesterreichische Spar-Casse operating at that time in Vienna. In 2000, when Erste Bank became its parent company, Česká spořitelna thus symbolically returned back to its roots.

In November 2015, Česká spořitelna was chosen by the expert jury as **the winner in the main category Fincentrum Bank of the Year 2015 for the sixth time and became the most often awarded bank in this category**. For the twelfth time running, Česká spořitelna also received the main award of the general public, becoming the Most Trusted Bank of the Year 2015.

In the meantime, **in the course of summer 2015, Česká spořitelna introduced the future of its banking advisory services in the pilot mode**. With a clear reference to its history and with the aim of developing long-term and lifelong partnership with its clients, based on trust, Česká spořitelna introduces its service *Moje zdravé finance* (My Healthy Finances). The new form of banking advisory services helps clients better manage their money, teaches them better manage their household budget, assists them in reducing their costs of living, resolves their needs and dreams and contributes to the growth of their wealth. Bank advisors talk to the clients in order to become good guides in the world of the client's finances.

Consolidated Results of Operations

Income Statement

In the demanding economic environment of low interest rates, Česká spořitelna has proven its financial strength when **it reported consolidated net profit after the distribution of minority interests in the amount of CZK 14.3 billion as of 31 December 2015** in compliance with applicable international financial reporting standards. In

the environment of the Czech banking market, this is again a top-class result, although in comparison with 2014 when the net profit amounted to CZK 15.1 billion, the operating result dropped by 5%.

The return on equity (ROE) fell to 13.0% due to the increase of equity and reduction of profit. Similarly, the return on assets (ROA) fell to 1.5% due to the increase of the balance sheet amount and reduction of the profit. In 2014, these figures amounted to 14.5% and 1.7%, respectively. The profit before taxes and minority interests (gross profit) decreased by 4% year-on-year to CZK 17.9 billion.

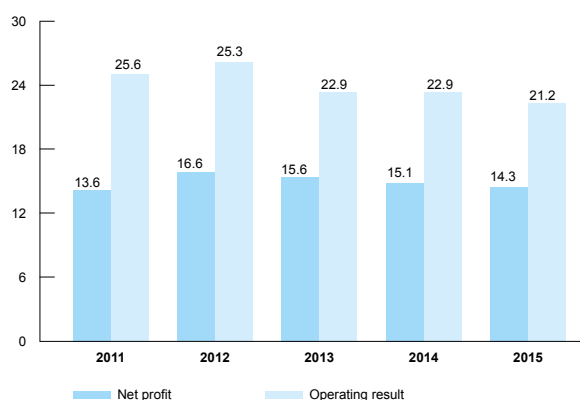
The consolidated result is affected in particular by the drop of the net interest income and net fee and commission income, the result was positively influenced mainly by the growing trading result and drop of the risk expenses associated with the improved quality of the credit portfolio.

Total operating income comprising net interest income, net fee and commission income, net trading result, dividend income and rental income dropped by 3% to CZK 39.7 billion. **The operating income dropped, because not even the accelerated growth of the volume of the provided credits could not revert the negative development of the net interest income**. The drop in net fee and commission income was partially compensated by the growth of the net trading result.

The operating costs comprise the personnel costs, other administrative costs and depreciation and amortisation of assets. **A slight increase of the operating costs** by 2% to CZK 18.6 billion **reflects the investments in the development of new digital applications** and projects aimed at compliance with applicable regulatory requirements. The operating profit, defined as the difference between the operating income and the operating costs, decreased by 8% year-on-year to CZK 21.2 billion. Taking into consideration the development of the operating income and operating costs, the cost/income ratio grew from 44.3% to 46.8%.

The net interest income traditionally represents the largest, almost two-third share on the operating income and almost 80% of interest income is generated from credit transactions. **The favourable economic situation of households and firms in the**

Net profit and operating result (CZK billion)

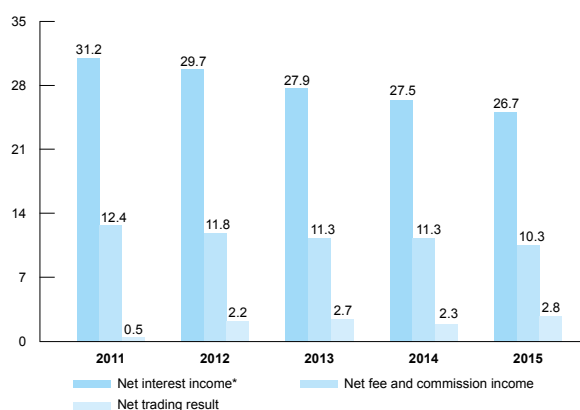


Czech Republic has been reflected in the sharp increase of loans. The net volume of client loans grew year-on-year by 6.5%. However, not even this growing volume of loans could eliminate the effect of the historically low interest rates.

The base interest rate of CNB has been at its historic low of the technical zero, i.e. 0.05%, since November 2012, the 3-month PRIBOR dropped down to 0.29% **and there have even been negative interest rates occurring on the Czech financial market.** The decrease of interest income from debt securities in the held-to-maturity portfolio is also associated with the maturity of bonds with a higher interest income.

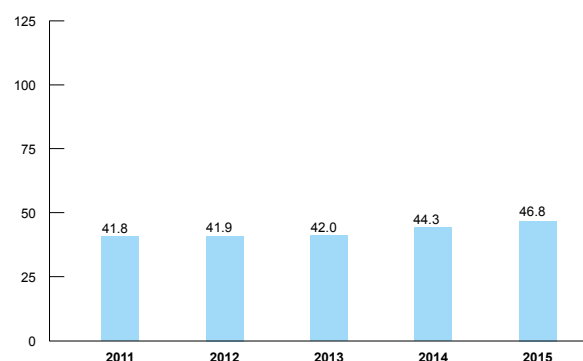
The decrease of interest income was partially compensated by the reduction of the interest expenses on the client deposits and thanks to the decrease of their volume also by the reduction of the interest expenses on the Bank's own issued bonds. For these reasons, the net interest income decreased by 3% to CZK 25.9 billion. The net interest margin in relation to the interest bearing assets decreased from 3.53% to 3.31%, but has remained stable since the end of Q1 2015.

Composition of operating income (CZK billion)



* Net interest income includes dividend income and rental income

Cost/Income (%)



Another important component of the operating result is the net fee and commission income. In 2015, the net fee and commission income fell by 9.3% to CZK 10.3 billion. **The decrease of the fee and commission income is caused mainly by the fact that the clients tend to use less expensive forms of the services and products,** including special price offers and packages. The lower fee and commission income also reflected the fee holidays offered with respect to retail loans.

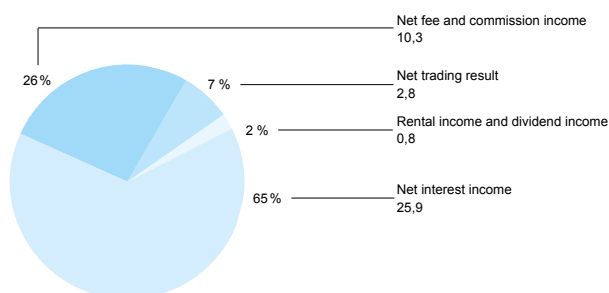
Although the volumes of goods and services purchases paid with the cards of Česká spořitelna increased year-on-year by 8% and the volumes of transactions carried out within the network of payment terminals of Česká spořitelna increased by 7%, the **net fee and commission income was negatively affected by the EU regulations** in the field of card payment fees.

On the other hand, positive trend was reported in the growing **fee income from investment products** and from securities transactions that have been growing **thanks to the shift of the clients' interest from deposits to products with potentially higher returns,** in particular the popular mutual funds managed by Erste Asset Management and offered through all distribution channels of Česká spořitelna. The fees received by Česká spořitelna for the administration and custody of deposited values also reported a successful development.

Česká spořitelna once again reported an outstanding net trading result. Net trading and fair value result significantly grew year-on-year by 23 % to CZK 2.8 billion. This successful result reflects the profit from derivate transactions affected on one hand by the changed methodology of derivate evaluation introduced in Q1 2015 and supported on the other hand by higher income from derivate transactions carried out with the clients.

Rental income, including primarily rental income from investment properties and dividend income from shares held by Česká spořitelna, have kept their stable level and have contributed together CZK 0.8 billion to total operating result.

Composition of operating result (CZK billion)



The general administrative expenses (operating expenses) comprise personnel expenses, other administrative expenses, including the statutory contribution to the Deposits Insurance Fund and depreciation and amortisation of assets. **After continuous decrease six years in a row, the operating expenses reported an increase in 2015 by 2% to CZK 18.6 billion.**

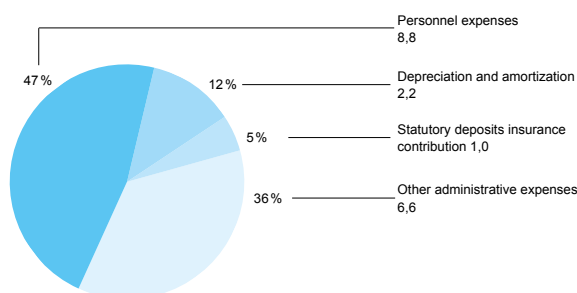
The personnel expenses that represent almost a half of operating expenses, increased year-on-year by 2% to 8.8 billion. This increase reflects in particular the higher contributions to supplementary pension insurance and life insurance and higher contributions to the employees' meal vouchers.

The increase of the other administrative expenses results in particular from the increased expenses on information technologies, mainly in connection with the growing **expenses on the development and deployment of new digital applications, as well as expenses on projects associated with ensuring compliance with applicable regulatory requirements.** On the other hand, the Bank succeeded in reducing expenses on material consumption and consulting and legal services. At 33% of total other administrative expenses, data processing (IT) expenses continued to be the single largest item. This is followed by expenses for office space at 19%, statutory contribution to the Deposits Insurance Fund at 13%, advertising and marketing costs at 12% and transactions costs at 11%.

The increase of the administrative expenses also resulted from the growing **statutory contribution to the Deposits Insurance Fund** that **for the first time exceeded the amount of CZK1 billion** and compared to 2014 grew by 8% as a result of the increased volume of insured deposits.

Depreciation and amortisation of tangible/intangible fixed assets reports a long-term decrease, falling by 5% to CZK 2.2 billion in comparison with 2014 due to lower tangible asset depreciation for hardware and office equipment.

Structure of operating expenses (CZK billion)



Net gains/losses from financial assets and liabilities not measured **at fair value** through profit or loss reached CZK 0.4 billion, **growing** three times on a year-on-year basis **thanks to the higher realized income from the sale of government bonds** in the portfolio of available-for-sale financial assets and from the financial liabilities at their amortised cost.

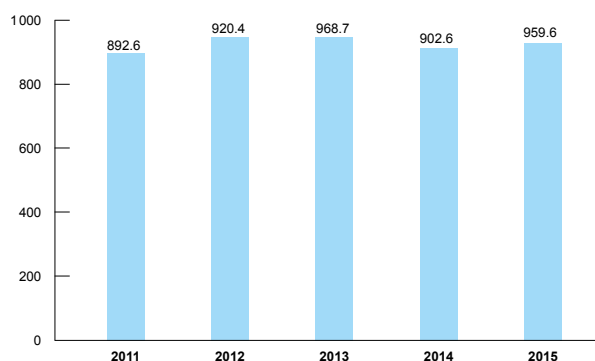
Net impairment loss on financial assets not measured at fair value through profit or loss (i.e. net charge for provisions for balance sheet credit risks) reached CZK 2.6 billion, which corresponds to a year-on-year **increase by 29%**. This is the result of the growing Czech economy, continuously improving quality of the credit portfolio and several successful restructurings of claims in the corporate segment. After the implementation of the new definition of risk credits prescribed by the European Banking Authority (EBA), the proportion of risk credit coverage by provisions reaches the comfort level of 73%, with the overall coverage of credit risks, including hedging, representing 105%.

The decrease of the balance of other operating result is caused by a number of factors, such as impairment of tangible assets gains and losses from the revaluation and sale of fixed assets, creation and release of provisions for sub-balance sheet credit risks and other risks, revenue from non-banking services, risk insurance, etc.

Statement of Financial Position

The consolidated balance sheet total of CZK 959.6 billion at 31 December 2015 represents a year-to-year increase by 6%. In a year-to-year comparison, the structure of assets changed, with an **increase of the volume of loans provided to customers**, increase of the amount of vault cash and cash held at central banks, as well as assets held to maturity. The volume of other portfolios of financial assets fell. **On the liabilities side of the balance sheet, deposits from customers saw an increase**, as well as deposits from banks and the Bank's equity. The amount of financial liabilities at their fair value fell.

Balance sheet total (CZK billion)

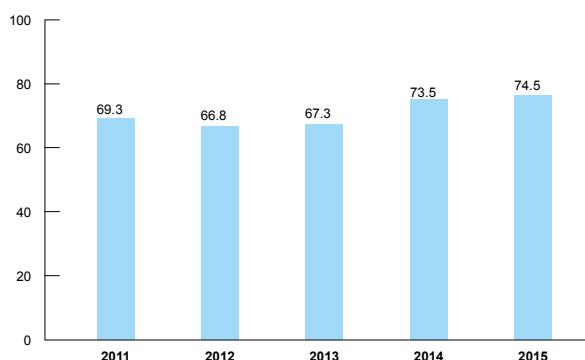


Assets

Loans provided to customers represent the most important part of active business and generate the largest portion of operating result. **The total net volume of loans and receivables to customers increased in 2015 by 6% to CZK 532.5 billion**, owing mostly to an increase in mortgage loans, loans provided to large corporations and to loans for financing commercial properties.

The proportion to net client loans to client deposits increased from 73.5% to 74.6%. Net client loans account for 55% of all active transactions.

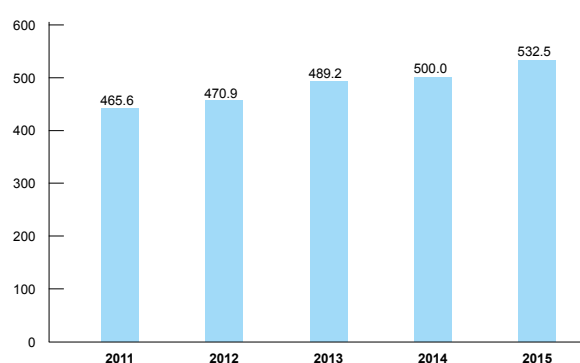
Proportion of net client loans to client deposits (%)



The volume of net loans provided to households amounted to CZK 303.5 billion, representing a year-on-year growth of 6%, i.e. CZK 17.8 billion. This primarily reflects the **continued successful years in mortgage loan business**. The lowest interest rates ever, growing real wages and, above all, Česká spořitelna's active loan policy yielded growth of the gross portfolio of household mortgage loans by 12%, to CZK 186.8 billion. In absolute figures, the portfolio saw an increase by CZK 19.7 billion.

The demand for consumer financing has been slowly growing and the **volume of cash consumer lending has reached the turn-over point** and in the year-to-year comparison has even slightly grown. Despite this, the overall gross volume of consumer lending in the Bank's balance, including overdraft and credit card loans, reported a year-to-year drop by 4%, to CZK 63.8 billion. Low mortgage rates have negatively impacted the client's interest in construction savings loans that reported a slight decrease by 1% compared to 2014 to CZK 34.8 billion (net value).

Net loans and receivables to customers (CZK billion)



Net consolidated **loans to corporate clients reported a solid growth by 8%** compared to 2014 and reached an amount of CZK 209.1 billion. The increase accounted primarily for the loans to large corporate clients and loans for financing of commercial properties. Both leasing companies of Česká spořitelna, sAutoleasing and Erste leasing, were successful, as well as Factoring ČS. The overall net value of loans provided to governmental institutions and municipal clients reported a year-on-year improvement by 5%, to CZK 20.4 billion.

The quality of the loan portfolio again reported a significant year-on-year improvement in 2015. The share of risky loans on the total loan portfolio fell year-on-year from 4.4% to 4.1%. The value for 2015 already reflects the application of the new definition of risk loans according to EBA. Without this impact, the proportion of risk loans would drop as much as to 3.5%.

The item of vault cash and cash with the central bank increased twofold in 2015, amounting to CZK 111.0 billion. This resulted from the placement of excess liquidity with the Czech National Bank in the form of one-day term deposits.

Loans and other receivables to banks fell year-on-year by 10% and amounted to CZK 34.7 billion.

The aggregate balance of the portfolio of financial assets at fair value, available-for-sale securities and held-to-maturity securities decreased by 6% compared to 2014, to CZK 240.7 billion. **The drop was mainly attributable to the fall of the volume of**

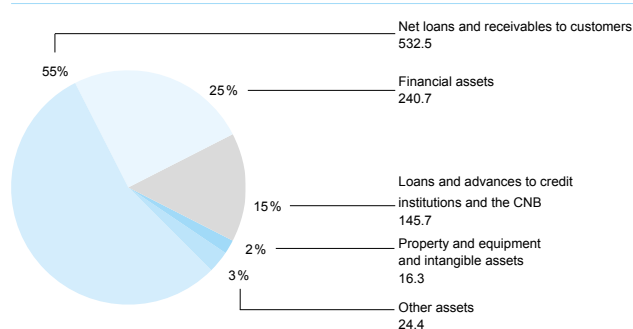
available-for-sale securities in connection with the sale of government bonds. Only the portfolio of financial assets held to maturity reported an increase.

Bonds comprise as much as 99% of the securities portfolio. Česká spořitelna prefers to purchase bonds issued by government institutions, which account for a total of 89% of all bonds. The proportion of bonds issued by financial institutions is 8%. Securities and investment certificates make up only 1%, i.e. CZK 2.8 billion. In order to maintain stable net interest income, bonds in the held-to-maturity portfolio account for two thirds of the overall portfolio of financial assets.

The volume of investments in real estate property has been intentionally reduced in connection with the gradual sale of these investments and compared to 2014 fell by 33%, reaching an amount of CZK 4.9 billion. **The objective of investments in real estate property is to generate rental income.** Česká spořitelna also invests in investment property funds open to institutional investors and focused on the Czech and Slovak markets, operating within the Financial Group.

The aggregate balance of tangible and intangible assets decreased on a year-on-year basis by 4%, to CZK 16.3 billion, of which land and buildings comprise 67%. **The value of intangible assets increased** by 10% to CZK 4.0 billion, in particular with respect to software in connection with the development of new digital applications. The value of tangible assets fell by 8% to CZK 12.3 billion. The aggregate proportion of tangible and intangible assets to total assets is less than 2%.

Structure of assets (CZK billion)



Liabilities

Deposits from customers (primary) have traditionally been the key source of funding for Česká spořitelna's active business transactions: these currently comprise 74% of all liabilities, meaning that Česká spořitelna is considerably independent on interbank funding. Client deposits, including those measured at fair value, totalled CZK 713.8 billion, meaning that in the course of 2015 their volume increased by 5%, representing in the absolute value CZK 33.4 billion. The high volume of deposits from

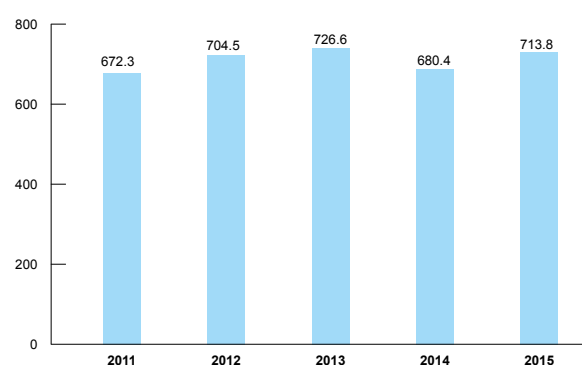
customers also contributes to the strong liquid position of Česká spořitelna.

Long-term customer deposit growth testifies the trust of citizens in Česká spořitelna. **Deposits from households** grew by 3% and reached the aggregate amount of CZK 531.6 billion. Thanks to the low interest rates, request deposits significantly prevail, representing almost 80%. Deposits on personal accounts ("Osobní účet" and "Osobní konto") are increasing. The savings product ČS Savings is also popular. The major products among term deposits are construction savings deposits and term passbooks. The construction savings deposits fell last year due to the termination of construction savings contracts after the expiry of their 6-year cycle.

Corporate client deposits recorded a significant increase by 15% in 2015, to CZK 131.7 billion, practically solely on current accounts, which indicates that corporate clients deposit their excess liquidity with Česká spořitelna. Public sector liabilities show a stable development, remaining at the level of CZK 50.6 billion, of which CZK 5.9 billion represents loans received as a part of repo transactions.

Foreign currency deposits grew to 7% of total client deposit volume; the euro is the currency of choice, followed to a smaller extent by the US dollar.

Deposits from customers (CZK billion)



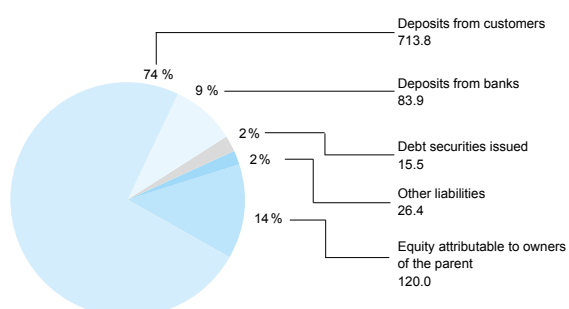
The balance of deposits from banks at amortised value, comprising received loans, term deposits and current accounts, significantly increased year-on-year by 54% and at the end of 2015 reached the amount of CZK 83.9 billion. **The greatest impact on the increase of interbank liabilities can be attributed to short-term and one-day term deposits** and the growth of loans received as a part of repo transactions. These amount to CZK 13.0 billion at the end of 2015.

The total volume of issued debt securities decreased compared to 2014 by almost one third, to CZK 15.5 billion. The decrease was caused by a number of mortgage bonds, real value bonds and subordinated debt **gradually falling due**. In the case of the subordinated debt issue, Česká spořitelna exercised its option right to early repayment after five years.

The equity attributable to the Bank's shareholders, comprising subscribed registered capital, capital reserves, the legal and statutory reserve, revaluation gains or losses (especially on the cash flow hedges and portfolio of available-for-sale securities), exchange rate differences and retained earnings, **totalled CZK 120.0 billion**. In a year-to-year comparison, equity reported further increase by 11%. The amount of equity increased thanks to the growth of retained earnings and the AT1 hybrid capital issue of EUR 300 million. **Česká spořitelna decided to implement the hybrid capital issue in order to optimise its capital structure** and to stabilise the long-term euro financing. The equity attributable to the Bank's shareholders represents 13% of all sources.

The capital adequacy ratio Tier 1+2 for the consolidated regulatory unit (CRR) of **Česká spořitelna** reached 21.3% at 31 December 2015. In 2014 the standalone capital adequacy ratio of the Bank was 18.5%. The total capital used in the calculation of capital adequacy amounted to CZK 99.9 billion and the total risk exposure amounted to CZK 468.3 billion. In 2014, these figures were CZK 84.4 billion and CZK 456.7 billion, respectively.

Structure of liabilities (CZK billion)



Business Activities

Retail Banking

Česká spořitelna is the largest and most important retail bank on the Czech market. Retail banking services offered by Česká spořitelna and its subsidiaries are used by more than 4.7 million clients.

Česká spořitelna **has been gradually introducing a new long-term concept of healthy finances that is perceived as the future of its banking advisory services**. In the course of 2015, the concept of healthy finances was transformed into the unique service **Moje zdravé finance** (My Healthy Finances) (MZF) that is currently offered by Česká spořitelna to its clients in 30 pilot branches. **MZF service helps clients better manage their money, assisting them to reducing their costs of living, resolving their needs and dreams and contributing to the growth of their wealth.**

The service **Moje zdravé finance** is based on several fundamental principles. The bank advisor meets the client on a regular basis; the meetings are planned in advance. At the regular meetings, the bank advisor and the client discuss the client's financial needs and they together **set up the financial products so that the client can use them efficiently in line with his current life situation** and so that the client can save money on the products. Door to door advisors of ČS subsidiaries offer clients possibilities to save money on non-financial services. Bank advisors direct and teach the clients to be able to execute service transactions by means of self-service, Internet and mobile banking, this saving time and money.

Products and services by segment

The wide and diversified client base of Česká spořitelna by its very nature requires services to be provided by means of a client-oriented approach by segment.

The concept of the new style of advisory activities within the scope of the service **Moje zdravé finance** is primarily targeted to the widest retail client base. Non-financial services, however, can be used also by clients of other segments. The first few months of the pilot operation of the service **Moje zdravé finance**, launched in summer 2015, confirmed the correctness of the chosen path. **The new form of bank advisory services that brings savings to people and at the same time teaches them to better manage their household budget is bringing its first fruits.** The service **Moje zdravé finance** is used in the pilot branches by more than 23 thousand clients who can save up to several thousand crowns a year with this service. **The success of MZF was reflected in the satisfaction level of the clients**, increased number of new clients and increase in the sales of loan products.

Česká spořitelna will continue to offer MZF service in selected pilot branches. In 2016, **the service Moje zdravé finance will be supplemented with brand new "healthy" products (Zdravé produkty)**. These will include **Zdravý účet** (Healthy Account), **Zdravá karta** (Healthy Card) as a new debit card, **Peníze na klik** (Click for Your Money) as a revolving overdraft, and **MTZ Application** presenting an overview of the client's expenses and possible saving suggestions. The employees of the branches will undergo training in the course of 2016, focusing on the new principles of the advisory services provided, based on the successful testing carried out in the pilot branches. Thereafter, they will start offering the MZF service to clients, including the financial products, and through the door to door sales of the ČS subsidiary also the non-financial products.

At the end of 2014, **Česká spořitelna** introduced the **BLUE** service that is completely unique in terms of its comprehensiveness and ability to efficiently resolve all the client's financial needs. **Using BLUE, the clients obtain high quality and flexible banking service, with regular replacement of products and services in accordance with their current needs**, where they receive professional advice concerning the solution of their financial situation and obtain interesting information from the world of finance.

The basis of the BLUE service remains the **private banker**, who **takes regular care of the client and his finances**, prepares a Personal Financial Plan, representing a strategy for the client to achieve his financial objectives. The Bank's flagship product is the Private Account ČS, which offers everything a client could need for daily cash management. Together with the BLUE brand, clients may use special "BLUE" debit and credit cards.

BLUE also rewards clients for their activity, allowing them to receive the entire BLUE service for free. **The clients using BLUE service are demanding and expect** high quality of the services provided; for which reason, **the Bank provides a unique Quality Guarantee**: if a client is unhappy with the quality of a service, the fee for that service will be refunded.

At the end of 2015, BLUE service was used almost by 350 thousand clients, looked after in 130 selected branches by 550 private bankers, 10 bankers in the ČS Virtual Branch and 50 investment specialists. Each fourth client uses the Personal Financial Plan.

A part of the BLUE service is also the Busy Banking service, offered to clients who have their own banker at the branch but do not want to visit them personally with every minor problem. The banker informs them by telephone, e.g. about the approaching expiration of a guaranteed deposit and agrees with them on further steps; thereafter, the banker will take all such steps and the client only approves the relevant request in SERVIS 24. In 2015, Busy Banking was extended by the offer of insurance products. **The clients can newly use the Virtual Branch service every day, including weekends, from 07:00 a.m. to 10:00 p.m.** The Virtual Branch service is provided at the telephone number 800 400 700 to all clients of the BLUE service who are too busy or cannot visit their branch in person.

Clients can also take advantage of non-financial benefits within the scope of BLUE service, e.g. receive significant discounts at the Golf & SPA Hotel Konopiště, tickets for the biggest music festival Colours of Ostrava, discounts on mobile phones in cooperation with Alza.cz, or travel vouchers from the company NevDama. In cooperation with Forbes magazine, the Bank offered its clients inspiration, opinions and ideas of some interesting personalities.

The **Erste Premier brand provides above-standard banking services** in Česká spořitelna. This service is designated for clients with higher income or net wealth that need a proactive approach of the banker, who becomes the client's advisor in all areas of his finances. Comprehensive **top-notch** banking service provided in the Bank's own branches, based on high quality and professional level of all provided services and with regard to client needs also on consistent discretion of the service, is a must.

In October 2015, Erste Premier brand celebrated its fifth anniversary on the market. Stable increase of the number of clients, reaching already 23 thousand, confirms its stable position on the above-standard banking services for wealthy clients. In 2015, a new

Erste Premier Centre was opened in Zlín. In addition to Zlín, there are four Erste Premier Centres in Prague and one in each of the following cities: Brno, Ostrava, Olomouc, České Budějovice, Plzeň, Liberec, Hradec Králové and Pardubice.

New benefits for Erste Premier clients include the possibility of cash withdrawal at all ATMs abroad free of charge, with the extension of free withdrawals also to countries outside the operation of Erste group. Another example is the application of individual exchange rates for above-limit amounts directly in SERVIS 24 or the possibility of an online application and approval of Premier Loan and overdraft. A novelty among loan products is the Premier American Mortgage with specific parameters for wealthy clients.

Investment advisory services constitute an integral part of the Erste Premier offer. The environment of low interest rates does not provide favourable possibilities for obtaining return on investments by means of standard deposit products. Thus, investment advisory services represent an ever more important pillar of this service.

The Premier Benefit Club has reported a significant growth, focusing in particular on extending benefits to regions. The Club prepared various social events for the clients, with the greatest response being received with respect to Designblok, of which Erste Premier brand has been a long-term partner. The client satisfaction with Erste Premier service, measured on a regular basis, has again shown an increase in 2015.

The private banking service offered under the **Erste Private Banking** brand represents the top quality offer to clients of Česká spořitelna, which provides under this brand private banking services for the richest clientele, focused on financial investment. **Erste Private Banking provides comprehensive service** for important clients, first-class advisory services, an individual approach to each client and maintains a personal relationship with the client through private bankers, **based on professionalism, trust and discretion.**

In 2015, Erste Private Banking focused on strengthening relations with clients and extended the offer of private bankers services also to the clients' family members. Thus, the personal banker can act as a financial secretary with respect to all financial needs of the client's family, with emphasis on each member's individual requirements. The clients of Erste Private Banking are also automatically entitled to use Erste Premier products for which they receive additional benefits.

The value of managed assets increased significantly both in aggregate and from individual client perspective. **Erste Private Banking continues to be focused on the offer of the management of private client portfolios by professional portfolio managers** with the knowledge of the Czech and the international financial market.

Erste Private Banking clients also participate in further development of the services by means of feedback given through their bankers and by satisfaction surveys. It is encouraging that Erste Private Banking clients are those who express their confidence and thanks.

Financing of Private Housing Needs

Successful mortgage loan years where each year is better than the preceding one have been continuing. **The great success in 2015** on the mortgage loan market **resulted** from even lower interest rates, growing real income, favourable situation on the real estate market and in particular from the **active lending policy of Česká spořitelna, supported by qualified advisors and regular special offers**.

In 2015, more than 26 thousand households got new housing or improved their existing housing with the assistance of Česká spořitelna. In absolute numbers, this represents CZK 49.5 billion in new mortgage loans, i.e. an increase by 38% compared to 2014.

In 2015, Česká spořitelna focused on simplification of its products and processes and prepared several innovations in this area. For example, **clients now have the possibility of remote draw-down of their mortgage loan through SERVIS 24** Internet banking, from their home and without the need to physically visit the branch office. For the purpose of refinancing their mortgage loan, they are no longer required to submit evidence of their income and evaluation of the property. Česká spořitelna guarantees a favourable interest rate for refinancing of loans provided by other banks for up to one year ahead. A product tailored for entrepreneurs is Obrátová hypotéka (Turnover Mortgage) that offers favourable conditions for self-employed clients who can evidence their income for the purpose of assessment of a loan application on the basis of turnover shown in the tax return.

Similarly as in the preceding year, Česká spořitelna was awarded for its innovations by the company Chytrý Honza in 2015. It ranked first in the Banking category with its new **Online Loan Configurator**. This application **allows business partners model the mortgage loan so that both the advisor and the client can see in real time whether or not it is possible to obtain the loan**. In addition to this award, Česká spořitelna ranked third in the category Mortgage Loan of the Year and in the competition Fincentrum Bank of the Year.

Popular special offers definitely include Mortgage Days of Česká spořitelna that last several days and are usually held twice every six months. **On these days, clients can receive a number of benefits in connection with their mortgage loan**, ranging from a guaranteed interest rate, through estimate evaluation of their property, to other additional services free of charge. The clients neither pay for the mortgage loan approval or for the mortgage account administration.

Substantial benefits are associated, for example, with Svobodná hypotéka (Free Mortgage) of Česká spořitelna that provides

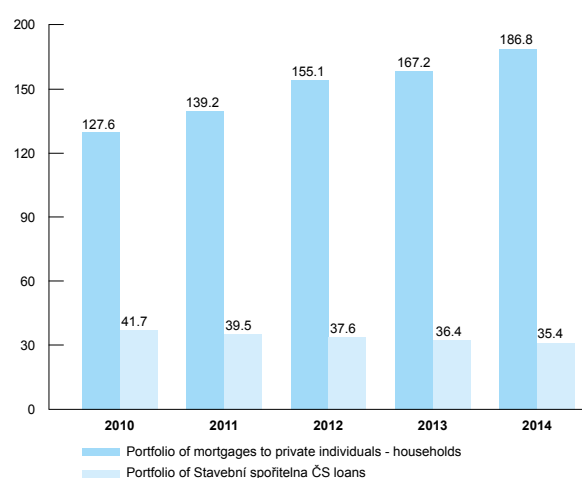
freedom for the clients to set up their loan and the repayment terms. **The greatest benefits of Svobodná hypotéka include the guaranteed interest rate with a long-term fixing for 8 years**. Long-term fixing ensures very low instalments for clients for a long time. Another advantage of Svobodná hypotéka is the possibility of changing instalments, which allows for reduction or increase of instalments by as much as 30%; repayment variability allows for commencing repayment after the expiry of 3 months and repayment vacation enables suspension of repayments for up to 3 months. Drawdowns without the need to submit construction invoices allow for quick provision of the money, without submitting any invoices. Thus, Svobodná hypotéka allows for using the money also on the household equipment and furnishings.

In addition to their original purpose, i.e. long-term financing of housing, mortgage loans tend to become a source of financing for short-term purposes, for example when a client is moving houses and needs to bridge the gap between the purchase of a new house and the sale of the old one.

Another opportunity is the Premium Mortgage, which rewards client loyalty by guaranteeing a 0.3% interest rate discount for the first fixing period and rewarding clients for their loyalty by a financial premium paid at the beginning of each subsequent fixing period, which may be used by the clients for any purpose.

The total portfolio of mortgages to private individuals – households **increased by 12%** compared to 2014, to **CZK 186.8 billion**, which represents a year-on-year increase by almost CZK 20 billion. The number of mortgage loans exceeded 150 thousand. The key indicator of the average loan-to-property value of the entire portfolio reached 64.6%.

Mortgage loans portfolio (CZK billion)



Stavební spořitelna České spořitelny is another important provider of home financing loans. Given the upswing in mortgage loans in recent years, there has been less of a demand

for construction savings loans as a partial replacement for mortgage loans. Despite this fact, the volume of newly provided loans increased by 36% compared to 2014. **The cooperation with housing co-operatives and owners' associations has also successfully continued** in the form of financing their investment projects associated with the housing of their members. The total portfolio of bridging loans and constructing savings loans fell by 3% to CZK 35.4 billion. Bridging loans represent 64% of the portfolio. The total number of loans at the end of 2015 was almost 140 thousand.

Financing the needs of private individuals

An attractive offer of consumer loans represents a high priority for Česká spořitelna, as the leader on the consumer loan market. **The total amount of newly provided loans (including new loans repaid in 2015) reached the level of CZK 28.0 billion.** The volume of newly provided loans of Česká spořitelna increased year-on-year by 8%, mainly thanks to the record breaking sales of new loans in autumn 2015.

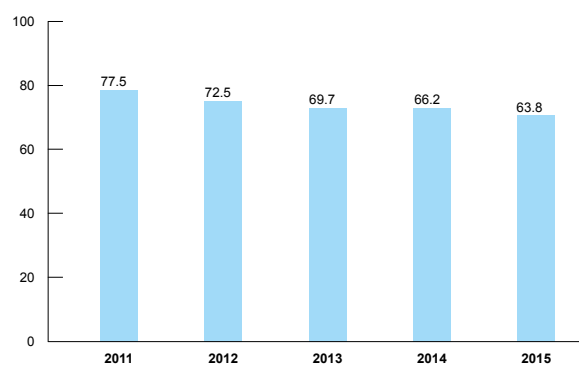
This outstanding result was in particular supported by the attractive offer for clients. In spring 2015, the Bank repeated its successful campaign of autumn 2014 "5+5" that enables clients to repay loans and at the same time create savings that bear interest at a unique rate of 5%. During summer months, the Bank conducted a campaign with a guaranteed interest rate for new loans where the clients documented the purpose of such loans. Subsequently, in **October the Bank introduced a very successful offer of a "Loan that waives up to 12 repayments"**. This way, the Bank referred to the very popular benefit in the form of a bonus for proper repayment. The attractiveness of this offer, together with the Loan Train that automatically calculates and displays, at the time of each loan application, the offer of consolidation of all the client's existing loans, significantly contributed to the successful end of the year 2015.

Another reason for the increase of new consumer loans is the professionalism and expertise of the advisors and bankers working within the branch network. The Bank also introduced several improvements in 2015 in the process of loan sales, including a substantial improvement of the procedure of assessing the loan application. And last, but not the least, this success is attributable to the broad range of the sales channels, including not only the branch network, but also the largest ATM network of all. **Česká spořitelna is the only bank on the market that enables loan conclusion directly through ATMs, without the need to sign a contract at the branch.** Česká spořitelna offers its clients the conclusion of a loan contract also in the SERVIS 24 Internet banking or its mobile version, whereupon the money is immediately available to the client on their current account.

The total volume of consumer loans including credit cards, American mortgages and overdrafts, fell year-on-year by 4% to CZK 63.8 billion. However, the Bank has already succeeded to turn

this trend in the portfolio of cash consumer loan. Compared to 2014 the portfolio of cash consumer loans has increased.

Total volume of consumer loan portfolio (CZK billion)



Private Account

The Česká spořitelna Private Account ("Osobní účet") or, in case of the BLUE service, the Česká spořitelna Personal Account ("Osobní konto") is the cornerstone of the product and service portfolio for the Bank's private clientele. **The setting of the Private Account ČS is so variable that it meets individual needs and requirements of clients of any age group.** Private Account ČS is used by children, teenagers, students, families and seniors. In other words, it is a single account for a lifetime.

Naturally, the basic package includes services such as a payment card and online or mobile account access. Complementary services are prepared based on the individual needs of clients. Some of the most frequently used include Peníze stranou (Money Aside) in the form of a sub-account for putting money aside as a reserve for unexpected expenses. The money is kept aside, out of the reach of the payment card or permanent payment orders. There are also other advantages services relating to all cards for the account, such as the possibility to choose one's own picture for the card, change of the PIN code, change of the limits and unlocking/locking the card. The basic package for children, students and young clients is offered free of charge.

With the programme Za důvěru (For Your Trust), each client can have maintenance of the Private Account free of charge subject to simple conditions. The programme is very popular and at the end of 2015 there were more than 750 thousand programmes Za důvěru activated.

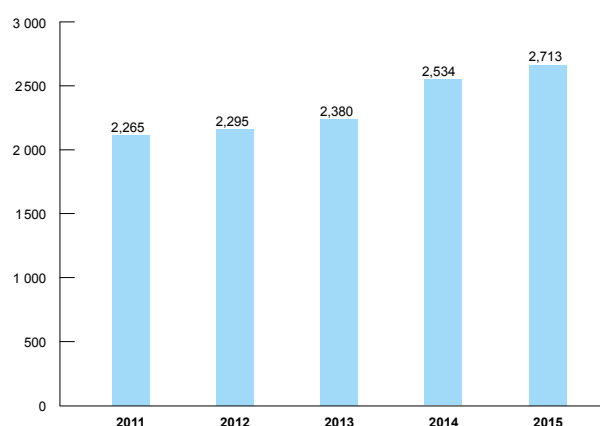
BLUE clients use the ČS Personal Account, which is a modern account offering to clients for a single price all services required for active management of their daily finances, together with all Private Banking Benefits. Discounted complementary services, such as withdrawals abroad, foreign payments, a savings account, etc., may be purchased to the ČS Personal Account.

The Private Account Premier is used by clients who are served within the Erste Premier network. The Private Account Premier offers exclusive services. Discretion, top-flight advisory, the premium services of a Premier Banker and a comfortable environment are assured.

Popular digital gadgets associated with Private Accounts include the new mobile application **Můj stav (My Status)** that **displays balances of all the client's products kept with Česká spořitelna in a quick, simple and secure manner**. The application is used not only for the access to the Private Account, but also to other products used by the client, such as card accounts, loans, mortgage loans, construction savings products, supplementary pension insurance and supplementary pension savings schemes, life insurance, investment accounts or property accounts.

At the end of 2015, **more than 2.7 million clients were using a Česká spořitelna Private Account or Personal Account, a substantial year-to-year increase of almost 180 thousand**. The volume of cash deposits increased year-on-year by 27% to a total of CZK 260.0 billion.

Private Accounts (in thousands)



Investment Products

Česká spořitelna's long-term strategy is to target the needs of clients and present investment solutions that go as far as possible toward meeting their demands and expectations. **Product innovation emphasises** comprehensibility, transparency and quality, as well as **the highest possible probability of achieving interesting yields**.

Once again, central banks played a key role for the development on financial markets in 2015, aiming their measures at supporting the markets. On the other hand, the main source of nervousness was the concerns regarding the growth of Chinese economy and the turmoil on commodity markets. At the same time, the prevailing environment characterised by low interest rates on classical deposit

products continued to be favourable for the investment offer of Česká spořitelna.

The possibility of obtaining better yield than the yield available in case of saving deposits attracted client attention, which was reflected positively in an increase of sales of investment products. **Investors were** most interested in more conservative investments products, **preferring lower market risks over the maximum achievable yield**. This trend is documented by the volume of sold bonds, which exceeded CZK 9.6 billion. The volume of sale of the most conservative structured deposits reached CZK 0.6 billion.

Stock markets presented an interesting investment opportunity for more dynamic investors, drawing their attention to direct equity investment. The total turnover of stock transactions in 2015 exceeded the amount of CZK 1.1 billion. **Investment certificates offered by Česká spořitelna did also very well**. Clients were particularly interested in Bonus Certificates and the Turbo long and Turbo short. The total volume of certificates traded by clients in 2015 was CZK 275 million. **The sale of physical gold was also attractive for clients**, who purchased via Česká spořitelna in 2015 gold ingots for investment purposes worth close to CZK 120 million.

Despite the diversified trend in the performance development of various classes of assets on the financial markets, the continued environment of low interest rates contributed to the strong growth of the overall sales of the mutual funds of Erste Asset Management, in particular the mixed funds. Similarly as in the preceding years, the influx of financial resources relied on the important component of regular investments. **The total share of regularly sent funds accounted almost for 38% of the total sales of retail mutual funds**. The average value of a regular investment amounted to CZK 1,876.

In the course of the whole year 2015, the global stock index recorded a slight loss of 0.7%, which means that the stock funds showed mixed performance. **The most successful fund was Top Stocks, focused mainly on developed markets** that reported a growth of 8.11% in 2015 and the fund Global Stocks that reported a growth of 7.08%.

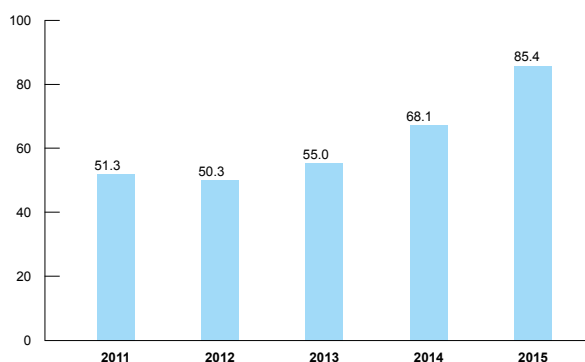
Unlike in the preceding years, the performance of mixed funds was not so favourable, mainly due to the growth of the risk premium for the more risky bonds. The largest mixed fund, Conservative Mix, with the assets exceeding the amount of CZK 20 billion, fell by 0.65%. Similarly, other mixed funds ended the year 2015 in red numbers. **In autumn 2015, the offer of mixed funds was extended by the fund Optimum**, offering a significant revival of the investment strategy by means of **investments in the real estate market**. Thanks to successful sales, the assets of the fund Optimum at the end of the year exceeded the amount of CZK 1.7 billion.

On the domestic bond market, the year 2015 saw a decrease of yields of the Czech government bonds. The short end of the yield curve in the second half of the year was way down in negative numbers, which was reflected in the performance of conservative bond funds. For example, the fund Sporoinvest fell by 0.21%. The funds with a longer duration were much better off; the fund Sporobond increased by 1.01%, despite the weaker performance of the investment level corporate bonds. Corporate bonds bearing high interest did not perform quite as expected, with the bond fund High Yield increasing by only 0.99%. **On the other hand, corporate bonds of companies from developing economies reached high yields and so the ČS Corporate Bond fund increased by 8.41%.**

In May 2015, Investiční společnost České spořitelny (ISČS) received an award of The European magazine as the Best Investment Company in the Central and Eastern Europe. In November 2015, an important organisational change took place within the scope of restructuring of the Austrian investment group Erste Asset Management GmbH (EAM), merging ISČS with EAM. Thus, ISČS was completely incorporated into EAM's organisational structure and became its branch in the Czech Republic. This merger did not in any manner affect the clients, stakeholders of the mutual funds or their investments. The funds continue to be managed in the Czech Republic. The legal successor of ISČS is Erste Asset Management GmbH that carries out its activities in the Czech Republic through its newly established branch named Erste Asset Management GmbH, Czech Republic branch (EAM ČR).

The total volume of assets managed by the funds of EAM ČR at the end of 2015 amounted to CZK 85.4 billion, which represents a significant increase by 25%. The growth of assets results primarily from the positive development of the markets and the continued interest of investors who were looking for higher returns by means of investing in mixed funds.

Volume of assets managed by funds of Erste Asset Management, Czech Republic branch (CZK billion)



Together with its subsidiary REICO investiční společnost ČS, Česká spořitelna offers retail clients the possibility of investing in commercial real estate through the ČS real estate investment fund,

an open-ended mutual fund. The ČS real estate investment fund is the largest real estate fund for retail clients in the Czech Republic **with the capital of CZK 8.2 billion.** In the course of 2015, the portfolio of ČS real estate investment fund was partially restructured. First of all, the fund sold the A. Macek building in Ostrava in April and then in December it purchased a multifunctional building Forum Business Center I in Bratislava, Slovakia. Thus, the fund still owns nine commercial properties, of which seven are located in the Czech Republic and two in Slovakia. Thanks to the new acquisition, the geographic diversification of the portfolio was increased, with more than 42% of the fund's property investments comprising of regional or foreign assets. **The value of the funds invested in the ČS real estate fund increased in 2015 by 2.3%** and in the last five years by 3.0% p.a. The generated yield confirmed the stable long-term performance of the fund that has been showing a positive growth for almost 7 years. Over 16 thousand clients invested in the fund in 2015. Values of the buildings in the fund portfolio were stable in 2015, with a significant potential for their long-term stability.

Savings Products

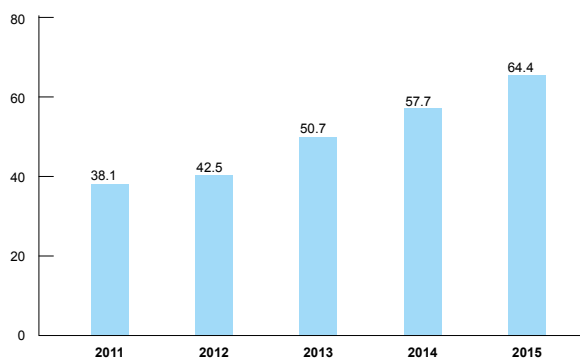
Supplementary pension insurance in the third pillar is the most popular and steadily growing form of long-term savings, which is provided in the Group of Česká spořitelna by ČS-penzijní společnost. Although the supplementary pension insurance in the Transformed Fund was closed to new clients, the **volume of client deposits in the Transformed Fund again reported high growth, of 8% year-on-year to CZK 60.4 billion.**

The volume of finance in complementary pension insurance (DPS) in the third pillar, which is designated for new clients, continued to grow in 2015 in all managed funds. The volume of funds in the **mandatory Conservative Participation Fund, which is the largest fund in the DPS market**, increased two-fold in 2015, to CZK 2.7 billion.

ČS-penzijní společnost has held its position of the leader in the DPS market, with a share of almost 30%. In 2015, more than 50 thousand clients decided to invest in pension security with ČS-penzijní společnost.

In total, 950 thousand unique participants are saving with ČS-penzijní společnost, with the total volume of funds of CZK 64.4 billion, which represents a year-on-year increase by 12%.

Volume of assets managed by ČS-penzijní společnost (CZK billion):

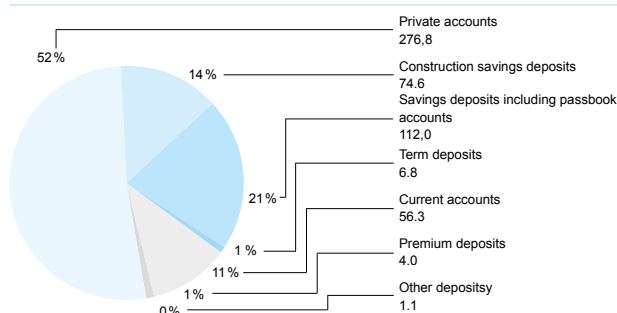


Česká spořitelna – penzijní společnost has succeeded in the contest Fincentrum Bank of the Year 2015, ranking first in the category of pension companies. In the prestigious contest Zlatá koruna (“Golden Crown”), its supplementary pension insurance has repeatedly ranked third place.

Construction savings deposits with Stavební spořitelna ČS continue to constitute the most significant savings product by volume. At the end of 2015, the total amount of deposits was CZK 74.6 billion, representing a year-on-year decrease by 9%. The decrease was caused primarily by the termination of construction savings contracts after the expiry of their 6-year cycle.

Passbooks represent classical and still popular deposit products. The volume of funds deposited on passbook accounts saw a slight year-on-year increase after many years, reaching the amount of CZK 59.3 billion. **Another popular product is the savings account Spoření ČS, designed for both regular and irregular savings where the deposited funds are always available to the clients at their account.** The total savings amounted to CZK 31.7 billion, an increase by 24% compared to the end of 2014. In the environment of low interest rates, clients prefer request deposits, with term deposits and termination notice deposits recording a decline.

Savings of individuals (CZK billion)



Current and term deposits in foreign currencies accounted for CZK 12.5 billion, which represents an increase by 27% compared to 2014. The preferred currencies are euro and US dollar.

Although the year 2015 marked the end of the extended prescription period for withdrawing money from anonymous passbook accounts, Česká spořitelna decided to accommodate the requests of its clients and will continue to pay out the deposits also in 2016 until further notice. Pursuant to the Banking Act, the validity of anonymous passbooks terminated at the end of 2002. Since that time, 98% of deposits have been withdrawn, but the Bank still registers anonymous passbook accounts in the volume of CZK 1.9 billion. Since 2012, all uncollected deposits on anonymous passbook accounts are the property of Česká spořitelna that is well aware of their origin and knows that they are the proceeds of honest saving of common people. For this reason, **it decided to donate all the remaining funds to the Czech society through the foundation Depositum Bonum**, founded by Česká spořitelna in 2012. The foundation focuses on improving the quality of education, in particular in the field of technical and natural sciences, and in the course of its short existence, it has succeeded to acquire high credit of the expert public.

Small Enterprises and Entrepreneurs (MSE)

The structure of clients in the MSE segment is highly diversified, covering not only individual entrepreneurs and self-employed people, but also small enterprises and small associations of residential unit owners, non-profit organisations, small municipalities, etc.

Česká spořitelna offers MSE clients its professional services with added value, focusing on long-term active building of the relationship between the bank and the client. Thus, **it can be close to the enterprises and entrepreneurs, providing its useful advice and supporting the growth of their business**, where costs can be reduced, how banking services can be used in a more efficient way, making their business easier. **Česká spořitelna** wishes to become their partner, a part of their business and enable the inter-connection of these entrepreneurs and small enterprises with the largest client base on the Czech market.

In the course of 2015, Česká spořitelna increased the number of its specialists working at the branches and taking care of small enterprises and entrepreneurs. Specialised entrepreneur advisors now work at more than 150 branches, allowing each entrepreneur to consult their needs with a specialised expert. Moreover, these advisors attended a number of specialised training courses to be able not only to understand the clients – entrepreneurs, but also to be able to correctly resolve their requirements.

Česká spořitelna also pays attention to starting entrepreneurs. The Bank is a partner of the competition Rozjezd roku (Start-ups of the Year) and **offers new entrepreneurs the comfort of experts specialising in the issues of starting enterprises**, with a possibility of free consultations of their business plans and discussing their business intentions. Thanks to the partner portal Zalozfirmu.

cz, everyone can easily apply for a trades licence or establish a company and, in addition, use the Klasik Entrepreneur Account for two years without any administration fees.

Česká spořitelna extended its offer of current accounts by the **Basic Entrepreneur Account, intended for clients with a smaller number of transactions**. The Basic account contains SERVIS 24, payment card and possibly also the start-up overdraft and subject to the fulfilment of certain conditions is free of any administration fee. Thus, the Basic Entrepreneur Account supplements the existing accounts Klasik and Maxi. The Klasik account contains all basic services that clients need, including 30 transactions, it is simple and its price is transparent. Klasik account can also be extended by additional products and services, such as the company overdraft, discounts on transactions or selected insurance products. With Maxi account, clients receive the processing of all e-transactions as a part of the basic package and Maxi account can, of course, be also extended by additional products and services. The entrepreneur accounts Klasik and Maxi have become a part of the programme Za důvěru (For Loyalty), which allows clients access to the benefits of partnership with Česká spořitelna.

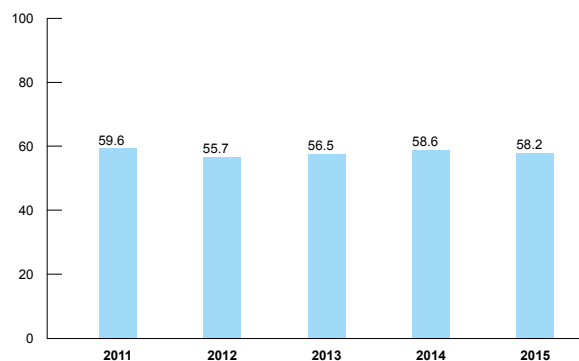
The Bank has also become the title partner of the competition “Česká spořitelna Entrepreneur of the Year” organised by Hospodářské noviny daily. The 10th year of the competition took place in 2015. The most successful entrepreneurs and enterprises from the whole Czech Republic present their business in this competition.

In spring and autumn 2015 campaigns were held focusing primarily on the profitable investment financing in the form of investment (capital) loans. The terms and conditions were set up primarily on a favourable price and promotion of parameters outstanding in a long-term perspective. This campaign not only generated positive response among the existing clients, but also among entrepreneurs who are not yet clients of Česká spořitelna. **The parameters of the Secured Instalment Loan (Zajištěný neúčelový úvěr) have also been modified, so that clients can now use a loan up to CZK 10 million with the repayment term up to 10 years.** Despite the strong competition in the MSE segment, Česká spořitelna maintains its 30% market share and has been receiving positive feedback from its clients in terms of satisfaction and quality.

The number of entrepreneur accounts and corporate accounts it approaching one hundred thousand. The total balance on these accounts increased year-on-year by 13% to CZK 30.3 billion. Corporate accounts are not used only by entrepreneurs, but also by legal entities and non-profit organisations.

The total loan portfolio for entrepreneurs and commercial clients with turnover of up to CZK 30 million remained stable in the course of 2015 and at 31 December amounted to CZK 58.2 billion.

Portfolio of loans to entrepreneurs and small enterprises (CZK billion, gross value)

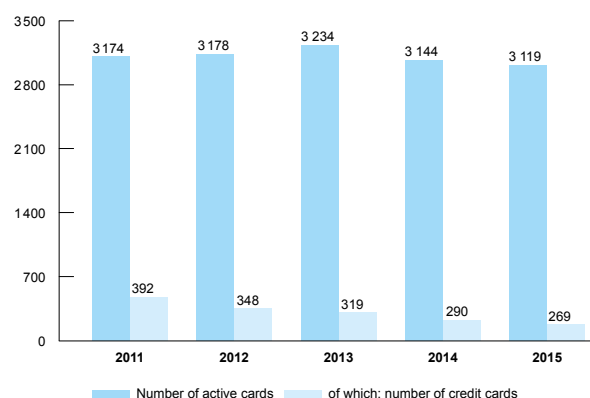


Card Programme

At the end of 2015, the total number of active payment cards of Česká spořitelna exceeded 3.1 million, with credit cards accounting for 0.3 million. **The total volume of payments made by Česká spořitelna's cards with vendors increased by 8% year-on-year to CZK 124.2 billion.** Clients executed on average 85 transactions per card, 61 of which were executed with vendors. The average annual per-card spending reached CZK 40 thousand. The popularity of card payments for internet purchases has been continuously growing, with the volume of purchases made with the cards of Česká spořitelna in the course of 2015 amounting to CZK 9 billion, i.e. the average of CZK 2,886 per card.

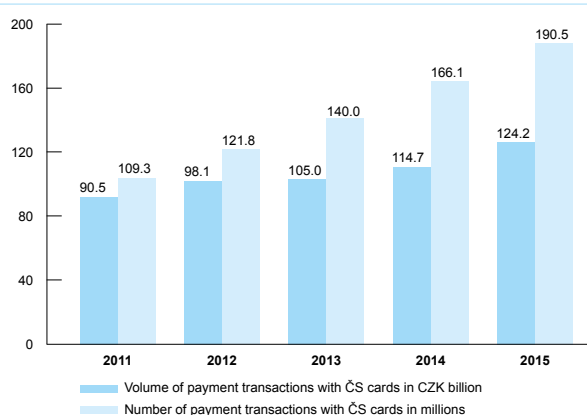
In the third year of Visa Awards, Česká spořitelna received the award Best Card Issuer of the Year 2015. It has thus defended its first place of the preceding year. The award is granted by the card association Visa Europe, acknowledging Česká spořitelna as the leader in the area of contactless payments and for its consistent approach to the development of contactless technology on the market.

Number of active cards (in thousands)



In the area of payment cards, the constant mission of Česká spořitelna is to ensure reliable and secure payments, with emphasis on speed, simplicity, comfort and strengthening of the client's trust in this payment tool. This is closely related with the attempts to transfer clients from cash transactions towards cashless transactions. In order to fulfil this goal, the Bank implemented a number of activities in 2015, mainly of motivational and educational nature. A significant progress occurs also in penetration of bank payment cards into the area of transport and mobile technologies.

ČS card transactions executed with vendors (issuing)



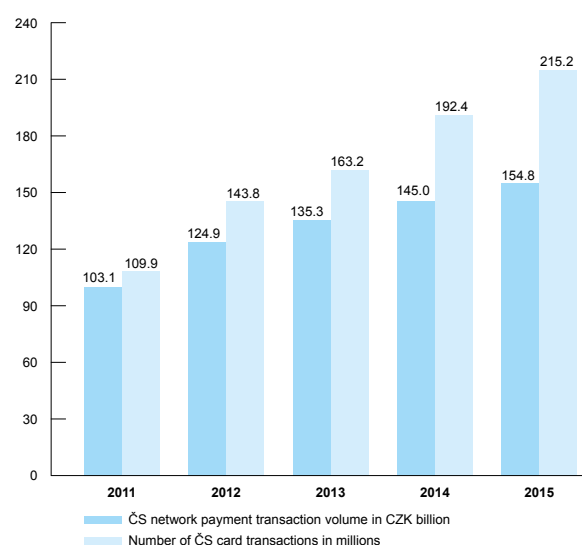
At the beginning of 2015, Česká spořitelna presented a highly demanded innovation in the form of payment card PIN displaying in the SERVIS 24 Internet banking. **Thus, the cardholder can be reminded of their PIN code without having to request its repeated sending by mail.** Moreover, if clients apply for a new card, they can set the PIN display in their Internet banking and need not wait for their PIN to be sent by mail and collect it at the post office.

In cooperation with its subsidiary Mopet CZ, the Bank introduced the service Biip in September 2015, a unique mobile application and a secure rechargeable payment card. The Biip card is suitable for children and youth in the age group between 10 and 18 years, who receive pocket money and shop several times a month. **Biip is a useful and modern instrument for parents who want to teach their children how to manage their pocket money.** Parents can get the card even for younger children with a small amount of money and these children can use it just as a money box. For the time being, this service is only sold online through the e-shop at www.biip.cz and at the end of the year more than 800 Biip cards were issued.

In cooperation with the home for the visually impaired Palata, a non-traditional campaign was held in April and May 2015 under the slogan "Make her happy today by paying with your card". Thanks to payments made with the cards of Česká spořitelna, the Bank could donate the amount of CZK 1,018 thousand to Palata home.

In 2015, 215 million transactions totalling CZK 154.8 billion were carried out at Česká spořitelna payment terminals. This represents a year-on-year growth by 7% in transaction volume. In connection with the more frequent use of payment cards for smaller purchases and the growing number of contactless transactions, the average transaction amount has again decreased to CZK 719.

ČS card network transactions (acquiring)



In 2015, Česká spořitelna introduced **mPOS**, a mobile solution that **enables card payments for products and services also at small entrepreneurs and stores.** The mPOS application was used in 2015 to perform more than 9 thousand transactions, in the average amount of CZK 1,073. To be able to provide its clients comprehensive mobile platforms, Česká spořitelna established closer cooperation with the companies Datart and Vodafone.

The extraordinary general meeting of Česká spořitelna held on 18 September 2015 approved the transfer of a part of the Merchant Acquiring branch focusing on processing payment card transactions performed through payment terminals (acquiring) to a new company established by the strategic partner Global Payments. The company Global Payments, the winner of the tender, will hold a 51% share in the joint-venture together with the Spanish Caixa Bank, while Česká spořitelna and the other members of Erste Group Bank will hold a 49% share. The joint venture is expected to commence its active operation in the 1st half of 2016.

The establishment of the joint venture results from the changes in the European regulations unifying bank fees in the EU countries, which will open the European market to global foreign corporations. Partnership with a strong international partner will enable Česká spořitelna to maintain the high standard of its services for vendors and clients and will provide benefits, such as lower transaction costs and access to the most recent global trends, innovations or new technologies.

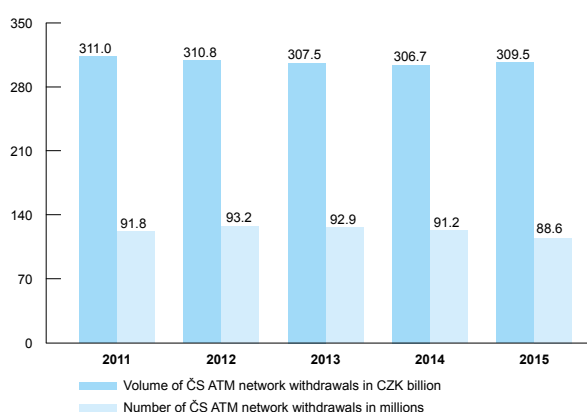
Česká spořitelna has long been the market leader in ATM network size in the Czech Republic. At the end of 2014, the Bank operated a total of 1,414 ATMs and 175 payment machines. In the course of 2015, the Bank installed mainly new deposit ATMs.

Česká spořitelna operates more than 690 ATMs that can accommodate the visually impaired, and these ATMs are continually increasing in number. Reading of money orders and invoices by means of bar codes has been also developing and this service is currently offered at 1,150 ATMs. As a part of the conceptual replacement, 114 ATMs were replaced in 2015 for brand new machines.

All ATMs are equipped with the chip card reading technology and meet at the same time the maximum security requirements for the elimination of risks of illegal copying (skimming) of payment cards. Česká spořitelna also expanded its network of deposit ATMs that, in addition to standard services, enable clients to make cash deposits to accounts with Česká spořitelna and other banks in the Czech Republic. There are currently 108 of these machines in operation, of which 47 are new. Česká spořitelna cooperates in its network with major retail chains, such as Tesco, Kaufland, Ahold, Globus a REWE (Billa, Penny Market).

In 2015, clients made over 147 million transactions at ATMs of Česká spořitelna, with cash withdrawals accounting for almost 89 million of those transactions with the total amount of CZK 309.5 billion. The average withdrawal amounted to CZK 3,492.

Volume of ČS ATM network withdrawals



A widely used service is the transmission of payments through ATMs or payment machines. In 2015, clients of Česká spořitelna made almost 3.5 million payments in the total amount of CZK 18.0 billion. The average payment amount was CZK 5,184. **At the end of summer, the functionality of sale and recharging of time coupons of public transport cards was extended** to eight devices in Karlovy Vary that enable, together with 90 ATMs in the Plzeň region, to obtain and upload a public transport coupon or to recharge the electronic wallet on the card.

Erste Corporate Banking

Erste Corporate Banking (ECB) operates within Česká spořitelna as a modern bank for corporate clients in all phases of their life cycle. **ECB offers solutions both for medium and large enterprises, municipalities and public sector, and for multinational corporations or financial institutions.** On sound foundations, Erste Corporate Banking builds strong and long-term partnership.

The clients of Erste Corporate Banking can use services that highly exceed the usual standards. Thanks to electronic banking and corporate cash management products, the Bank is accessible online for corporate clients. It offers corporations comprehensive solutions tailored to their specific needs: from investment, acquisition and project financing, through the support of export activities, advisory services with respect to mergers and acquisitions, to launching the corporations on bond or stock markets or purchase and sale of electricity, hedging of the prices of electricity, metals and other commodities. For small and medium-size enterprises (SME), ECB is available in 13 regional corporate centres of Česká spořitelna. The Bank offers specialised programmes for the SME segment, as well as solutions for various industrial sectors and corporate situations, from the purchase of corporations to the development of export or innovations.

The added value of Erste Corporate Banking services consists in the **teams of sector specialists, focusing on specific product solutions.** The Bank has experts in the field of European funds management, financial advisory services or renewable resources. The strategy team of Client Solutions Group helps clients analyse and suggest comprehensive hedging and restructuring strategies on financial markets in the area of energy, commodities, interest rates and exchange rates, including those in still exotic currencies.

Erste Corporate Banking of Česká spořitelna is a market leader in public, non-profit and municipal sector financing, energy and renewable energy project financing and the use of discounted funding in collaboration with the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), the European Investment Fund and national agencies such as the Czech-Moravian Guarantee and Development Bank and EGAP.

The Bank confirmed its position as a leading arranger of syndicated and club loans, participating in the majority of such transactions on the market. **Česká spořitelna is a clear market leader in the area of combined financing solutions through bond issues and bank loans.** Thanks to its outstanding collaboration with the main actors on the private equity market, Česká spořitelna holds a leading position in the area of acquisition financing or debt re-capitalisation of companies.

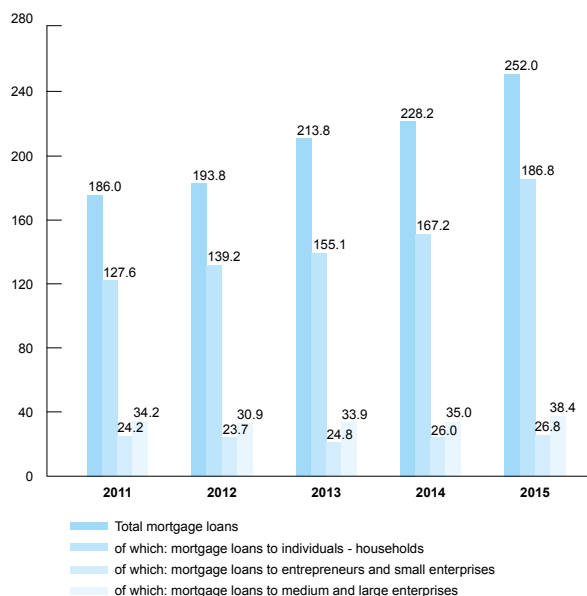
Česká spořitelna holds a leading position among banks and financial institutions as an active supporter of established and emerging Czech exporters. **Also in 2015, the Bank financed a number of export projects and plans of Czech enterprises in foreign**

markets. The Bank also actively supports SMEs acting as indispensable sub-vendors for large Czech exporters, without whom it would not be possible to carry out high quality Czech export. Naturally, the Bank also offers a number of other banking products necessary to successfully implement export plans. In addition, Česká spořitelna is one of the largest providers of bank guarantees, documentary letters of credit and documentary collections on the Czech market, thus also significantly supporting Czech export.

Real Estate Financing

Česká spořitelna has been traditionally one of the most active banks in real estate financing, real estate investments and mortgage transactions. In 2015, the real estate market of residential and commercial properties continued in its steep recovery. **The aggregated non-consolidated balance of Česká spořitelna mortgages exceeded the level of one quarter of a trillion** and at the end of 2015 amounted to CZK 252.0 billion in gross value, which represents a year-on-year increase by 10%. Mortgage loans grew in all segments; of this amount, loans to entrepreneurs, corporate clients and municipalities accounted for CZK 65.2 billion. The quality of the portfolio remains very high.

Mortgage loan portfolio (in CZK billion, gross value for the bank)



Real estate financing within Erste Corporate Banking fully utilises the know-how of the entire Erste Group in Central and Eastern Europe and newly also the close interconnection with the product groups in the area of debt and capital markets. **The projects and capital loans for existing concepts of office and retail properties with a solid track record continue to be an unchanged financing priority.**

The Bank maintained its stakes in real estate investment companies for the institutional investors CEE Property Development Portfolio 2 a.s. and Czech and Slovak Property Fund B.V. Both companies are focused mainly on the Czech and the Slovak market. Within the scope of the valid strategy, commercial and office projects of both funds located in Prague and Kladno, Czech Republic, and in Trenčín, Slovakia, were successfully sold. The Bank also invests in the closed-end real estate fund Emerging Europe Properties LP (formerly Discovery Group Fund 3C LP), which is currently in the second half of its investment cycle.

Medium-size Enterprises

A nationwide sales network comprising sixteen sales points associated in a network of thirteen Regional Corporate Centres is available to medium-size enterprises (SMEs) in all regions of the Czech Republic, with the annual turnover ranging between CZK 60 million and CZK 2 billion. These regional centres, which are located in every regional seat, provide enterprises with the comprehensive top-quality services of the entire Česká spořitelna Financial Group under the Erste Corporate Banking brand.

Regional Corporate Centres serve commercial clients from the entire spectrum of industry. In addition, regional specialists in public and non-profit sector and real estate financing are available to this client segment. **The business model is based on the specialisation of relationship managers and financial analysts in individual industries** for a better understanding of the circumstances of specific client businesses, a smoother process for meeting their needs and, no less importantly, greater efficiency. This effort has been very well received by clients, significantly strengthening Česká spořitelna's position in corporate banking.

In 2015, the Bank again focused on strengthening the client satisfaction in all product groups, in particular in the area of the loan process. The team of product specialists was extended, thus enabling better support for the client specialists in regions, improving the speed and availability of the services offered. Naturally, the product offer includes traditional banking products, including advisory services, but **The Bank is more and more focusing on comprehensive solutions of the needs of its corporate clients in all phases of their life cycle and even on non-financial products.** **Česká spořitelna is the first and only bank in the market that offers physical purchase of electricity and natural gas.**

In the ever fiercer competition environment, human capital still represents a key factor. Work with talents, for example within the scope of the programme Erste Academy, allows Česká spořitelna not only to keep its employees motivated, but also to attract perspective young graduates to join its team.

In 2015, Erste Corporate Banking continued the successful **TOP INNOVATION** programme of previous years and implemented in this programme 80 projects with the volume of CZK 2.4 billion. **The programme offers funding of innovative projects and**

development activities of enterprises and makes use of guarantees provided by the European Investment Fund.

For two years now, **Česká spořitelna** has been providing financing in the Risk Sharing Instrument programme of the European Investment Fund (EIF) and the European Commission. Based on this experience, a new agreement was signed with EIF on the use of guarantees in the subsequent programme InnovFin, enabling this successful programme to continue in the future. Another agreement was concluded with respect to the use of a global loan from EIB in the total amount of EUR 100 million, whereby the **aggregate volume of EIB's global loans used by Česká spořitelna has reached the amount of EUR 1.25 billion**. Thus, **Česká spořitelna** is keeping its leading position on the Czech market in the area of cooperation with these institutions providing financing support in particular to the SME segment.

Successful allocation of financial resources continued in cooperation with EIB through the **Green Energy programme, focused on financing of energy saving investments**. Projects generating at least 20% of energy savings are supported through **Česká spořitelna** by grants provided from funds of the European Union in an amount equal to 14% of the provided loan. By the end of 2015, **Česká spořitelna** granted such subsidised loans in the total amount of EUR 64 million.

In the interest of supporting enterprise start-up, innovation and growth, Erste Corporate Banking, in cooperation with the Ministry of Trade and Industry, expanded its **INOSTART programme designed to finance operating and investment needs of start-up companies** and combining preferential funding and provision of advisory services relating to enterprise start-up, creation of a business plan, legal matters, etc. The funding provided by **Česká spořitelna** in the INOSTART programme during its existence amounted to CZK 185 million.

Česká spořitelna was the first bank in the Czech market to expand the internet banking BUSINESS 24 by adding a mobile application for commercial and corporate clients. The mobile application allows convenient and safe management of the company's accounts on the mobile phone and tablets and provides a possibility to upload and control of domestic payments, to execute of foreign exchange transactions, to have continuous information about account balances and (if required) to find a way to the nearest branch or ATM operated by **Česká spořitelna**.

Corporate Clients

Erste Corporate Banking serves a corporate clientele of both domestic corporations and large multinational corporations. **Erste Corporate Banking provides corporate clients with a broad range of top-quality corporate banking products, including specialised investment banking products and services.** For clients with operations both in and outside the Czech Republic, **Česká spořitelna** together with the Erste Group is ready to serve and accompany corporate clients to the countries in which they operate.

In 2015, the volume of loan transactions **in the corporate client segment** significantly increased, confirming good condition of the Czech economy and the optimistic mood of Czech corporations. In addition to slight increase of the operating financing, **revival was also reported in the area of investments, corporate acquisitions and export financing**, which was reflected also in the increased activity in the area of loans. **Česká spořitelna** is very well prepared to respond to this trend and assist corporations to achieve their development plans, providing help by means of financing or advisory services.

The volume of export of Czech corporations reported a very positive trend, thus increasing the demand for export financing. **In November 2015, Česká spořitelna concluded syndicated customer loan agreements with the Independent State of Papua New Guinea** on the construction of a new diagnostic and surgical centre of the hospital in the town Goroka, in the overall amount of EUR 46.8 million. The loan is insured by EGAP. **Česká spořitelna** provides financing in this case jointly with Erste Group Bank and its share on the financing is EUR 23.4 million. The exporter is the company VAMED Health Projects CZ s.r.o., a subsidiary of VAMED Engineering GmbH&Co.

The year 2015 was again rich in acquisitions and Erste Corporate Banking was very active in supporting its clients' financing needs and also in providing advisory services in relation to both domestic and foreign acquisitions.

Taking into consideration the development of low interest rates and sufficient liquidity in the Czech banking sector, **Česká spořitelna** responded to the reviving demand for refinancing of the existing debts and re-capitalisation of companies. **Česká spořitelna, as one of the lead arrangers, provided a long-term club loan in the total amount of CZK 9.1 billion, for the purpose of re-capitalising the companies CGN Holdings S.à r.l. and CGN Holdings 2 S.à r.l.** Both these companies are fully controlled by funds managed by Macquarie Infrastructure and Real Assets, and together hold 49.96% of shares in RWE Grid Holding, a.s., the owner and operator of the natural gas distribution network covering 80% of the Czech Republic.

Česká spořitelna initiated the refinancing of the group Stock Spirits, a leading manufacturer of alcoholic beverages in the Central Europe. The aggregate financing reached the amount of EUR 200 million plus accordion in the amount of EUR 100 million. **Česká spořitelna** subscribed one third of the aggregate amount and obtained a proportional allocation of EUR million based on the transaction re-subscription. The refinancing was successfully completed at the end of November 2015.

Česká spořitelna, as the mandated lead arranger, **participated in the provision of a long-term syndicated loan in the amount of EUR 500 million to Affidea group.** Affidea is a leading European provider of health care in the area of advanced diagnostic imaging and cancer treatment. The loan was used for refinancing

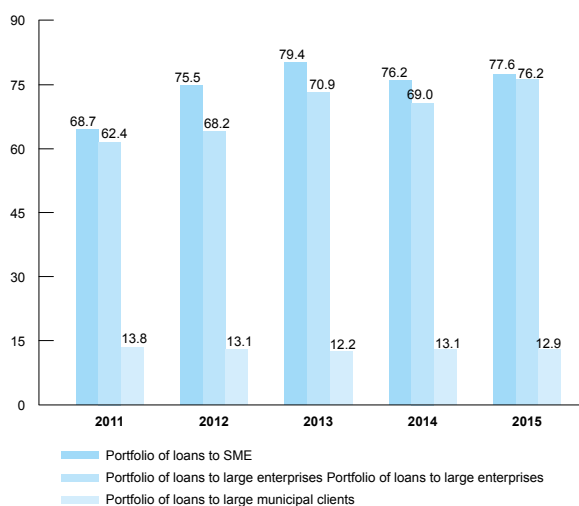
of the group's existing debt and for supporting further expansion of Affidea group.

Česká spořitelna, as the mandated lead arranger, **also participated in the provision of a medium-term syndicated loan in the amount of CZK 12 billion to the company O2 Czech Republic a.s.** O2 is the largest integrated provider of telecommunication services on the Czech market. The loan was used for refinancing of the company's existing debt and for financing of general needs of the company, including the planned redemption of shares.

Česká spořitelna, as an arranger, was one of two banks that provided a club loan in the amount of CZK 2.15 billion for long-term financing of Česká zbrojovka a.s. The new loan in particular provided Česká zbrojovka with a greater flexibility in its financial management. Česká zbrojovka is one of the world leading manufacturers of firearms with customers in almost 90 countries worldwide.

In 2015, a number of large corporations took advantage of the favourable situation on capital markets and entered the market with their issue of corporate bonds. Česká spořitelna again assisted in the issue of most bonds of Czech corporations, such as Škoda Transportation, Pegas Nonwovens or České dráhy.

Loans provided to corporate clients (in CZK billion, gross value for the bank, excluding mortgage loans)



Česká spořitelna, a leading innovator in cash management, continued to develop unique solutions. A prime example is @FAKTURA 24. At the end of 2015, more than 310 thousand end clients had the electronic invoicing service @FAKTURA 24 activated in their Internet banking application for more than 470 thousand contractual bills (electricity, water, gas, insurance, savings, radio fees or newspaper subscriptions). The drivers of the significant year-on-year increase include the bank standard of the electronic invoicing, the possibility to accept also non-payment instruments (e.g. account statements) and automatic activation of the service

for selected clients. This method of setting up the service is what brings immediate saving of costs for corporate clients and, at the same time, comfort for the end customers.

In 2015, the service @FAKTURA 24 processed almost 350 thousand transactions. At the end of 2015, the receipt of e-invoices, e-documents, insurance billing notices or subscription notices could be used by the customers of ČEZ, E.ON, RWE, Kooperativa, Pojišťovna České spořitelny, SmVak Ostrava, MAFRA, ČEVAK, Right Power, Český rozhlas and newly also the clients of AXA penzijní společnost, Česká spořitelna – penzijní společnost and Stavební spořitelna České spořitelny. Česká spořitelna **is still the only bank that offers solutions based on consolidation principle and an exchange of e-invoices among companies.** Electronic invoicing provides companies with the benefit of secure electronic sending of invoices, as well as significant savings of time and costs.

The year 2015 was highly successful also for the service PLATBA 24, which is an on-line payment generated from the environment of the client's Internet banking. The service PLATBA 24 enables end customers to pay in more than 1,800 online stores already. The service **PLATBA 24 was used at least once by 750 thousand of end customers.** In 2015, clients used PLATBA 24 for executing more than 2.1 million transactions in the total volume of CZK 2.5 billion. The number of payments increased year-on-year by 33%, and their volume increased by as much as 50%.

Service for the Public and Non-profit Sector

Česká spořitelna is one of the stable pillars for clients of the public administration and municipal self-administration segment, as well as budgetary organisations established by them and a wide range of non-profit organisations. In cooperation with its subsidiaries, Česká spořitelna takes care of all financial needs of its clients. Great emphasis is placed on innovative approach, client satisfaction and simplification of administrative procedures.

In 2015, Česká spořitelna launched a new innovative project **"Smart City - Chytré město"** that covers **support of cities and towns in the preparation and implementation of innovative investments**, for example in the area of ensuring their energy self-reliance, reducing the environmental burden, development of alternative means of transport, communication between the self-administration authorities and citizens, etc. This support included advisory services, procurement of subsidies, financing and the solution implementation on the basis of financial infrastructure and products.

In 2015, Česká spořitelna participated in a crucial manner in the refinancing of the company Pražská plynárenská, a.s. in the amount of CZK 4.1 billion and acted as the leading manager of the issue of corporate bonds of Pražská plynárenská distribuce, a.s. in the amount of CZK 2.5 billion. It provided operational financing to Pražská energetika, a.s. in the amount of CZK 1.5 billion and financing for

the statutory city of Liberec in the amount of CZK 0.96 billion in the form of an increase of the note issue programme.

Česká spořitelna also provides financing for housing co-operatives and apartment owner associations. The product offering focuses on comprehensively meeting the needs of clients, in particular to finance renovations, privatization purchases and new home construction. The volume of newly provided loans, in particular for reconstruction and repairs of residential buildings, increased by 7%. The credit exposure risk of Česká spořitelna increased year-on-year by 8%.

In cooperation with the German development bank, KfW Bankengruppen, Česká spořitelna provided loans in 2015 in the amount of almost CZK 150 million for 160 new projects within the scope of a unique programme of Financing Energy Savings in Apartment Blocks (projects with and EU grant of 10% of the provided loans). Since 2014, Česká spořitelna has already provided CZK 1.1 billion for these projects.

Česká spořitelna offers public sector clients standard banking services as well as an ever more popular and always evolving offering of comprehensive advisory services in cooperation with its subsidiary Erste GRANTIKA Advisory. This primarily comprises advisory services in subsidies, financial matters and managerial issues.

Česká spořitelna also continues to cooperate successfully with the European Investment Bank in the public and non-profit sector. The current activity is represented by a global loan and involvement of Česká spořitelna in the subsequent grant programme launched by the European Commission under the title Municipal Infrastructure Facility.

Sale of Financial Market Products to Corporate Clients

Česká spořitelna provides financial advisory services in the Czech Republic to large international and local corporations and to SMEs.

Česká spořitelna possesses high-quality analytical and commercial background and infrastructure allowing it to provide not only reliable execution of transactions but also the analysis and advice in structuring and timing of hedging transactions. Česká spořitelna's long-term strategy, focused on offering a wide range of customized products, has proven itself by generating a slight increase in transaction volume and assuring customer satisfaction with the services provided despite the tough economic conditions.

The year 2015 was another year of the CNB's intervention regime for the exchange rate of the Czech crown. This intervention, together with the uncertainty regarding its duration, has significantly affected the behaviour of corporate clients in the area of currency risk management. Thus, clients across all segments

again expressed increased demand for hedging instruments with the settlement date longer than 18 months.

Česká spořitelna also recorded increased interest in hedging instruments for efficient management of commodity risks, in particular risks associated with oil and oil derivatives where the market has witnessed a considerable volatility once again, after the stagnation trends in 2014.

In the area of online trading, the Bank introduced to its clients a new digital trading platform **ERSTE FX**. Clients of Česká spořitelna will newly be able to carry out currency conversions online, including electronic confirmations. A part of the platform is the high-quality information module aggregating the most important exchange rate creating news from the markets and providing top-class analytic service of the news portal www.investicniweb.cz.

Debt Securities and Equity Instruments Trading

In 2015, Česká spořitelna was again one of the leading stock and bond traders in the Czech Republic and continues to strengthen its leading position for institutional clients.

The position of the Bank's leader among stock and bond brokers is in particular strengthened by the long-term confidence of clients in the services provided by Česká spořitelna. **As the only bank in the Czech Republic, Česká spořitelna introduced a new issue on the market**, namely the issue of Kofola, a.s. The primary subscription of Kofola shares generated financial resources in the amount of CZK 140 million for the company, allowing it to carry out its intentions for further expansion on the domestic and foreign markets.

In 2015, the bond market was characterised by further decline of interest rates throughout the entire yield curve. Strong demand for short-term and medium-term government bonds, in particular from foreign investors, has shifted bond yields to negative values, up to 5-year maturity. **Česká spořitelna was once again one of the most active traders of Czech crown bonds** both on the primary and on the secondary market. In addition to other issues, it acted as the lead manager of the second bond issue of Pegas Nonwovens SA in the volume of CZK 1.1 billion, the domestic bond issue of Škoda Transportation, a.s. in the volume of CZK 2.3 billion, and the domestic bond issue of Pražská plynárenská Distribuce, a.s., a member of the concern of Pražská plynárenská, a.s., in the volume of CZK 2.5 billion. The strong demand for private issues by both foreign and local institutional clients caused that **Česká spořitelna** closed the year 2015 with a record breaking result in terms of traded bonds in Czech crowns.

Financial Institutions

In 2015 **Česká spořitelna** continued its successful sales of products and services to current customers and, thanks to its acquisition of several high-profile clients, confirmed its position as a leading provider of value-added services to

financial institutions. The Bank further developed and deepened its cooperation with insurance companies, pension funds, investment companies and **achieved a dominant position on the developing market of non-bank payment institutions**. Services provided to these clients emphasised new payment methods in the area of cash management and financial market products, enabling the Bank to focus on additional specialised services, like depositary or custody services and brokerage of dividend and coupon payments.

In the area of correspondence banking, the year 2015 saw a significant increase of Česká spořitelna's banking clients using the products focused on the provision of payment solutions in Czech crowns and foreign currencies. **Česká spořitelna** has been very intensively cooperating with the other members of Erste Group Bank and through a joint platform **offers its clients comprehensive payment solutions within the entire region of Central Europe**. In the area of custody services for banking clients, **Česká spořitelna** was successful in several difficult tenders, achieving a significant increase in the number of banking clients and in the volume of performed transactions.

Asset Management for Institutional Clients

Česká spořitelna manages almost CZK 120 billion in assets of institutional clients. The volume of managed assets was increasing also in 2015. **In terms of volume of the managed assets, the most important clients of Česká spořitelna's Asset Management** are clearly **financial institutions**, i.e. pension funds, life- and non-life insurers and health insurance companies. In terms of the number of clients, the dominant segments include foundations, churches, municipalities, or corporate clients. Asset Management provides its services also to clients among housing cooperatives and trade unions. **According to the Capital Market Association, Česká spořitelna is the market leader in asset administration for third parties with the market share of almost 60%.**

The interest component of assets of institutional clients was increasing in price. This was one of the reasons why clients achieved revenues in 2015 in the volume-weighted average of 1.43%, thus exceeding the strategic allocation represented by relative benchmarks for a vast majority of mandates. The benchmark (index) approach would generate revenue of 0.82% for the Asset Management clients, which means that **Česká spořitelna** achieved an over-performance of no less than 0.61%. In addition to the basis asset management services, the asset management activities for institutional clients actively focus also on the development in the area of brokering purchases and sales (commissioning services).

Depositary

Same as in the preceding years, Česká spořitelna remained in 2015 one of the market leaders in the provision of depositary services in the Czech Republic. Despite the continued consolidation of the market of the qualified investor funds, the Bank was successful in acquiring new clients and the **total number of managed funds increased by 11% to 104**. During the same period, the fund

assets managed by the depositary increased by CZK 19.6 billion to CZK 222.7 billion, which represents a 10% increase year-on-year

Custody

Česká spořitelna provides security custodial services not only as a depositary bank or as part of client portfolio management, but also as a separate service. Clients are primarily financial institutions, corporate clients, municipalities holding equity participations and other entities investing in securities. Overall, a year-on-year growth was reported in 2015 in the asset volume, thanks primarily to the significant increase in the segment of foreign clients investing in the domestic investment instruments.

Settlement Agent and Securities Administration

Česká spořitelna is the most important provider of services related to settlement of **dividend and coupon payments on the Czech market**. In 2015, **the Bank brokered 714 thousand settlements at the total volume of CZK 78 billion, including buybacks of mutual fund units**. **Česká spořitelna brokered, among others, payment of the dividend for ČEZ, a.s., O2 Czech Republic, a. s., Philip Morris ČR a.s. and Bombardier Transportation Czech Republic a.s.** and has for several years held leading position as a provider of coupon settlement and calculation agent services for bond issues. In 2015, the Bank has strengthened its advantage against its competitors, having acquired issues of several prominent companies for its portfolio as a settlement and calculation agent, such as Škoda Transportation, a.s., Pražská plynárenská Distribuce, a.s., member of the concern of Pražská plynárenská, a.s., and Pegas Nonwovens SA with the second issue of this company.

EU Office of Česká spořitelna

In 2015, Česká spořitelna successfully extended the activities of its EU Office with corporate banking support. Thus, the **Knowledge Centre** was established that **primarily focuses on monitoring trends in each sector and on preparation of sector-based analyses for clients** and for other departments within the Bank. Most attention was attracted by the sectors of construction, automotive, e-commerce, bakery, winegrowing or construction materials trading.

Many benefits ensued also from the cooperation with the foundation Depositum Bonum in the course of the preparation and subsequent implementation of the 3rd annual conference Czech School of the 21st century that introduced, inter alia, the Innovation Barometer of Erste Corporate Banking monitoring the innovation potential and competitiveness of the EU member states. Some of the other activities of EU Office include its cooperation with the European Commission, the Industry Association or universities. In addition to the EU Information Monthly, the main report of EU Office with a wide reader population focusing mainly on the EU affairs, another periodical – Trendovník (Trends News) – was introduced, mapping the trends and novelties in selected prospective sectors. The number of countries monitored within the scope of the advisory programme Guide to Doing Business Abroad has increased to 21.

All the published materials have been successfully redesigned, unifying their appearance.

Distribution Channels

Branch Network

With its 621 branches, Česká spořitelna is one of the Czech Republic's largest banking networks, offering good regional coverage and easy accessibility for all its clients. **The branch network continues to be the basic stable executive component of the Bank's multi-channel sales mode and the importance of its consulting role has been increasing.**

As part of its effort to optimise regional coverage by the branch network, Česká spořitelna closely monitors branch operation and analyses usage patterns. Based on these analyses, the Bank **makes changes to the network to ensure that branches are available to clients of different segments where and when they really need them** and that the Bank achieves maximum operating efficiency. The Bank also uses various geo-analytic tools for selecting correct location for its branches.

Opening of new branches in new locations continued in 2015. Taking into consideration the prevailing lifestyle of clients, 11 branches were relocated to more attractive premises. For operational and economic reasons, the operation of 22 branches was terminated and the clients of these branches were transferred, together with all their accounts and other products, to the nearest commercial points of sale or branches of their choice. Česká spořitelna now operates 37 branches in commercial centres and shopping malls. Weekend opening hours have been introduced at 30 branches, mainly in large shopping malls. The operation of the mobile branch in southern Bohemia continued and in 2015 provided banking services for four municipalities.

26 branches throughout the Czech Republic were modernised or extensively renovated. Mobile box branches were used as a more effective temporary alternative for mid-sized bricks-and-mortar branches undergoing renovation, such as Úpice, Plzeň – Lochotín or Náchod. 103 branches are equipped with a self-service zone, accessible for clients also outside the branch's opening hours and allowing executing basic cash and cashless transactions.

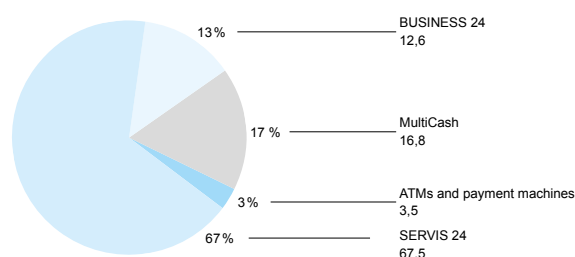
Discretion is assured at branches not only through interior design and layout elements (e.g. screens, carpeting, the distance of the separated waiting and consulting areas), but also through background music piped into waiting areas. In 2015, the music system was installed in additional 142 branches, so that in total background music is used by 352 branches in the whole country. Both the clients and advisors appreciate the musical content, as well as the possibility of volume regulation at the branches. **The client satisfaction is further improved by the availability of wi-fi connection at more than 300 branches.**

Since August 2015, the Bank has been testing cashless operation at two pilot branches in Opava and Ostrava. Cash transactions at these branches are only executed through a withdrawal and deposit ATM, advisors only focus on sales and cashless transactions and educating clients in the use of self-service devices.

Direct banking

Direct banking is the most common way in which clients contact Česká spořitelna. More than 95% of financial transactions are conducted through direct banking channels. **In 2015, more than 100 million financial transactions totalling CZK 2.9 trillion were carried out in this manner, representing a year-on-year increase of 4%.**

Numbers of non-cash direct banking transactions (CZK million)



In the course of 2015, SERVIS 24 Internetbanking recorded a sharp increase of the clients' activity, where **the number of regular monthly unique visitors of Internet banking sites increased by 35%**, to 1.2 million per month.

In February 2015, Česká spořitelna launched a new version of its Internet banking SERVIS 24 and BUSINESS 24. The major new feature is the possibility to display PIN code for a given payment card directly in SERVIS 24 and the possibility to send PIN code for a new or substitute card directly into the Internet banking. PIN may only be displayed in SERVIS 24 to the authorised cardholder, based on verification through an authorisation SMS or through a client certificate. PIN cannot be changed in the Internet banking and it can only be displayed for a limited time for security reasons.

At the very end of 2015, Česká spořitelna introduced a new security system of its Internet banking SERVIS 24 and BUSINESS 24, equipped with a new tool capable of better detecting malware codes and identifying fraudulent sites or attempts for stealing the client's identification credentials. The system is based on the products of the company F5. The new system, in combination with other security elements of the Internet banking, efficiently supplements the range of security measures used to protect the clients' data and money.

Since March 2015, the users of SERVIS 24 Mobile Bank can use a number of new features. Through the application, they can newly block or unblock their card or order a substitute card. The **possibility of blocking a payment card through a mobile phone was one of the priority requests of clients**. Based on the strong demand, the Bank has also launched the mobile application Investment Centre for users of mobile phones with Android operation system. This application enables free of charge access to up-to-date information relating to investment markets, as published at www.investicnicentrum.cz. The number of users of SERVIS 24 Mobile Bank increased in 2015 by 48%, to nearly 230 thousand.

SERVIS 24 Mobile Bank was successful in the survey Mobile Application of the Year 2015, where it **ranked third** in the client services category and **the best one among banking applications**. The quality of the application was evaluated, in addition to expert jury, also directly by the users. Thus, SERVIS 24 Mobile Bank has defended its ranking from the preceding year.

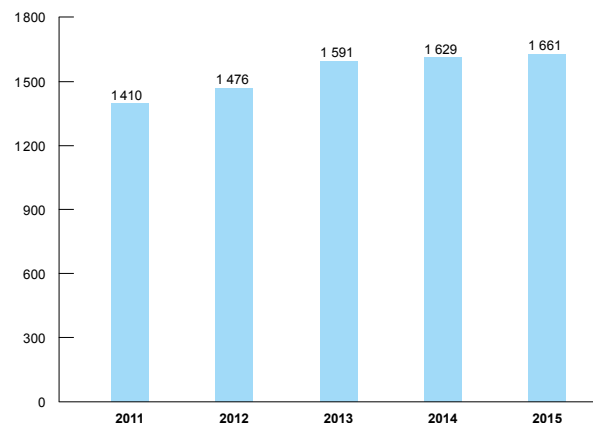
The Internet banking BUSINESS 24 provides services to corporations, towns and municipalities and other legal entities. **At the end of 2015, the Bank registered more than 20 thousand of activated clients of BUSINESS 24 service**, representing a year-on-year increase by 6%. The users of BUSINESS 24 were also able to use certain new features introduced by the Bank on the basis of their requests. For example, bulk payment templates, foreign payments SEPA, new features of Trade Finance and a number of other improvements, raising great satisfaction among clients. In order to improve the quality of BUSINESS 24 Internet banking support, a remote support service Team Viewer was launched.

As a part of the development of new digital applications, the application Můj Stav (My Status) was launched at the beginning of 2015 that displays balances and provides information of all the client's products in a quick, simple and secure manner. The application Můj Stav thus supplements the purely transactional application SERVIS 24 Mobile Bank. Another application introduced at the end of the year is the donation application Melinda. **Through Melinda, people can conveniently send their contributions generated by means of rounding the card payment amounts to various charitable projects** and non-profit organisations. Each client has full control over their contributions and the application allows for viewing how even small contributions can help.

In 2015, Česká spořitelna started to develop a new, modern, open infrastructure enabling the implementation of new business models. At the same time, a new Internet banking service George was introduced in pilot mode.

At the end of 2015, the number of active users of the direct banking services SERVIS 24 and BUSINESS 24 reached 1.66 million. 95% of users use Internet banking, one half has telephone banking activated, 14% of users can access their account through Mobile Bank and 3% of users can access their account through GSM banking.

Number of active clients of SERVIS 24 and BUSINESS 24 (thousands)



Note: clients using more channels are counted only once

In October 2015, Česká spořitelna was the first bank on the Czech market to launch its barrier-free websites www.bankabezbarier.cz. Česká spořitelna provides its handicapped clients with a number of specialised services, but these services had not been always easy to find on the Bank's websites. This was why Česká spořitelna created a special website where all the information can be found at one place and is easy to search. In the course of the website preparation, Česká spořitelna cooperated with Konto Bariéry that assisted with carrying out a survey in which respondents tested the services and their accessibility. The Bank also obtained important information by means of consultations with the organisations SONS (United Organisation of the Sightless and Weak-Eyed) and POV (Prague Wheelchair Users Organisation). The new websites are divided by various handicaps. There are specialised sections dedicated to physically handicapped, hearing handicapped or vision handicapped. The entire website is adjusted for readers; information for the hearing handicapped is interpreted in the sign language.

Non-commercial Activities

People

Česká spořitelna's employees are its most important resource in determining a healthy direction and ensuring success of the Bank in a highly competitive environment. Česká spořitelna believes that its qualified, high-quality, satisfied and professional employees always motivated to perform to the best of their abilities, are its competitive advantage. The Bank thus **offers its employees fair employment conditions, a friendly workplace and educational opportunities**.

Increasing and improving the qualification of employees who work in direct contact with the clients directly affects the clients' satisfaction level. The Česká spořitelna employee training and development strategy focuses on greater utilisation of potential through

development programmes and projects. Staff development is based on an Internal Training Catalogue comprising a targeted selection of educational and training activities reflecting the needs of the Bank's employees and managers. The comprehensive offering comprises class tuitions, e-learning, self-study materials and progress measurement tools. **Training is open to every Bank employee and specifically supports the principle of a self-learning organisation.**

In 2015, the Bank carried out an analysis of the talent development management and set up a process of talent review, including the succession process linked to the performance management. Talent programmes targeted on experts, women in managerial positions and successors in the position of business team leaders were very successful. In cooperation with the branch network development team, the concept of management development was set up.

The application AMOS was used for the development of a tool for managing the adaptation process of new employees of the branch network. The adaptation, including the return of the mentoring concept, was significantly modified on the basis of the feedback received from the branch network and the management. A new concept for adaptation at the position of the business team leader was also developed and launched. The employees' satisfaction with their adaptation is measured, evaluated and continuously adjusted. Great response was received with respect to some other development tools widely used in the course of 2015, such as the conduct of workshops focused on the improvement of communication efficiency and team work (so-called social mapping), or on the management of development centres and consultations.

Česká spořitelna **implements the Diversitas programme designed to support equal opportunities** and work/life balance for all male and female employees of Česká spořitelna. In its projects, the Bank creates favourable conditions for return of parents from maternity or parental leave, offers help to the handicapped and otherwise disadvantaged employees, and promotes the work/life balance, equal number of men and women in managerial positions and opens at the same time an inter-generation dialogue within the Bank.

Thanks to the Project Čáp (Stork), parents on maternity or parental leave have an opportunity to attend up to eight annual meetings with Česká spořitelna, where they learn the Bank news and meet the top managers, discuss legal issues, take advantage of personal consulting and attend various workshops. The Bank has also concluded partnerships with several kindergartens. Parents on maternal or parental leave can also newly take advantages of e-learning projects.

Within the scope of the Project Gender – Equal Opportunities, Česká spořitelna implemented a development programme SATORI for talented women. The Programme includes mainly mentoring, training, workshops and development activities associated with the establishment of relations among people, mutual exchange of

information and maintenance of personal contacts, the so-called networking. **The community of successful women in senior positions**, so-called LLL (Ladies Leaders Library), **functions in the form of biographic electronic library and in the form of inspiring and networking meetings.** Česká spořitelna has become one of the four founding organisations of the initiative Exchange Meeting 4U operating under the auspices of the organisation Minerva 21, the goal of which is to interconnect women, diversity ambassadors, across various firms. The Bank is also the main partner of the mentoring programme for women Equilibrium. The development of talented women is supported by Česká spořitelna through a number of other outsourced development programmes. **These initiatives also contributed to the fact that Česká spořitelna received the award of Equal Opportunities Firm of the Year 2015.**

Within the scope of the project Transition Without Barriers, Česká spořitelna offers the possibility of providing work and ergonomic aids for employees with disabilities, such as ergonomic keyboards or special chairs. A development programme Pět statečných (Magnificent Five) for employees with disabilities was carried out in the Bank, including also a development and professional internship. **Within the scope of this project, Česká spořitelna is continuously seeking to spread information on employing people with disabilities.**

Within the scope of the project Wise Owl, regular meetings of employees of the age group 50+ are held on a regular basis, with the main goal of developing the English language skills and the networking at work. The Bank also continues with the reverse mentoring, focused on the inter-generation dialogue between the groups of its employees older than 50 years and those younger than 30 years, with the aim of sharing the knowledge, skills and experience between these two generations.

Within the scope of the project Flexible Office, the Bank continues to promote flexible forms of work, such as in particular home office, shared jobs, part-time employment or flexible hours of work. The conditions of all these flexible forms of employment are available to all employees in the form of a methodology that clearly sets out the rules for their utilisation.

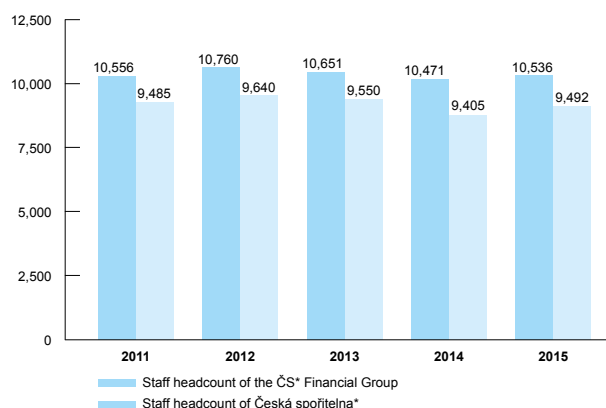
Česká spořitelna also focuses on searching and addressing new talents. It prepared 33 recruitment events for potential employees, including in particular job fairs at universities, domestic and international events organised in cooperation with various student organisations, Days with Česká spořitelna or workshops for students, focusing on searching job opportunities and compilation of profession profiles. In cooperation with secondary schools in Pardubice, the Bank prepared a new programme named My Potential. The programme interconnected managers of Česká spořitelna with high school students who together attended workshops focused on personal and professional development. The Bank actively addressed potential employees also through regional marketing campaigns and communication on social networks. All the aforementioned

activities were carried out within the framework of the newly developed strategy defining the concept of Česká spořitelna brand as a demanded employer.

In the area of remuneration, Česká spořitelna extended and strengthened its system of employee benefits, implemented to a large extent through the cafeteria. Among other things, the nominal value of meal vouchers was increased and the possibility was introduced to transfer the meal vouchers to electronic form, the contribution to supplementary pension insurance or life insurance was increased, a benefit was introduced supporting language training and some of the product benefits were adjusted on a parametric basis.

The average staff headcount remained substantially stable, with a slight increase by less than 1% to 10,536. 74% of all employees are women, 10% of employees work part-time. The Bank has successfully integrated 135 mothers after their return from parental leave. The average length of employment dropped to 10.1 years and the average employee age rose to 39.9 years. Employees older than 50 years represent 17% of the population of Česká spořitelna.

Average staff headcount



* The average restated staff headcount including employees of other Erste Group companies (the expatriates)

Service Quality

A key service quality goal of Česká spořitelna is the continuous improvement and enhancement of the quality of services provided to clients. The level of services provided by the Bank to its clients is monitored throughout the year by the short-term measurement of client experience, focusing primarily on the Net Promoter Score (NPS). The aim of this quantitative research is to obtain information about the experience of retail clients of Česká spořitelna at a branch immediately after their visit.

Moreover, long-term customer experience is measured every half year and the outcomes help determine the objectives of individual Bank departments. **Client loyalty is measured via the NPS method, which monitors the willingness of clients to**

recommend the products and services of Česká spořitelna to their friends. An analysis of the reasons for recommendation / non-recommendation enables the Bank to alter products and services to better suit clients. As the NPS method is used in other sectors, too, the results can be compared to those of other local and international companies.

These measurements are supplemented by the mystery shopping, which allows obtaining a comprehensive and independent view of client experience. Naturally, **the Bank** resolves the basic causes of client complaints, **searches for the most frequent problematic product and service areas, which are negatively perceived by clients** and seeks solutions of the identified problems.

A complaint is a manifestation of client dissatisfaction with a service, product or conduct, which is communicated to the Bank. It is in the Bank's interest to record every one of these complaints, even those that are resolved immediately. A key element in the complaints resolution process is the Client Care Centre in Prostějov, which is responsible for overall complaint resolution. The team also strives continuously to ensure the most convenient and highly professional way of complaint resolution for the clients.

A team of ombudsmen is available to Česká spořitelna clients through various communication channels. Clients can call 956 717 718 or e-mail ombudsman@csas.cz, come in for a personal consultation, send letters or contact the Office of the Ombudsman through Facebook ČS. Team members resolve client issues in Czech, English and German. **Ombudsmen handle the most complicated cases that might impact the activity of multiple bank departments** and which are often associated with reputational risk. They can also convene expert groups of employees from various Bank departments to individually assess client compensation claims where it cannot be unambiguously ascertained whether or not the Bank has committed a fault. The team of ombudsmen resolved in cooperation with other Bank departments complaints of clients relating to phishing attacks on their account. Česká spořitelna communicates with clients who are victims of such attacks and ensures individual assessment of each such case.

In 2015, the average submission resolution period by the ombudsman team reached 10.5 days and client satisfaction with complaint resolution remained at the same level as in 2014, i.e. 76%.

In 2015 the main areas of client complaints or requests for an ombudsman opinion were banking products and services fees, unapproved loans and loan restructuring and debt collection, withdrawal and securing of mortgage loans. Further complaints related to the non-functioning or comprehensibility of products or services.

Another important factor of the quality of services provided to clients is the quality of internal services provided within the Bank. The level of quality of internal services provided mutually by the Bank's departments is measured by custom-made questionnaires. The results of this measurement constitute the basis for

the assessment of the quality of delivery against the internal client's expectations; the output is the SLI (Service Level Index).

Project Management

Česká spořitelna implements its strategic goals through projects. Strategic projects are aimed at increasing client satisfaction and achieving compliance with applicable regulatory and statutory requirements.

Most of customer-oriented projects respond to industry trends associated with the development of new digital technologies and products for clients. In 2015, Česká spořitelna brought its clients new reliable innovative services in the area of Internet and mobile banking, in the area of mortgage loan sale and others. Česká spořitelna also works with Erste Group Bank on group projects. Their common goal is sharing of capacities and maximising the utilisation of the commercial potential on central European markets. Many tens of projects are implemented by Česká spořitelna each year.

The future of banking consulting is associated with the unique service Moje zdravé finance (MZF) – My Healthy Finances that brings Česká spořitelna back to its original mission, i.e. help the clients. In June 2015, a pilot project of MZF was launched at selected branches. In the course of 2016, MZF will gradually spread into the entire branch network and additional “healthy” products and services will be added into this ecosystem, such as Peníze na Klik (Click for Your Money) as a quick loan or the MZF Application allowing transparent and structured overview of the client's income and expenses.

In 2015, Česká spořitelna started to develop a new, modern, open infrastructure enabling a more flexible implementation of new business models. As a part of this activity, a new Internet banking service George was introduced in pilot mode.

At the beginning of 2015, the application Můj Stav (My Status) was launched that provides information on the used products in a simple manner. The clients appreciate easy activation of this application, its simple security system and quick access to up-to-date information. Another application is the donation application **Melinda** that **allows for regular contributions generated from rounding up the card payments**, intended for clients who decide to make regular contributions to charitable purposes.

One of the goals of retail banking was the increase of the volume of non-secured loans. One of the significant changes was the automatic offer of consolidation where the very first results after its launch indicated sharp increase of the sales. The loan academy contributed to the extension of the advisors' powers and competences. A number of other less significant changes followed, such as for example the simplification of the sales process or updating of the training environment.

In September 2015, a new service of prepaid card **Biip** was introduced on the market, providing parents and their children a smart solution for pocket money. At the same time, it represents an attractive tool for developing financial literacy of children and youth and assisting them in economic handling of their money. The service has the form of an **anonymous pre-paid card and a mobile application with many features**.

In 2015, Česká spořitelna extended its services in the field of exchange rates so as to be able to offer more favourable exchange rates for certain transactions also to its e-banking clients. In the field of direct marketing, the implementation of new features and a new system improved the possibilities of personified addressing of clients, as well as the creation, implementation and evaluation of the campaigns carried out.

In the course of 2015, the Bank went through evolution in the field of collaterals thanks to the launch of the Collateral Management system (COLMAN). Since April, COLMAN has been successfully operating in the segment of corporate banking and since October also in the retail banking segment and SME. Thanks to COLMAN, we know the precise collateral status of each loan and, more importantly, their development in time.

In the field of credit risk management, the Bank adopted a number of various measures in 2015 aimed at improving the control mechanisms, hedging management, data quality, detection of money laundering, rating models, etc.

After setting up the processes for registration of foreign clients for the purposes of the FATCA regulations, a new reporting to the state administration authorities was introduced in the form of regular reports on accounts kept by US taxpayers. The information is sent once a year through the Czech tax administration to the US tax authority IRS.

In connection with the new regulations of the European Banking Authority (EBA) and the Czech National Bank, new reporting requirements have been implemented in the field of credit risks. These were reflected in the amendments of definitions of events of default and in the monitoring various statuses of loan forbearance. In addition to the implementation of monitoring of new statuses in the relevant IT systems, the changes were also reflected in the applicable regulations and in the compilation of regulatory reports and data extracts by the parent Erste Group Bank. Since October 2015, this solution has also been implemented in selected subsidiaries.

In 2015, the Bank succeeded in doubling the number of processed external requests within a single Operations queue to more than two thousand requests per day. This has brought a significant improvement in quality, efficiency, speed and automation of the provided services. Among other aspects, the cooperation between different sites within Operations has also been improved in terms of capacity sharing or mutual assistance and support.

The security system of SERVIS 24 Internetbanking and BUSINESS 24 Internetbanking has been supplemented with a tool enabling better detection of malware and identification of fraudulent sites or attempts for stealing the client's identification credentials. The system is based on the products of the company F5 and is used by the entire group of Erste Group Bank.

Economic and Strategic Analyses

The Economic and Strategic Analysis Team's responsibilities are divided into three areas. The first is strategic planning and banking sector analysis. These analyses and associated documentation become an integral part of the drafting and review of the Česká spořitelna Financial Group plan. The area of equities analyses covers selected companies from the Czech Republic and from the Central and Eastern Europe, as well as strategic analysis of equity developments on the main markets. The third area comprises macroeconomic analyses resulting in prognoses of foreign exchange and interest rate developments. The equities and macro groups also offer investment strategy advice to clients in addition to analyses and prognoses. Analyses are published online at www.investicni-centrum.cz. The set of regular analytical reports issued with daily to quarterly frequency in Czech and English now comprises 20 different products. Analysts and strategists are available to a selected group of Česká spořitelna Financial Group clients for consultation.

Security Policy

Česká spořitelna attaches a great deal of importance to its security policy. The Bank operates an independent security department charged with tasks in the area of security information systems and technologies and investigation of operational risks, with a special focus on potential violations of bank secrecy and their prevention and Business Continuity Management ("BCM"). **The Bank's work here is chiefly concerned with preventing all adverse events or inappropriate conduct jeopardising the security of clients and employees** or the assets of Česká spořitelna Financial Group companies.

Within the framework of its security policy, Česká spořitelna cooperates with the other members of the financial group and with other entities of the entire group of Erste Group Bank.

The trend of extremely low numbers of external violent crimes and robbery attacks continued in 2015. The bounty obtained by robbers in 2015 did not reach its record low, but it did not deviate in any manner from the long-term average. It is positive that the trend of high robbery detection rate continues. **Compared to preceding years, the number of attacks on ATMs slightly decreased in 2015**, and the robbers did not obtain any bounty in any of the attacks. This is what the Bank perceives as the best preventive tool against this type of criminal activities. In general, it can be said that the results of Česká spořitelna in the field of physical security are exceptionally good compared to the rest of the Czech banking sector.

In the field of security information systems and technologies, the rise in cyber-attacks with banking-specific Trojan horses and phishing continued in 2015. For this reason, the Bank supplemented the system of securing the services SERVIS 24 Internetbanking and BUSINESS 24 Internetbanking with a tool enabling better detection of malware and identification of fraudulent sites or attempts for stealing the client's identification credentials. The new system, in combination with other security elements of the Internet banking service, efficiently supplements the range of security measures contributing to the protection of the clients' data and money. Also, the Bank paid much attention to information campaigns targeting clients and internal users.

Česká spořitelna commenced works on the implementation of the General Measure defining selected systems of the Bank as the elements of critical infrastructure of the financial markets of the Czech Republic in the sense of the Cyber Security Act. The Act is subject to the supervision by the National Security Authority with which the Bank closely cooperates.

The Bank also handles client complaints concerning violations of bank secrecy. In this respect, the Bank also aims at prevention. Through security monitoring, the Bank monitors screenshots of the employees with the use of pre-defined scripts. Attention is paid also to prevention in the area of the Internet use during work hours, with a focus of specific selected objectionable sites the visiting of which might be contrary to the Employee Code of Ethics. An integral part of preventive activities is the employee training in the field of management psychology, personal security and practical security. In the area of investigation of phishing attacks to the client accounts, the Bank investigates these attempts and also carries out educational and preventive activities aimed at the clients to help them to be able to defend themselves against such attacks.

In the field of safety and health protection at work and fire prevention, Česká spořitelna is working, in addition to standard compliance with applicable legal regulations, on continuous improvements of its safety, health protection and fire prevention management system. The adequacy of this approach is evidenced by 57 successfully passed inspections by specialised national inspection authorities.

Business continuity management activities and crisis management constitute an integral part of operation risk management. Individual tools used focus on the collection, analysis and evaluation of information regarding stability of business processes and support activities. Cooperation in this area is interlinked across the entire group of Erste Group Bank, and involves also competent regulatory authorities in order to be able to adopt preventive measures or adequately respond to potential synergy effects of any negative factors that may be detected outside the environment of Česká spořitelna. **The Bank also continuously improves the resistance of selected elements included in the critical infrastructure system and critical information infrastructure of the state.**

Internal Audit

Internal Audit of Česká spořitelna is an independent and objective assurance and consulting activity designed to add value and improve Bank processes. Internal Audit helps the Bank achieve its goals by affording a systematic approach to evaluating and improving the effectiveness of the risk management system, management and control processes and Bank management and administration. Internal Audit is responsible for assurance and advisory services and identification of areas for process improvements and methods for the achievement of company goals. Internal Audit monitors processes and activities in every department of the Bank and participates in the evaluation of the level of functionality and effectiveness of the management and control systems. Internal Audit verifies that measures arising out of audits and reviews performed are carried out and irregularities corrected. In 2015, Internal Audit provided the Bank's management, Board of Directors, Supervisory Board and Audit Committee with reports, information and assurances concerning the risks faced by the Bank.



Strategic Plans for the Future

Strategic Objectives

Česká spořitelna wants to continue to maintain and strengthen its position as a retail banking market leader, to outpace the competition among its corporate clientele and become the bank of preference in all target sectors. Over the long term, Česká spořitelna wants also to become a leading bank for the small and medium-sized enterprise (SME) market and an important partner for large and international corporations.

Česká spořitelna will also continue to concentrate on strategic cost management, developing digital and information technologies and continuing to comply with regulatory requirements with the aim of creating as much opportunity as possible to realize its business plans.

Macroeconomic Forecast

In 2016, we will continue to see Czech National Bank exchange rate interventions and the persistence of a zero interest rate environment. The Bank also projects a continued pro-growth government policy, which will lead to an increase in public budget expenditure and income.

Česká spořitelna is approaching 2016 on the basis of the following macroeconomic projections:

- continued Czech economic growth measured by 3% GDP growth year on year,
- slight inflation growth compared to 2015,
- gradual decline in the rate of unemployment to below 6%,
- stagnation or a slight drop in interest rates compared to the prior year average,
- relatively stable Czech crown-to-euro exchange rate due to the CNB exchange rate commitment.

Outline of Business Policy and Projected Economic and Financial Position in 2016 and Outlook for Later Years

In 2016, the Bank's business departments will have the following priorities:

Retail Banking

In the coming years, the objective in retail banking will be to maintain and further strengthen the Bank's leading position with its customer base, and to increase client satisfaction with the Bank's services not only by improving the quality of our customer service, but above all by focusing on satisfying the key financial needs of our clients. Česká spořitelna wants to carry on the tradition of its 190 years of existence by serving as a secure and friendly financial advisor for its clients.

In addition to a broad client base, Česká spořitelna retail banking can pride itself on a wide range of products covering any and all customer needs in the area of financial services. As a matter of course, depositors look to our current accounts or our range of term and savings products and, in the area of credits and loans, our housing products, various consumer financing options (consumer loans, credit cards, overdrafts and American mortgages), as well as investment-type products (from a broad range of mutual funds through investment properties and pension savings to individualized portfolio management) and, no less importantly, a number of insurance products. With the service *Moje zdravé finance* [My Healthy Finances], Česká spořitelna is now offering clients non-financial products, primarily in the area of energy supply. Every product is routinely updated, simplified and enhanced to appeal to the broadest possible customer base.

In retail banking, the financial world is not broken down into products and customer segments. It is the world of the customer's wishes, and Česká spořitelna takes this fact to heart. That's why in retail, it is focusing on the development of digital banking, serving customers through the distribution channels they find most convenient offering customized products at easily reached locations.

The Bank is also concentrating on further enhancing service quality at its more than 600 branches and, in so doing, making customers even happier.

Corporate Banking

In 2016, we will continue with the next phase of achieving our long-term goal of becoming the number one bank in the small and medium-sized enterprise (SME) client segment. At the same time, Česká spořitelna is working to maintain and strengthen its long-time position as a leader in the public and non-profit sector and wishes

to serve as a key bank in the large multinational client segment. The corporate banking strategy is to further develop services based on comprehensive customer service and offering the right client solutions grounded in a detailed knowledge of the needs of individual segments and industries and to provide clients with a customized range of products covering all stages of their company's life.

Česká spořitelna is expanding the range of its unique solutions to fund energy savings, support innovation and start-ups, finance waste management enterprises and support individual entities in the use of European subsidies via the TOP programs. The Bank is focusing on the growth markets of export financing, acquisitions, infrastructure projects and the debt and share capital markets, and is expanding its digital footprint by innovating a range of projects for the new Erste Corporate Banking website.

In its regional sales teams, Česká spořitelna will develop a sector-oriented approach to sales and analysis to achieve a better understanding of the client's business and further strengthen the longstanding partnership-based approach that Česká spořitelna takes with all customers. Regionally, the Bank is planning to serve not only the SME segment, but also large corporate clients, the public and non-profit sector and clients in the real estate business.

With large corporate clients, Česká spořitelna will carry on its strategic effort to become a long-term reliable business partner for its clients and a key bank for large corporate businesses operating in the Czech Republic. In serving multinational corporate businesses with the support of Erste Group, the Bank will provide banking products and financial services enabling these clients to address the needs of their customers throughout the Central and Eastern Europe region where Erste Group operates.

In the area of real estate financing, the Bank will continue to focus on supporting residential housing starts (including coops) and providing loans for existing first-class retail and office projects.

The Bank's aim in serving the public and non-profit sector is to deepen cooperation with strategic clients. Česká spořitelna will take an active part in financing projects, in particular those supported by operational programmes announced for the new European Union planning period 2014-2020. In advisory and customized products, the Bank will concentrate on services with high added value, in particular as part of the Česká spořitelna Chytré město [Clever City] innovation project.

The Bank will continue to develop the broad-spectrum concept of transaction banking as a complex system of products and services supporting the management of our clients' supplier-customer relations. The Bank sees this platform, which combines the disciplines of account and cash flow management, commercial and export financing, documentary collections and guarantees, factoring and confirming, as a decisive factor in the stability of its future relations with clients.

Financial Markets

The goal of Česká spořitelna in financial market sales and trading will be to strengthen its leading position in all key financial market areas and products. In 2016, the Bank will focus its attention on developing products and services for commercial clients and financial institutions while bolstering its position as a regional leader in the currency, interest and derivatives markets.

In the area of capital markets, Česká spořitelna will be the primary partner of many leading corporate and institutional clients, domestic and foreign. In 2016, as in previous years, the Bank will take part in a range of important bond and share issues and in so doing maintain its leading position on the crown capital market.

In asset management for institutional clients, Česká spořitelna intends to continue strengthening its dominant market position by offering first-class service, a high degree of transparency, added value in the field of investing and quality reporting. Key areas of interest in 2016 will be optimal investment strategy formulation and diversification into various asset classes, which will enable clients to achieve above-average returns despite zero interest rates.

As concerns the development of innovative financial market products, Česká spořitelna is expanding its portfolio of online services. As part of the new ERSTE FX platform, in 2016 it will offer additional complementary services such as the option of online chatting with a broker or financial markets analyst. There's no question that the Bank will continue to develop individual client solutions.

In the sale of retail investment products, the Bank will focus on meeting the needs and expectations of clients, correctly setting the ratio of market risk and projected yield potential and creating transparent and understandable investment solutions in individual client segments with an emphasis on the quality of provided investment advisory. As increased market volatility persists in 2016, Česká spořitelna will endeavour to create new investment solutions that flexibly respond to market developments and are optimized for individual client segments. The long-term goal is to grow the volume of managed investment products and the Bank's share of the market for open-ended mutual funds and structured products.

In the area of financial advisory, Česká spořitelna intends to maintain its position as one of the largest financial advisors in the Czech Republic. Aside from our traditionally-served segments of large Czech and international corporations, the Bank is focusing more of its attention on providing financial advisory to the SME segment. We will also continue to provide financial advisory within the Česká spořitelna Financial Group from our shared advisory centre (Advisory Group), which is able to provide the full range of advisory services from help with drawing EU subsidies through company valuations and financial restructuring to mergers, acquisitions and IPOs for all client segments from a single location on "one-stop-shop" basis.

Projected Economic and Financial Position

The persistent low interest rate environment, European regulation, growing competition on the domestic banking market and absence of some favourable one-off impacts of 2015 are reflected in the projected slight year-on-year decline in Česká spořitelna business result. This goal may be seen as highly ambitious given anticipated developments in both external and internal conditions.

The foregoing effects are also reflected in operating income projections and will lead to increased pressure on the rigorous management of operating costs. The result should be the minimization of negative effects on the Cost/Income Ratio. Projected profit, taking into account a stable dividend payment amount and the inclusion of an AT1 hybrid capital issue, is expressed in a drop in return on equity (ROE), which will range in the double digits. On the other hand, given Česká spořitelna's strong equity position in 2016 we can expect the capital adequacy indicator to continue exceeding the minimum limits set by the banking regulator.

Client loans and deposits remain a decisive item on the Česká spořitelna balance sheet. A higher rate of growth in client loans compared to client deposits is projected in 2016 as expressed in an increase in the client loan-to-deposit ratio.



Risk Management

Risk management processes are a key element of the Bank's internal management and control system. The nature of its business and other activities means Česká spořitelna is inevitably exposed to a variety of credit, market, operating and liquidity risks. The Bank's attention to risk management is commensurate with its size and the complexity and volume of its products, business activities and other operations. The Česká spořitelna Board of Directors has approved a risk management strategy incorporating risk management principles covering risk identification, monitoring and measurement processes and the setting of limits and restrictions. By adopting these principles, the Bank has kept its risk exposure at an acceptable level, enabling it to maintain effective management processes.

The following departments play a role in managing risk at Česká spořitelna:

- Risk Management Strategy Department: primarily responsible for credit risk, market and operating risk and liquidity risk, which includes consolidated risk management for the entire Česká spořitelna Financial Group;
- Corporate Banking Credit Risk Management and Retail Banking Credit Risk Management Departments: primarily responsible for credit risk strategies for corporate and retail banking, respectively; and
- Financial Group Balance Sheet Management Department: manages net interest risk of banking book (investment portfolio) and liquidity risk pursuant to decisions of the Assets and Liabilities Management Committee.

The activities of these risk management departments are complemented by the work of the:

- Security Department: responsible for risk management in respect of physical and IT security;
- Legal Services Department: responsible for providing legal support;
- Compliance, Financial Crime and Fraud Prevention Department: responsible for managing compliance risk and anti-money laundering measures; and
- Card Centre Department: responsible for payment card transaction risk management.

The Board of Directors shares risk management approval authority with the following committees:

- Assets and Liabilities Management Committee (“ALMC”);
- Česká spořitelna Board of Directors Credit Committee;
- Financial Markets and Risk Management Committee (“FMRMC”);
- Compliance, Operating Risk and Security Committee (“CORS”) – a body of the Bank's Board of Directors that makes decisions concerning the management of operating risk, compliance risk and security; and
- Operating Liquidity Management Committee (“OLMC”).

Credit Risk

Česká spořitelna is exposed to credit risk; that is, the risk that a counterparty will be unable to pay amounts in full when due. In managing credit risk, Česká spořitelna applies a standardised methodology adopted on a Group-wide basis that sets out the applicable procedures, roles and authorities.

The lending policy includes:

- Prudent lending process guidelines, including rules to prevent money laundering and fraud;
- General client segment acceptability guidelines based on principal activities, geographical location, maximum maturity period, the product and the purpose of the loan;
- Basic framework for the rating system and the determination and review of debtor ratings;
- Basic principles of the system of limits and the structure of approval levels;
- Loan collateral management rules;
- Structure of basic product categories; and
- Methodology for provisioning and risk-weighted asset calculations.

Collection of Key Risk Management Information

In managing credit risk, the Bank draws not only on its own portfolio information, but also on the portfolio information of other members of the Česká spořitelna Financial Group. The Bank additionally uses information obtained from external sources such as the Czech Banking Credit Bureau and Central Credit Register, or ratings provided by reputable ratings agencies. The extensive

database available for credit risk management purposes serves to model credit risk and supports the collection and measurement of receivables as well as the calculation of losses.

Internal Rating Tools

Rating is considered to be a key risk management tool. The Bank uses a client's rating to measure the counterparty risk profile. The client rating reflects the probability of debtor default in the subsequent 12-month period. The debtor evaluation and internal rating determination are part of every loan approval or of significant changes in lending terms and conditions. Debtor evaluation reflects the client's financial position and non-financial characteristics. For corporate debtors, this primarily involves an analysis of strengths and weaknesses such as management quality and competitiveness. For retail debtors, the analysis chiefly entails demographic and behavioural indicators. As a part of risk management, the Bank categorises its clients as "non-performing" and "performing". The Bank uses an eight-grade rating scale for "performing" clients - private individuals (i.e. non-entrepreneurs) and a thirteen-grade rating scale for other clients. For all "non-performing" clients, the Bank uses a single rating grade – "R" – which is further broken down based on the reason for the default.

All information essential for the above mentioned assessments is gathered and stored centrally. The Bank performs regular internal rating reviews (no less than once a year). The internal rating methodology is validated based on historical data using statistical models. In accordance with regulatory requirements, the Bank ensures independent entity oversight of the internal rating methodology validation process.

Exposure Limits

Exposure limits are defined as the maximum exposure acceptable for the Bank in respect of an individual client or group of economically related persons. The system is set up to protect the Bank's income and capital from concentration risk.

Structure of Approval Authorities

The structure of approval authorities is based on the principle of the materiality of the impact of potential loss from a provided loan on the Bank's financial performance and the risk profile of the respective loan transaction. The Supervisory Board Credit Committee and Board of Directors Credit Committee have the highest approval authorities. Lesser approval authorities are scaled according to Credit Risk Management Department staff seniority.

Determination of Risk Parameters

Česká spořitelna uses its own internal models to determine risk parameters such as probability of default ("PD"), loss given default ("LGD") and credit conversion factors ("CCF", i.e. coefficients used to transfer off-balance sheet items to the balance sheet). All models comply with the Basel II requirements. Monitoring and predicting historical risk parameters forms the basis for quantitative portfolio management. Česká spořitelna currently uses risk parameters to monitor credit risk, manage the non-performing loan

portfolio and assess risks. The active use of risk parameters in managing the credit risk of the Bank makes it possible to obtain detailed information about the possible sensitivity of basic portfolio segments to both internal and external changes.

Impairment Allowances for Credit Risk

Česká spořitelna uses a provisioning methodology that complies with International Financial Reporting Standards ('IFRS'). Portfolio provisions are determined for portfolios of receivables in which no individual impairment has been identified. The level of portfolio provisions is established using models based on the Bank's historic experience. The PD and LGD risk parameters are a significant component of these models. Receivables where impairment has been identified are provided for individually. The discounted cash flow method is used to measure impairment of non-retail receivables and retail receivables with a value exceeding CZK 5 million. The degree of impairment of other retail receivables is determined statistically on the basis of experience with the recovery of a similar type of receivable. Impairment allowances against all receivables are re-assessed on a monthly basis. Allowances are back-tested annually with a focus on the adequacy of created allowances by a comparison with actual credit portfolio losses. Back-testing covers all significant credit portfolios (at least 95%).

Concentration Risk and Risk-weighted Assets

Česká spořitelna manages loan portfolio concentration risk through a system of large exposure limits. Large exposure limits are established as the maximum exposure that the Bank may accept in respect of an individual client or economically related group of clients with a given rating and underlying collateral. The system is set up to avoid excessive risk concentration in a portfolio to a small number of clients and is based on the maximum level of economic capital that may be allocated to one group of clients. Česká spořitelna complied with the conditions for the use of the Internal Ratings-Based ("IRB") approach when calculating the credit risk capital requirement, and since July 2007 risk-weighted assets and the capital requirement have been based on internal ratings and the Bank's own estimates of the PD, LGD and CCF parameters. Risk-weighted assets are calculated monthly. The standard calculation is regularly supplemented by stress testing, which includes modelling of the (chiefly macroeconomic) impacts of sudden changes in the market.

Risk Appetite Statement

The maximum tolerated exposure to capital level and the Bank's operating profit to various types of risks is defined in the Risk Appetite Statement approved by the Bank's Board of Directors. The Risk Appetite Statement is formulated over a 5-year horizon to coincide with the Bank's planning period.

Improving the Early Recovery Process

The Bank continued to develop and upgrade the process of early recovery and detection of problematic clients. In corporate banking, this area is handled by a department responsible for monitoring performance of the non-financial terms of loan contracts with corporate clients with the aim of improving the monitoring of the Bank's loan

portfolio and reducing its credit risk exposure. In retail banking, the Bank continued the effective use of the call centre for early recovery of delinquent receivables. Call centre services are also utilised by other entities within the Česká spořitelna Financial Group.

Market Risks

Market risks assumed by Česká spořitelna relate principally to financial market transactions that are traded in both the trading and banking books, and interest rate risk associated with banking book assets and liabilities. Trading book transactions on the capital, money and derivatives markets can be broken down into the following areas:

- Client quotations and transactions and the execution of client orders;
- Interbank and derivative market quotations (market making);
- Active trading on the interbank market; and
- Distribution of financial market products to retail clients.

Erste Group Bank uses a “holding” business model for financial markets trading called “Group Capital Markets”. Risks from executed client transactions are transferred through back-to-back transactions to portfolios of Erste Group Bank. Quotations on the bond, derivative and foreign currency markets and interbank transactions are transferred to the holding company as well. Annually, Erste Group Bank redistributes the proportionate share in the Group result arising from trading in accordance with the approved model. Česká spořitelna retained transactions and quotations on the money and equity markets. In 2014, Česká spořitelna also undertook active trading with electricity derivatives.

Banking book transactions on the capital, money and derivative markets are categorized by area:

- Bank investments in securities as part of its investment strategy;
- Execution of certain interbank and client deposits and credits;
- Issuance of own bonds;
- Management of revenue interest, hedging of banking book interest risk and closing of the gap between foreign currency assets and liabilities

The Strategic Risk Management Department monitors and measures trading and banking book market risk. This department is entirely independent of the Financial Markets Department (for trading book) and of the Asset and Liability Management Department (for banking book) to avoid conflicts of interest and to ensure that reports submitted on the Bank’s risks are sound and unbiased.

The Strategic Risk Management Department ensures that an independent valuation of all financial market transactions for both the Group and client portfolios administered by the Group is conducted. The department is also responsible for managing operational risks associated with financial markets trading and managing market

risks. It carefully focuses on control activities and reconciliations to ensure existence of the complete and accurate records of instruments in the Bank’s portfolios.

Limits for market risks are determined separately for the trading book and the banking book. All trading book limits (specifically, VaR limits for intra-day holding and sensitivity limits) are proposed in collaboration with the Strategic Risk Management Department and competent business departments and approved by the Financial Markets and Risk Management Committee. All banking book risk limits (specifically, VaR limits for intra-month holdings) are proposed in collaboration with the Strategic Risk Management Department and the Group Balance Sheet Management Department and approved by the Assets and Liabilities Management Committee. The set of market limits must comply with the maximum risk exposure (measured using the VaR method) as approved by the Bank’s Board of Directors and must also be confirmed by the parent company, Erste Group Bank.

While the VaR for the trading book may be determined using standard verifiable methods, the banking book of the Bank and certain subsidiaries includes assets and liabilities that cannot be represented using standard techniques. Hence, the VaR for these banking portfolios is calculated based on special procedures that endeavour to reflect as faithfully as possible the actual behaviour of the assets and liabilities in these portfolios.

The Bank uses what is known as the PVBP gap, a matrix of interest rate sensitivity factors of individual currencies for individual portfolios of interest rate products, in order to measure the interest rate risk exposure of financial markets transactions. These factors measure portfolio market sensitivity with a parallel shift of the yield curve of the respective currency within the predefined period to maturity. The system of PVBP limits is set for each interest rate product trading portfolio by currency. The limits are compared to the value that represents the greater of the sum of the positive PVBP values or the sum of the negative PVBP values in absolute terms for each period to maturity. This results in managing not only the risk of a parallel shift in the yield curve, but also any possible yield curve rotation. A limit for the simple sum of PVBP values is set for major currencies such as the CZK, EUR and USD. Česká spořitelna additionally monitors other special limits for interest rate option contracts, e.g. the gamma and vega limits for interest rates and their volatility.

In addition to interest rate risk, the Bank also monitors credit spread risk. This type of risk pertains to bonds, where changes in bond prices can occur at constant interest rates as a result of credit spread increase or decrease. CR01 limits are introduced for credit spreads; these are similar to PVBP limits and are calculated as a simple total of the impact of a change in credit spread by 1bps across all reference time periods.

The sensitivity of foreign currency derivatives to foreign exchange rate movements is measured in the form of delta equivalents and is reflected in the Bank’s foreign currency position. Česká spořitelna monitors special limits for foreign currency option contracts, e.g. limits for delta

equivalent sensitivity to the exchange rate change in the form of the gamma equivalent and limits for option contract value sensitivity to exchange rate volatility in the form of the vega equivalent. The Bank also monitors the sensitivity of the value to period to maturity (theta) and interest rate sensitivity (rho), which is measured together with other interest rate instruments in the form of PVBP.

Trading book equity risk is monitored using the delta sensitivities of portfolio market values to equity price movements both by equity issue and in the aggregate for each market and for the portfolio as a whole.

Trading book commodity risk is monitored using the delta sensitivities of portfolio market values to commodity price movements for individual commodities.

The Strategic Risk Management Department uses other sophisticated procedures to assess the value and risks of structured products including credit investment instruments whose explicit valuation is not feasible. The Monte Carlo method is most frequently used to simulate the probability distribution for the price and future development of complex transactions, including price sensitivities to changes in market factors.

The VaR method is used to measure aggregated trading and banking book market risk of the Bank. VaR values are calculated with a confidence level of 99% for the holding period of one trading day. The calculation is performed using the KVaR+ system and simulations based on historical data over the most recent 520 trading days. Under conditions of normal loss distribution, VaR is also determined for a holding period of one month or one year and for higher probability levels (99.9%, 99.98%).

VaR limits are determined for individual trading desks or portfolios. The VaR method is augmented with back testing (both hypothetical and real), which is designed to verify model correctness. To date, back testing results have shown that the VaR calculation model has been set correctly.

Based on Czech National Bank approval, the market VaR method is also used to calculate the capital requirement in respect of foreign currency risk, general interest rate risk, general and specific equity risk and risk associated with trading book option transactions. This method is also used to calculate Economic Capital for trading book and banking book market risks. VaR calculations are also used when assessing risks associated with the asset portfolios of funds of Investiční společnost ČS, Penzijní fond ČS and Erste Energy Services and when assessing market risks in the banking book of Stavební spořitelna ČS using special models to represent the Bank's statement of financial position.

As a complement to the VaR method, Česká spořitelna performs stress testing, which is described in more detail in a separate section.

Banking book investments in bonds are monitored by the Strategic Risk Management Department using a system of indicators

evaluating the quality of the security issuer, country of origin and performance of the respective economic sector. If these indicators significantly worsen, each investment is individually re-evaluated from the perspective of its future development, potential sale or continued holding.

Information on the Bank's exposure to market risks and on compliance with the established limits is reported on a daily basis to the Bank's responsible managers and on a monthly basis to the members of the Board of Directors via the Assets and Liabilities Management Committee and Financial Markets and Risk Management Committee.

Interest Rate Risk

Česká spořitelna uses the following methods to manage banking book interest rate risk:

- Net interest income simulation;
- Simulation of net interest income sensitivity to market interest rate changes (parallel/non-parallel discrete shift in market yield curves);
- Value at Risk calculation;
- Simulation of changes in the theoretical market value of the banking book when a market yield curve shifts by $\pm 100/\pm 200$ basis points (including key rate duration); and
- Gap analyses.

The Bank's current interest rate risk exposure is assessed monthly by the Assets and Liabilities Management Committee within the context of the overall development of financial markets, the Czech banking sector and the structural changes in the Bank's statement of financial position.

The key parameter monitored in respect of Česká spořitelna's interest rate sensitivity is the relative change in the Bank's expected net interest income should market interest rates show an immediate parallel increase/decrease of $+100/-100$ basis points over a 36-month horizon given the assumption of a stable statement of financial position structure (i.e. product structure of assets and liabilities).

Liquidity Risk

Liquidity risk is defined as the risk that the Bank will not be able to meet its financial commitments as they fall due or finance its assets. Liquidity is monitored and managed based on expected cash flows and the subsequent adjustment of the liability structure.

The Survival Period Analysis ("SPA") is a key tool in liquidity management. This indicator measures how long an entity may survive under various predefined crisis scenarios from a liquidity risk perspective. These scenarios include the ordinary course of business ("OCB"), moderate identity crisis ("MIC"), serious identity crisis ("SIC"), moderate market crisis ("MMC"), serious market crisis ("SMC"), combined moderate identity and market crisis ("MCIM") and combined serious identity and market crisis ("SCIM"). The actual survival period is

assessed weekly. Regulatory bodies recommend the survival period be 1 month; in 2015, Česká spořitelna's survival period exceeded half a year with a stipulated internal limit of 3 months.

Česká spořitelna monitors and assesses two regulatory ratios to measure liquidity risk introduced by Regulation of the European Parliament and of the Council No. 575/2013 ("CRD IV") every month: the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). Since September 2015, the Bank has additionally monitored and assessed adjusted LCR pursuant to European Commission Regulation 2015/61 (The LCR Delegated Act).

The LCR measures a bank's resistance to a sudden stress event on its liquidity position, specifically whether the bank is able to survive for at least 30 days in the event of a liquidity crisis. The indicator is defined as the ratio of highly liquid assets to total projected net cash outflows over a 30-day period under stress conditions. The minimum ratio should always be higher than 100%. The plan is for 60% of this limit to be reached as of 2015, followed by an annual 10% increase to 100%.

The NSFR supports liquidity resistance in a long-term horizon in order to ensure that non-current receivables are financed with non-current funds. The standard requires a minimum amount of funding that is expected to be stable over a one-year time horizon. The NSFR is defined as the amount of longer-term, stable sources of funding employed by an institution (capital and a portion of long-term funds stable over a one-year horizon under stress conditions) and the volume of required stable funding (assets convertible into cash in a period exceeding one year). NSFR should always be higher than 100%.

Owing to its comfortable liquidity position (high volume of liquid assets combined with retail market financing), Česká spořitelna has long met the liquidity ratio with a significant reserve.

Česká spořitelna uses a cushion of highly liquid assets (an intra-day liquidity buffer) for operational liquidity management. The limit for the minimum volume of highly liquid assets is regularly assessed based on transactions on Česká spořitelna accounts at the CNB. The task of the cushion is to guarantee sufficient liquidity to ensure one-day coverage of outstanding interbank transactions in a crisis situation.

Česká spořitelna uses a system of early warning indicators for the timely detection of forthcoming crises. These indicators afford timely detection of individual and combined market and idiosyncratic liquidity crises. Where a crisis is detected, the Bank proceeds in compliance with its liquidity crisis emergency plan.

Operational Risks

Česká spořitelna defines operational risks in accordance with CNB Regulation No. 163/2014 on the activity of banks, credit unions and investment firms as the risk of loss arising from the inadequacy

or failure of internal processes, human error, system failure or the risk of loss resulting from external events, including legal risk. The Bank's management is regularly informed of operational risk developments and levels.

Česká spořitelna uses a Book of Risks developed by the Risk Management and Internal Audit departments as a tool to standardise the identification of risks for the needs of the entire ČS Financial Group and to standardise risk categorisation with the aim of achieving consistency in risk monitoring and assessment.

The CNB approved the use of advanced measurement approaches (AMA) for the management of operational risk and calculation of the capital requirement for operational risk effective from 1 July 2009. This concept was approved at the level of Erste Group Bank and applies for all group entities using advanced measurement approaches for operational risk. The Bank continues working to develop this approach with an emphasis on strengthening the internal control system to actively prevent significant losses due to operational risk.

In 2011, the Bank successfully modified and approved a model for calculating regulatory minimum capital requirements that newly reflects the impact of insurance. The CNB also approved the use of the AMA by Stavební spořitelna ČS.

The Bank has been using the EMUS software application since 2002 to collect data on operational risk. Data are collected for the purpose of quantifying operational risks and calculating the capital requirement, but also for qualitative management, i.e. to prevent the further incidence of operational risks and simplify processes for recording events in which the Bank has suffered damage, including insurance claims. The collection and evaluation of data on inappropriate conduct of the Bank's clients and the risk of human failure (inappropriate employee conduct) in the credit and non-credit areas is key from the perspective of loss prevention.

Česká spořitelna does not only rely on data obtained from actual operational risk incidents to assess and manage operational risks. Expert opinions of management regarding risks in the areas for which they are responsible constitute another valuable resource. These risk assessments and expert risk scenario evaluations are gathered on a regular basis and the data are aggregated into a risk map and rendered in a standardised form for Erste Group Bank. Risk scenario estimates are applied to calculations of the capital requirement for operational risk pursuant to Basel II principles. An important tool for mitigating losses arising from operational risks is the insurance programme that Česká spořitelna has used since 2002. The programme involves not only insurance of property damage, but also of risks arising from banking activities and liability risks. Česká spořitelna has been a part of the Erste Group Bank joint insurance programme since 1 March 2004, which has greatly expanded the Bank's insurance coverage, in particular for damage that may have a material impact on Česká spořitelna's profit or loss. To manage business continuity, Česká spořitelna has introduced a methodology and procedures based on internationally recognised standards and Best Practice. The Bank

systematically analyses key processes and threats with respect to the risk of process failure, including an evaluation of the efficiency of adopted measures and testing of existing emergency plans. Česká spořitelna also participates in the activities of the Financial Markets Critical Infrastructure Committee (“KIFT”) that involves key banks and is overseen by the CNB.

Careful attention is given to fraud prevention as a specific category of operational risk. The Bank focuses on the prevention of external client or third-party fraud as well as the risk of internal fraud. All cases (zero tolerance for fraud) are subject to detailed investigation followed by individual measures and system changes in the Bank’s IT and business processes.

The Bank has a system in place to manage risks associated with outsourcing. A group policy that complies with regulatory requirements (in particular, CNB Regulation No. 163/2014) has been implemented. Risk analysis is regularly performed and updated for material activities; a general outsourcing activity assessment is reported to the CORS (Compliance, Operational Risk and Security) Committee on an annual basis.

Stress Testing

Česká spořitelna greatly expanded its stress testing of risk factors in 2009 based on its experience with the crisis of 2008-2009 and regulatory requirements.

Market risk associated with the trading book and the part of the banking book revalued at market prices is subject to monthly stress testing. Scenarios are primarily based on historical events and stress scenario results are compared to the capital requirement for market risk.

Additionally, the Bank’s Board of Directors is sent a quarterly summary of all risk exposures – a Comprehensive Stress Testing Report. The report quantifies the impacts of a negative scenario for individual risks derived from the economic crisis in Europe and the U.S. in the 1930s.

The report includes a summary of stress tests for market risk (separately for marked-to-market positions and for impacts of tests of the Bank’s net interest income), the risk of widened credit spreads, credit risk, operating risk, business risk, concentration risk and liquidity risk. The aggregate impact of the Comprehensive Stress Test is reflected in the Bank’s resultant capital adequacy in compliance with Pillar 1 and Pillar 2.

Of equal importance are the impacts of identified reverse scenario risks, i.e. scenarios selected for their threat to the Bank’s viability, specifically involving, for example, extraordinarily strong revenue curve shifts, an economic collapse leading to a marked increase in the likelihood of insolvency, extreme operational risk events or a run on the bank associated with the worsening possibility of obtaining market liquidity, which form a part of the Bank’s Recovery Plan.

Capital Management

As regards the internal capital adequacy assessment process (“ICAAP”), Česká spořitelna uses the Erste Group Bank methodology (updated on an ongoing basis) to reflect current trends, recognised standards and regulatory requirements. The approach taken by Česká spořitelna is based on a group with minor differences required by local regulatory requirements or other local specifics, which leads to slight deviations from the group approach at a local level.

All significant risks are quantified and covered by internal capital within ICAAP. Economic capital is calculated for a one-year period with a confidence level of 99.9%. Market, operational and liquidity risks are quantified using the complex advanced approach based on VaR methodology. Credit risk is calculated using the risk-weighted assets method with the IRB approach. Česká spořitelna has also developed models for other risks (business, strategic, reputation and concentration risk).

Total Group risk constitutes the sum of individual risks, i.e. the diversification effect is not applied out of preference for a more conservative approach. Total risk is then compared with capital sources derived from regulatory capital (in particular, the result for the current year is added to capital sources).

Česká spořitelna performs stress testing, which provides additional information for an internal assessment of the Bank’s capital adequacy.

The resulting economic capital is allocated to the Bank’s business lines in order to calculate their risk-adjusted performance.

The Česká spořitelna ICAAP results are submitted quarterly to the Board of Directors, which then decides on any steps to be taken in respect of ICAAP and, generally, of risk and capital management.

The Bank has implemented new procedures comprising an Emergency Response Plan and Recovery Plan in consideration of new regulatory requirements to be prepared for unexpected adverse market developments and, where the situation so requires, to adopt sufficient timely measures. In addition to the foregoing stress scenarios, the Recovery Plan includes indicators to initiate these procedures, a list of suitable measures to ensure a return to the pre-crisis period, a description of general Bank governance and strategy that incorporates a list of critical functions and other regulatory requirements in this area. In 2015, the Recovery Plan was updated in the course of its annual review, approved by the Board of Directors and accepted by the regulatory body.

Erste Group Bank, Česká spořitelna included, attaches sufficient importance to ICAAP with the aim of gradually improving the system for managing the Group’s risk profile and capital adequacy while taking future development into account. The Bank is systematically

continuing to refine its inclusion of new regulatory requirements when modelling the development of capital needs and sources.

The Bank manages its capital with the aim of maintaining a capital level that allows it to support business activities, comply with all applicable regulatory requirements and ensure a stable return for shareholders.

Capital Adequacy

In December 2015, Česká spořitelna issued an AT1 hybrid capital instrument of EUR 300 million that meets the requirements for inclusion among Additional Tier 1 instruments and further strengthened the Bank's capital adequacy. Česká spořitelna undertook the hybrid capital issue to optimize its capital structure and stabilize longer-term euro financing.

In 2015, the standalone capital adequacy of Česká spořitelna greatly exceeded 13.50%, as required by the CNB when reflecting capital

reserves in Pillar 1. Based on the CNB calculation, Česká spořitelna was assessed as a systemically important bank and will thus have to hold extra capital in an amount of 3% above the basic requirement of 8%, further increased by the applicable flat rate of 2.5% for a capital reserve.

Several events occurred in 2015 that significantly impacted both capital and capital adequacy. At 31 December 2015, retained earnings brought forward (minus a paid dividend of CZK 11.4 billion) were included in capital adequacy, which gave rise to an increase in capital. At the 2015 year end, standalone capital adequacy pursuant to the CNB methodology was 21.70%.

Capital adequacy*

2015	2014	2013	2012	2011
21.70%	18.82%	17.73%	16.03%	13.09%

*data per CNB methodology

Information on Capital and Ratio Indicators Pursuant to Annex No. 14 of Regulation No. 163/2014 Coll.

Data on capital and capital requirements

a) pursuant to Article 437(1)(a) of EU Regulation No. 575/2013

In CZK thousand	Standalone data
	31 Dec. 2015
Capital	96,129,085
Tier 1 (T1) Capital	95,627,363
Common Equity Tier 1 (CET1) Capital	87,520,499
Common Equity Tier 1 Capital instruments	15,201,688
Paid up CET1 instruments	15,200,000
Share premium	1,688
Retained earnings brought forward	72,189,307
Accumulated other comprehensive income (OCI)	3,350,261
Other reserve funds	3,040,462
CET1 Capital adjustments for prudential filters	(527,000)
Reserve fund for cash flow hedges	(86,370)
Accumulated profit/loss from changes in fair value of liabilities in the event of a change in credit risk	(7,151)
Fair value of gains or losses on liabilities resulting from changes in own credit risk related to derivatives liabilities	(304,239)
(-) Value adjustments per requirements for prudential valuation	(129,239)
(-) Other intangible assets – gross value	(3,674,954)
Deferred tax liabilities associated with other intangible assets	178,542
(-) Lack of coverage of expected loss by credit risk adjustments under IRB approach	(2,237,808)
Other temporary adjustments of CET1 Capital	-
Other CET1 Capital instruments and other CET1 Capital deductions	-
Additional Tier 1 (AT1) Capital	8,106,864
Paid AT1 instruments	8,106,864
Tier 2 (T2) Capital	501,722
Excess coverage of expected losses under IRB approach	501,722

b) pursuant to Article 438(c) through (f) of EU Regulation No. 575/2013

In CZK thousand		Standalone data
		31 Dec. 2015
For institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 of Regulation (EU) 2013/575	Exposures to central governments or central banks	57,887
	Exposures to regional governments or local authorities	1,946
	Exposures to public sector entities	1,159
	Exposures to institutions	2,525,749
	Exposures to corporates	15,704,105
	Retail exposure	9,865,595
	Exposures in default	1,381
	Exposures in the form of units or shares of collective investment undertakings	3,029
	Equity exposures	1,638,162
	Other items	1,331,127
Own funds requirements calculated in accordance with points (b) and (c) of Article 92(3) of Regulation (EU) 2013/575	for position risk	437,324
	for commodity risk	766
Own funds requirements calculated in accordance with Regulation (EU) 575/2013 Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	Own funds requirements calculated in accordance with Title III, Chapter 4 of Regulation (EU) 2013/575	3,876,092

Capital indicators

In CZK thousand		Standalone data
		31 Dec. 2015
Tier 1 common capital ratio		19.75
Tier 1 capital ratio		21.58
Total capital ratio		21.70

Ratio indicators

In CZK thousand		Standalone data
		31 Dec. 2015
Return on average assets (ROAA)		1.76
Return on average equity Tier 1 (ROAE)		23.04
Assets per employee		92,810
Administrative expenses per employee		1,567
After tax profit or loss per employee		1,457



Own Funds and Capital Requirements

Own funds according to the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR for short) consist of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk.

The minimum capital ratios amount to 4.5% for CET1, 6% for tier 1 capital (sum from CET1 and AT1) and 8% for total own funds.

The capital buffer requirements are set out in the section 12 of the Banking Act and specified in Title II of CNB's Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms.

According to section 12n of the Banking Act CS has to establish a capital conservation buffer in the amount of 2.5%.

According to section 12i of the Banking Act and CNB's decision CS has to establish a systemic risk buffer in the amount of 3%.

The capital buffer requirement for the countercyclical capital buffer is regulated as follows:

1. The institution specific request for the countercyclical buffer results from the weighted average of the rates of the countercyclical capital buffer that apply in the jurisdictions where significant credit risk positions are situated multiplied by the total amount of risk in accordance with Art. 92 (3), of CRR.
2. For the calculation of the weighted average the countercyclical buffer quota for the national area as defined by the respective authority is multiplied with the result out of the comparison of the capital requirement related to significant credit risk positions within the national area and the total capital requirement as defined within Part 3, Title II and IV of CRR.
3. If the competent authority of another member state or a third country for the national legal area determines a rate of over 2.5%, a rate of 2.5% has to be applied.

4. If the responsible third country authority increases a national buffer rate, this rate is valid twelve months after the date on which the relevant third country authority has announced a change in the buffer rate; however, this does not apply if the rate decreases.

Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive – CRD IV for short) enables Member States to require banks to create and maintain three types of buffers – the capital conservation buffer, the systemic risk buffer and the countercyclical capital buffer – as from 2014. The CNB decided to implement these buffer requirements already during 2014. It will adopt a differentiated approach to the individual buffers. As regards the capital conservation buffer, the CNB intended to apply it to all institutions in the full amount of 2.5% of common equity Tier 1 from the start. The systemic risk buffer is applied to only four institutions including CS. With regard to the countercyclical capital buffer, the CNB Bank Board decided in late 2014 to set it initially at zero, with banks applying the zero rate for the next two years. In December 2015 CNB set countercyclical capital buffer at 0.5% starting 2017.

Risk structure according to EU directive 575/2013 (CRR)

Table 1 (in CZK million)	Article pursuant to CRR	Dec 2014		Dec 2015	
		Calculation base / total risk	Capital requirement	Calculation base / total risk	Capital requirement
Total Risk Exposure Amount	92 (3), 95, 96, 98	456,664	36,533	468,250	37,460
Risk weighted assets (credit risk)	92 (3) (a) (f)	385,135	30,811	402,367	32,189
Standardised approach		25,173	2,014	23,267	1,861
IRB approach		359,962	28,797	379,100	30,328
Settlement Risk	92 (3) (c) (ii), 92 (4) (b)	–	–	–	–
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	8,260	661	5,475	438
Operational Risk	92 (3) (e), 92 (4) (b)	58,683	4,695	56,919	4,554
Exposure for CVA	92 (3) (d)	4,586	367	3,489	279
Other exposure amounts incl. Basel 1 floor	3, 458, 459, 500	–	–	–	–

The capital structure table above shows only those positions which are relevant for CS Group. Changes are possible due to final Regulatory Technical Standards (RTS) that are not available yet.

With the approval granted by the CNB on 9 February 2016, CS considers the annual profit within its own funds.

Regulatory Scope of Application

In the following CS fulfils the disclosure requirements according to the CRR, in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

Regulatory Requirements

Since 1 January 2014, CS has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the CRR and the CRD IV that were enacted in national law in the Banking Act and the CNB's Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms, as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR, the Banking Act and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by CS are based on IFRS regulatory capital components. Eligible capital components derive from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation (for details see the following chapter “Comparison of consolidation for accounting purposes and regulatory purposes” for items where the regulatory treatment is not equal to the accounting requirements).

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of CS is the 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

Disclosure requirements: Art. 436 (b) CRR

Scope of Consolidation

Details regarding the financial scope of consolidation are disclosed in chapter B “Significant accounting policies” especially under section “Basis of consolidation”.

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II, chapter 2 Section 3 of the CRR.

The definition of entities to be consolidated for regulatory purposes are mainly defined in Article 4 (1) (3) and (16) to (27) CRR in conjunction with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR as well as the Banking Act:

- Based on the CRR mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required

to be consolidated under CRR, must be included in the financial scope of consolidation.

- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 million or 1% of the total amount and off-balance sheet items of the parent company. CS makes use of Article 19 (1) CRR.
- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. CS does not apply Article 19 (2) CRR.

The difference between the accounting and the regulatory scope of consolidation shows in the difference between the IFRS balance sheet and the regulatory balance sheet as shown in Table 3.

Consolidation methods

For the calculation of consolidated own funds, CS generally applies the same consolidation methods as used for accounting purposes. The difference applies only to Article 18 (4) CRR, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. CS does not apply proportional consolidation for any entity.

Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds derive from the balance sheet based on the definition of the regulatory scope of consolidation pursuant to the CRR. Amounts that relate to the own shares as well as to the minority interests in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Articles 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. CS made use of Article 84 CRR. Amounts that relate to minority interests in other comprehensive income are included in the consolidated own funds of CS according to the CRR provisions.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity Tier 1 of CS

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET 1 of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art. 56 (c) and 59 CRR and Tier 2 items according to Art. 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the RWAs based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability arising from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount

that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% risk weight (RW) according to Article 48 (4) CRR.

CS did not exceed any of the aforementioned thresholds at the reporting date. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of CS and therefore are considered in RWAs.

Threshold calculations according to Articles 46 and 48 CRR

Table 2 (in CZK million)	Dec 15
Non-significant investments in financial sector entities	
Threshold (10% of CET1)	9,130
Holdings in CET1	59
Holdings in AT1	–
Holdings in T2	–
Distance to threshold	9,071
Significant investments in financial sector entities	
Threshold (10% of CET1)	9,130
Holdings in CET1	6
Distance to threshold	9,124
Deferred tax assets	
Threshold (10% of CET1)	9,130
Deferred tax assets that are dependent on future profitability and arise from temporary differences	146
Distance to threshold	8,984
Combined threshold for deferred tax assets and significant investments	
Threshold (17.65% of CET1)	16,114
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	152
Distance to threshold	15,962

Presentation of the scope of consolidation

Number of entities within the different scopes of consolidation

Table 3	Dec 15					
	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis	CRR Equity
Credit institutions	2	0	2	0	0	0
Financial institutions, financial holding companies and mixed financial holding companies	11	0	11	0	3	0
Ancillary service undertakings, investment firms and asset management companies	8	0	8	0	3	0
Others	13	0	0	0	0	0

The number of companies consolidated pursuant to IFRS was 34 as of 31 December 2015. The number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR, was 21.

Changes within the fully consolidated entities within the regulatory scope of consolidation

There were no changes during the year 2015.

Impediments to the transfer of own funds

Disclosure requirements: Art. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the Group of credit institutions of CS. Further details can be found in chapter B "Significant accounting policies".

Total capital shortfall of all subsidiaries not included in the consolidation

Disclosure requirements covered: Art. 436 (d) (e) CRR

As of 31 December 2015, there was no capital shortfall at any of the companies CS included in consolidation.

For the disclosure of own funds, CS follows the requirements under Article 437 CRR as well as the requirements defined in the Implementing Technical Standards (EU) No 1423/2013, which were published in the Official Journal of the European Union on 20 December 2013.

Based on the requirements defined by the EBA in the Implementing Technical Standards, the following information must be provided:

- A full reconciliation of CET1 items – Additional Tier 1 (AT1) items, Tier 2 (T2) items, filters and deductions applied pursuant to Articles 32 36, 56, 66 and 79 – to own funds of the institution's balance sheet in accordance with Article 437 (1) (a) CRR.
- A table designed by the EBA to show the capital structure of regulatory capital. Presentation of this table that shows the details on the capital structure of CS Group including the capital components as well as any regulatory deductions and prudential filters. Disclosures in this table cover the disclosure requirements as defined in Article 437 (1) (d) CRR, separate disclosure of the nature and amounts of each prudential filter applied pursuant to Articles 32 to 35 CRR, each deduction made pursuant to Articles 47, 48, 56, 66 and 79 CRR as well as items not deducted in accordance with Articles 47, 48, 56, 66 and 79 CRR.

Balance sheet reconciliation

Disclosure requirements: Art. 437 (1) (a) CRR

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation:

Table 4 (in CZK million)	Dec 15		
	IFRS	effects – scope of consolidation	CRR
Assets			
Cash and cash balances	111,027	(460)	110,567
Financial assets – held for trading	14,725	195	14,920
Derivatives	13,995	195	14,190
Other 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
Loans and receivables	567,241	2,598	569,839
Loans and receivables to banks	34,717	(11)	34,706
Loans and receivables to customers	532,524	2,609	535,133
Derivatives – hedge accounting	663	–	663
Changes in fair value of portfolio hedged items	–	–	–
Property and equipment	12,318	–	12,318
Investment properties	4,949	(4,949)	–
Intangible assets	3,966	(10)	3,956
Current tax assets	740	–	740
Deferred tax assets	146	–	146
Assets held for sale	–	–	–
Other assets	3,861	691	4,552
Total assets	959,584	(1,935)	957,649

Table 4
in CZK million

	Dec 15		
	IFRS	effects – scope of consolidation	CRR
Liabilities and equity			
Financial liabilities – held for trading	14,956	64	15,020
Derivatives	14,944	64	15,008
Other trading liabilities	12	–	12
Financial liabilities – at fair value through profit or loss	4,019	–	4,019
Deposits from banks	–	–	–
Deposits from customers	4,019	–	4,019
Debt securities issued	–	–	–
Other financial liabilities	–	–	–
Financial liabilities measured at amortised costs	811,679	(1,065)	810,614
Deposits from banks	83,915	(1,283)	82,632
Deposits from customers	709,817	213	710,030
Debt securities issued	15,493	–	15,493
Other financial liabilities	2,454	5	2,459
Derivatives – hedge accounting	496	–	496
Changes in fair value of portfolio hedged items	–	–	–
Provisions	2,584	–	2,584
Current tax liabilities	100	(30)	70
Deferred tax liabilities	621	(57)	564
Liabilities associated with assets held for sale	–	–	–
Other liabilities	5,166	(352)	4,814
Total equity	119,963	(495)	119,468
Equity – attributable to non-controlling interests	(23)	(5)	(28)
Equity – attributable to owners of the parent	119,986	(490)	119,496
Total liabilities and equity	959,584	(1,935)	957,649

Further details regarding the number of entities within the different scopes of consolidation are disclosed in table 3.

Total equity

Table 5 (in CZK million)	Dec 15				
	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds
Subscribed capital	15,200	–	15,200	–	15,200
Capital reserve incl. hybrid capital	8,118	–	8,118	(10)	8,108
Capital instruments and the related share premium accounts	23,318	–	23,318	(10)	23,308
Reserve funds	3,424	(1)	3,423	–	3,423
Retained earnings incl. profit for the year	90,108	(489)	89,619	(13,749)	75,870
Other comprehensive income (OCI)	3,136	–	3,136	(86)	3,050
Cash flow hedge reserve	105	–	105	(105)	–
Hedge of net investments in foreign operations	(70)	–	(70)	–	(70)
Available for sale reserve	4,044	–	4,044	–	4,044
Currency translation	(167)	–	(167)	–	(167)
Deferred tax	(776)	–	(776)	19	(757)
Equity attributable to the owners of the parent	119,986	(490)	119,496	(13,845)	105,651
Equity attributable to non-controlling interests	(23)	(5)	(28)	28	–
Total equity	119,963	(495)	119,468	(13,817)	105,651
Regulatory adjustments not attributable to specific equity items	x	x	x	(6,246)	(6,246)
Tier 1 capital	119,963	(495)	119,468	(20,063)	99,405

Further details regarding the development of IFRS equity are disclosed under section III “Consolidated Statement of Changes in Total Equity”.

Intangible assets

Table 6 (in CZK million)	Dec 15				
	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds
Intangible assets	3,966	(10)	3,956	(200)	3,756

Details regarding the development of intangible assets are disclosed under Note 24 “Intangible assets”.

Deferred Taxes

Table 7 (in CZK million)	Dec 15		
	IFRS	effects – scope of consolidation	CRR / Own Funds
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	–	–	–
Deferred tax assets that rely on future profitability and arise from temporary differences	146	–	146
Deferred tax assets	146	–	146

Based on the threshold definition according to Article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for CS at year end 2015. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Details regarding deferred tax assets are disclosed under Note 25 “Tax assets and liabilities”.

Subordinated liabilities

CS did not reported subordinated liabilities at the year-end 2015.

Transitional provisions

The Transitional Provisions which are applied by CS, are based on CRR-Supplementary Regulation according to respective measures of a general nature passed by CNB.

Own funds template during the transitional period

Disclosure requirements: Art. 437 (1) (d) (e) CRR
CS does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds.

The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU.

In column (A), the current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation.

Table 8
(in CZK million)

		Dec 2015	CRR article reference	Amounts subject to pre-regulation CRR treatment or prescribed residual amount of CRR
		A	B	C
Common equity tier 1 (CET1) capital				
1	Common equity tier 1 (CET1) capital: instruments and reserves	15,202	26 (1), 27, 28, 29, EBA list 26 (3)	–
	of which:		EBA list 26 (3)	–
	ordinary shares	14,079		–
	priority shares	1,121		–
	share premium	2		–
2	Retained earnings	75,612	26 (1) (c)	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	6,560	26 (1)	–
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	567	26 (2)	–
6	CET1 capital before regulatory adjustments	97,941		–
7	Additional value adjustments (negative amount)	(129)	34, 105	–
8	Intangible assets (net of related tax liability) (negative amount)	(3,756)	36 (1) (b), 37, 472 (4)	–
11	Fair value reserves related to gains or losses on cash flow hedges	(86)	33 (a)	–
12	Negative amounts resulting from the calculation of expected loss amounts	(2,360)	36 (1) (d), 40, 159, 472 (6)	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(312)	33 (b)	–
28	Total regulatory adjustments to Common equity tier 1 (CET1)	(6,643)		–
29	CET1 capital	91,298		–
Additional tier 1 (AT1) capital				
30	Capital instruments and the related share premium accounts	8,107	51, 52	–
36	AT1 capital before regulatory adjustments	8,107		–
43	Total regulatory adjustments to Additional tier 1 (AT1) capital	–		–
44	Additional tier 1 (AT1) capital	8,107		–
45	Tier 1 capital (T1 = CET1 + AT1)	99,405		–
Tier 2 (T2) capital				
50	Credit risk adjustments	454	62 (c) (d)	–
57	Total regulatory adjustments to Tier 2 (T2) capital	–		–
58	Tier 2 (T2) capital	454		–
59	Total capital (TC = T1 + T2)	99,859		–
60	Total risk-weighted assets	468,250		–
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	19,50%	92 (2) (a), 465	–
62	Tier 1 (as a percentage of total risk exposure amount)	21,23%	92 (2) (b), 465	–
63	Total capital (as a percentage of total risk exposure amount)	21,33%	92 (2) (c)	–
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	46,825	CRD 128, 129, 140	–
65	capital conservation buffer requirement	11,706		–
66	countercyclical buffer requirement	0		–
67	systemic risk buffer requirement	14,048		–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	10,00%	CRD 131	–
Amounts below the thresholds for deduction (before risk-weighting)				

			36 (1) (h), 45, 46, 472 (10)	
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	59	56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	–
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	6	36 (1) (i), 45, 48, 470, 472 (11)	–
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	146	36 (1) (c), 38, 48, 470, 472 (5)	–
	Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	23,267	62	–
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	12,586	62	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	379,100	62	–

The own funds table above shows only those positions which are relevant for CS Group, whereas numbering follows complete template.

Own funds development

The regulatory own funds are as follows:

Table 9	in CZK million
Common Equity Tier 1 (CET-1) development	
CET1 as of 1 Jan 2015	84,165
Increase retained earnings	3,667
Increase accumulated other comprehensive income	2,705
Increase decrease reserve funds	3
Decrease prudential filters	(4)
Changes in regulatory deductions	
other intangibles	(172)
IRB shortfall of credit risk adjustments to expected losses	422
Other	512
Changes in CET1	7,133
CET1 as of 31 Dec 2015	91,298
Additional Tier 1 development	
AT1 as of 1 Jan 2015	0
Net increase / decrease in AT1	8,107
Changes in regulatory deduction	–
Changes in AT1	8,107
AT1 as of 31 Dec 2015	8,107
Tier 2 development	
T2 as of 1 Jan 2015	197
Net increase / decrease in T2	(261)
Changes in regulatory deduction	104
IRB Excess and SA credit risk adjustments	414
Changes in Tier 2	257
T2 as of 31 Dec 2015	454
Total own funds	99,859



Other Information for Shareholders

pursuant in particular to § 118 of Act No. 256/2004 Coll. on doing business on the capital market, par. 4, letters b) through k) and par. 5 letters a) through k)

Česká spořitelna, a.s., with its registered office at Prague 4, Olbrachtova 1929/62, 140 00, Company ID 45244782, is the legal successor of the Czech State Savings Bank and was registered as a joint stock company in the Czech Republic on 30 December 1991 in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry No. 1171.

§ 118, par. 4, letter d) and par. 5, letters a) through e)

The structure of the consolidated and individual equity of Česká spořitelna is presented in the consolidated or standalone annual financial statements on page 162 or page 80 of the Annual Report, respectively.

Česká spořitelna, a.s. shares

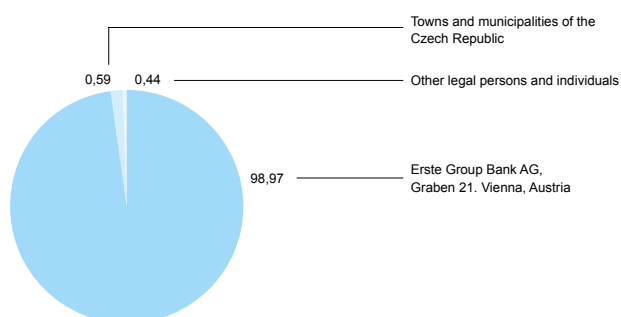
- **Class:** Ordinary registered and preference shares
- **Type:** 140,788,787 ordinary registered shares, i.e. 92.62% of basic capital 11,211,213 preference shares, i.e. 7.38% of basic capital
- **Form:** Book entry
- **Number of shares:** 152,000,000
- **Total issue volume:** CZK 15,200,000,000
- **Nominal value per share:** CZK 100
- **Share marketability:** Shares are not traded on any public market

The transferability of preference shares is restricted to towns and municipalities of the Czech Republic; transfers of preference shares to other entities are subject to Česká spořitelna Board of Directors approval. A preferential right to receive dividends is attached to preference shares. Holders of preference shares are entitled to preference dividends every year that the General Meeting adopts a decision to distribute profit, even if other shareholders will not be paid dividends in the given year based on the General Meeting's decision. A right to vote at General Meetings is not attached to the Company's preference shares. Holders of preference shares have all other rights attached to ordinary shares. Additional information on shareholders' rights is presented in Item B. Company Relationships with Shareholders in the Česká spořitelna, a.s. Declaration on the Compliance of its Governance with the Code based on OECD Principles (see page 71 of the Annual Report).

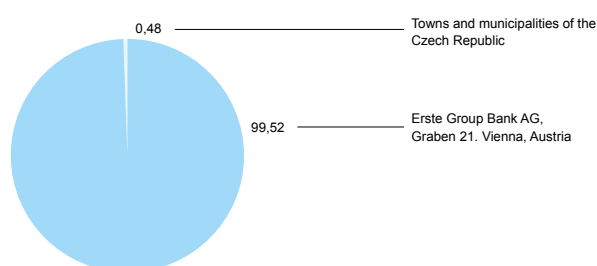
§ 118, par. 5, letters g) and h)

The appointment and recall of Board of Directors members lies within the remit of the Supervisory Board. Board of Directors members are appointed and recalled by acclamation (a show of hands) at Supervisory Board meetings; in this case, any agreement to take a vote in writing or via remote means of communication outside of the Supervisory Board meeting is unacceptable. The Supervisory Board has achieved a quorum if an absolute majority of its members is present. The Supervisory Board decides by resolution; adopting a resolution requires a majority vote of the

Česká spořitelna shareholder structure at 31 December 2015 – Share in basic capital



Česká spořitelna shareholder structure at 31 December 2015 – Share in voting rights



Supervisory Board's members. In the event of a tie, the chair shall cast the deciding vote. The General Meeting decides on any changes to the Company's Statutes in compliance with the relevant provisions of Act No. 90/2012 Coll. on business corporations.

The Board of Directors is a statutory body that manages the activities of Česká spořitelna and acts on its behalf. The standard powers and responsibilities are set out in Article 13 of the Česká spořitelna Statutes. Members of the Board of Directors have no special powers in the meaning of par. 5 letter h.

§ 118, par. 5, letter i)

Česká spořitelna has executed ISDA Master Agreements, which include the condition that if the ownership of either party changes, the other party shall have the right to terminate the agreement. The foregoing applies to agreements entered into with these counterparties: BNP Paribas, Paris; CALYON, Paris; ING Bank, Amsterdam; JP Morgan Chase Bank, New York; Morgan Stanley & Co. (International); Royal Bank of Canada, Toronto; and UBS, London.

Information arising from § 118 of Act No. 256/2004 Coll. on doing business on the capital market, par. 4 letters b), c), e) and j), is included in the Česká spořitelna, a.s. Declaration on the Compliance of its Governance with the Code based on OECD Principles (see page 71 of the Annual Report).

Česká spořitelna has entered into no contracts, agreements or programmes in the meaning of § 118 of Act No. 256/2004 Coll. on doing business on the capital market, par. 5 letters f), j), and k).

Controlling entity

Erste Group Bank AG is the controlling entity of Česká spořitelna, a.s. Measures designed to prevent the controlling entity from misusing its control primarily include

- ban on the misuse of a voting majority in a company,
- ban on the abuse of a controlling entity's influence by forcing the adoption of a measure or execution of a contract that could cause damage to the property of a controlled entity, unless such damage is compensated by the end of the accounting period in which the damage was incurred, at the latest, or a contract is signed stipulating a reasonable period and method for the compensation to be paid by the controlling entity,
- obligation of the Company to prepare a Related Parties Report (see page 241 of the Annual Report),
- obligation of the controlling entity to pay damages to the controlled entity, and
- guarantees provided by members of the statutory body of the controlling entity and controlled entity.

Česká spořitelna is a universal bank and is not dependent on other Česká spořitelna Financial Group or Erste Group Bank entities.

Information on the acquisition of treasury shares and Erste Group bank shares

In 2015, Česká spořitelna neither traded nor held any treasury shares. It acted as a market maker in respect of the shares of its controlling entity, Erste Group Bank AG, on the Prague Stock Exchange. For this purpose, Česká spořitelna purchased 2,656 thousand shares under standard market conditions at an aggregate purchase price of CZK 1,775 million and sold 2,656 thousand shares at an aggregate selling price of CZK 1,776 million. In 2015, the minimum price for the purchase and sale of one share was CZK 521.10 and CZK 520.00, respectively, and the maximum price for the purchase and sale of one share was CZK 801.80 and CZK 802.00, respectively. At neither the beginning nor the end of 2015 did Česká spořitelna hold any shares. The average nominal value of one share of Erste Group Bank was EUR 2 at the 2015 year-end.

Information on the Guarantee Fund contribution

As a securities trader, Česká spořitelna contributes to the Guarantee Fund, which safeguards the guarantee system from which compensation is paid to clients of securities traders unable to meet their client obligations. The calculation base for the Česká spořitelna Guarantee Fund contribution for 2015 was CZK 893 million. The contribution itself amounted to CZK 18 million.

Information on research and development activities

Česká spořitelna is a leading financial services provider in the Czech Republic. Its extensive portfolio of services and efforts to maintain their high quality are commensurate with the emphasis Česká spořitelna places on security when it comes to service reliability and the protection of clients' personal information, the secure use of internet banking, payment card security and the reliability and proper functioning of information systems. Česká spořitelna conducts in-house research and development, in particular of proprietary software, i.e. architecture design, development of ancillary tools (frameworks) and their implementation and integration. Česká spořitelna also develops mathematical, statistical and other empirical models designed to model risks, i.e. creating risk management systems, the prevention and automated detection of fraud, and research and development of empirical models designed to model retail market conditions. Česká spořitelna incurred research and development costs of CZK 50 million in 2015.

Supplementary information on debt securities

Debt securities ISIN CZ0002000755, CZ0002001134, CZ0002001191, CZ0002001282, CZ0002001407, CZ0002001415, CZ0002001423 and CZ0003701054 have been traded on the regulated market of the Prague Stock Exchange since their issue date.

No other securities are traded on any regulated market. Issued debt securities are summarized in the standalone financial statements. The debt securities have not been assigned any rating. Credit ratings are assigned to Česká spořitelna by the renowned credit rating agencies Fitch, Moody's and Standard & Poor's. All three credit rating agencies were registered in compliance with Commission Regulation (EC) No. 1060/2009 on credit rating agencies, amended by Commission Regulation (EC) No. 462/2013 (The Regulation on Credit Rating Agencies). Česká spořitelna complied with the duty stipulated in Art. 8d of the above Regulation. The market share of each of the above credit rating agencies calculated in compliance with Commission Regulation (EC) No. 1060/2009 exceeds 10% of the European Union market.

Fees invoiced by audit company Ernst & Young Audit in 2015

§ 118, par. 4, letter k)

CZK million	Audit services	Other services	Total
Česká spořitelna	28	2	30
Other consolidated companies	16	2	18
Total	44	4	48

Principles of executive manager and Supervisory Board member remuneration

§ 118, par. 4, letters f) g), h), i)

Executive managers

At Česká spořitelna, executive management comprises the chairman of the Board of Directors, the vice-chairman of the Board of Directors and the members of the Board of Directors (henceforth the "Board of Directors"), who form a collective statutory body. The Board of Directors is by law the statutory body managing the operations of the Company. Members of the Česká spořitelna Board of Directors exercise their powers with due diligence and professional care and act in good faith and in the best interests of the Company and its shareholders. They are skilled in managing large corporations and have international experience and the ability to work in a team. Their position calls for the ongoing development of their industry knowledge and corporate governance skills, a proactive approach to the discharging of their duties, the ability to participate in developing corporate strategy and, no less importantly, loyalty to the Company. Members of the Board of Directors adhere to high ethical standards and are responsible for ensuring that the Company complies with enacted laws. They are personally liable for damages arising from a breach of legal obligations and, in their capacity as Board of Directors members, are responsible to the Company's shareholders.

Compensation of executive managers

The Česká spořitelna bonus pool is created by the Bank taking into account business result. The bonus is a salary/compensation benefit paid pursuant to the fulfilment of all stipulated conditions. The size of the bonus pool is based on the Bank's performance in a respective year. Payment of the annual bonus is contingent on achieving the minimum target value of stipulated indicators for the respective year (net profit of the Česká spořitelna consolidated unit after tax, capital adequacy, meeting target liquidity indicators and fulfilling the Bank's strategic objectives). The bonus pool is created in consideration of a combination of all four criteria and the likelihood of generating a profit in the coming 3-year period. If the Česká spořitelna annual performance indicator set by the Supervisory Board does not reach the predetermined minimum value, no bonus is paid to the members of the Board of Directors and the bonus pool is reduced.

Board of Directors members are remunerated based on a Contract for Performance of the Duties of a Board of Directors Member concluded in accordance with the valid provisions of Act No. 90/2012 Coll. on business companies and cooperatives (the "Business Corporations Act"). Individual Contracts for Performance of the Duties of a Board of Directors Member and amounts of compensation of Board of Directors members are, like compensation policy, approved by the Česká spořitelna Supervisory Board.

Performance criteria for Board of Directors members are always set for each calendar year and are approved and subsequently assessed by the Supervisory Board. Board of Directors members may receive an annual bonus of up to 100% of their annual base salary. The conception of the objectives for the Company Board of Directors always reflects the respective regulatory requirements with which the resulting structure of these objectives shall be compatible. Financial performance criteria are netted off by associated current and contingent risks and costs, including costs of assuring capital and liquidity requirements (ex ante risk adjustment), when performance is evaluated.

The indicators based on which variable components of Board of Directors members' income were paid are: Česká spořitelna net profit, the EVA of Česká spořitelna, the non-performing loan (NPL) index, the CXI (client satisfaction) index, fulfilment of digitalization, multichannel (usage of different channels for communication and client service), integration and business intelligence strategies, the CIR (cost/income ratio) index, data management implementation, fulfilment of the retail and corporate banking business strategy and loan process optimization plus the meeting of all regulatory requirements, the risk management and capital management strategy and planning targets.

Based on their management and professional expertise, experience and contribution to the Company, Board of Directors members are, in total, entitled to:*

- divisional management bonuses (cash component) CZK 7.379 million,
- divisional management bonuses (non-cash component – certificates) CZK 5.486 million,
- in-kind income for the role of Board of Directors member – total of CZK 1.985 million,
- monetary compensation for a statutory body member – total of CZK 67.257 million.

When awarding the components of variable remuneration to Board of Directors members (in the event that the annual amount of this variable remuneration is at least CZK 1.6 million), the awarding of 40% of the variable component is deferred. This period of deferral is three years. The variable component is then awarded in accordance with the following scheme: 60% of the deferred amount + 13.33% in the first deferment year + 13.33% in the second deferment year + 13.34% in the third year of deferment. Some 50% of the non-deferred and deferred variable remuneration is awarded in the form of certificates, which are non-monetary compensation instruments. No member of the Board of Directors may monetize awarded non-monetary instruments of compensation for the duration of a retention period. The minimum retention period is 1.5 years for the non-deferred portion and one year for the deferred portions. Payment is effected automatically to all holders at the maturity date based on the current price and number of held certificates.

The variable remuneration components or any part thereof are only awarded where feasible given the overall financial position of Česká spořitelna and where justified by the performance of the respective department and job performance of the individual. Otherwise, the entitlement is not awarded or is awarded in a limited scope (malus). The possibility of withdrawing already awarded or paid variable remuneration (clawback) is not applied.

These rules are applied for ex-post testing of the justification for paying the deferred portion of the variable remuneration:

- a) consolidated net profit after tax and minority interests did not report negative values (loss);
- b) capital adequacy of the consolidated base exceeds the RAS (liquidity and capital adequacy) limit;
- c) the person has not been convicted of an offense concerning his/her professional activity (e.g. embezzlement);
- d) in performing his/her work for the Bank, the person:
 - did not act fraudulently;
 - did not provide misleading information that had, or could have had, an impact on his/her performance evaluation;
 - did not act in violation of the internal regulations of Česká spořitelna (e.g. the Conditions of Employment,

Code of Ethics, etc.) or breach an obligation arising from the legal regulations, and in no other way acted contrary to the legitimate interests of Česká spořitelna.

If at least one of the rules in a) through c) is broken, the deferred amount of compensation is not awarded (malus). In the case of d), it is reduced by 0-75% based on the seriousness of the offense or conduct (malus).

All of the foregoing income is paid by Česká spořitelna; Board of Directors members receive no income from companies controlled by Česká spořitelna.

The members of the Board of Directors held no shares of Česká spořitelna under the ESOP programme.

Detailed professional biographies of the executive directors of Česká spořitelna attesting to their qualifications, professional abilities and practical experience and describing their work are published on pages 11 and 12 of the Annual Report.

Supervisory Board

The Supervisory Board is the Company's controlling body, which oversees the exercising of the Board of Directors' powers in performing the Company's business activities. The Supervisory Board checks, in particular, whether the Board of Directors is performing its duties in compliance with the legislation and the Company statutes and whether the Board of Directors members are acting with due professional care in the interests of the Company. Supervisory Board members perform their duties with due professional care and are required to possess professional skills, maintain allegiance to the Company and maintain the confidentiality of all confidential information and matters.

Supervisory Board members are liable for damages arising from a breach of legal obligations and, in their capacity as members of the Company's Supervisory Board, are responsible to the Company's shareholders. Supervisory Board members are remunerated in accordance with the relevant provisions of the Business Corporations Act. The General Meeting approves the amount of Supervisory Board members' remuneration.

For their work on the Česká spořitelna Supervisory Board in 2015, Supervisory Board members were entitled to:*

- total fixed monetary compensation as a Supervisory Board member in an aggregate amount of CZK 4.620 million,

*Bonuses arising from management of a respective division (monetary) – variable remuneration for executive management of assigned departments (divisions), monetary portion;

Bonuses arising from management of a respective division (non-monetary certificates) – variable remuneration for executive management of assigned departments (divisions), non-monetary certificates that mature into cash;

in-kind income arising from the role of Board of Directors member or Supervisory Board member – in-kind gifts and expenses connected with business trips;

monetary remuneration arising from the role of Board of Directors member or Supervisory Board member – remuneration for performing a function beyond the executive management of assigned departments (i.e. for performing the role of Board of Directors chairman/member)

- in-kind income in an aggregate amount of CZK 0.008 million,
- Supervisory Board members who are Česká spořitelna employees received monetary employment income in an aggregate amount of CZK 1.173 million.

All the foregoing income is paid out by Česká spořitelna; Supervisory Board members receive no income from companies controlled by Česká spořitelna.

The Supervisory Board has established a Compensation Committee (the “Committee”) comprising Supervisory Board members serving no executive function in the Company. In 2015, the Committee met 5 times. The powers of the Compensation Committee cover the formulation of proposals for Supervisory Board decisions pertaining to compensation within the Company, including compensation having an impact on risks and risk management. When preparing these decisions, the Compensation Committee considers the long-term interests of shareholders, investors and other capital partners. The duties of the Compensation Committee include submitting proposals to the Supervisory Board for Board of Directors member remuneration, overseeing the remuneration of departmental directors carrying out internal controls and supervising the basic principles of compensation and their application. The Committee has access to the relevant information from the Supervisory Board, Board of Directors and internal control functions, collaborates with internal control functions, committees and the relevant departments. The Committee performs compensation-related tasks enjoined to it by the Supervisory Board. The Committee’s oversight of basic compensation principles and their application focuses on the mechanism for reflecting all risks, liquidity and capital, and on the consistency of the compensation system with the long-term prudent management of Česká spořitelna. Committee members received a fixed fee per meeting.

Affidavit

The undersigned represent that, to the best of their knowledge, the annual report and consolidated annual report provide a true and fair view of the financial position, business activities and profit of Česká spořitelna and its consolidation group for the previous financial year and of the outlook for the future development of its financial position, business activities and profit.

Prague, 24 March 2016



Tomáš Salomon
Board of Directors Chairman



Wolfgang Schopf
Board of Directors Vice-chairman



Česká spořitelna – Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an integral part of our business and permeates all of our activities. As a company whose roots go back to 1825, we are aware of our responsibility towards the general society and advocate it proudly.

Česká spořitelna's CSR projects and the activities of its two foundations, Nadace České spořitelny and Nadace Depositum Bonum, are based on the Bank's CSR strategy called **Investing for the Future**, which has three pillars:

- I. We stand with those whom society ignores
- II. We educate for competitiveness
- III. We are a barrier free

WE STAND WITH THOSE WHOM SOCIETY IGNORES

From 2002, the foundation **Nadace České spořitelny** strives to efficiently address important social issues such as the problems faced by the seniors, preventing and fighting drug addiction and helping persons with mental disabilities.

In 2015, Nadace České spořitelny distributed a total of CZK 15,081,794 among its 26 partner organisations and allocated another CZK 2 million in two grant programmes. Clients as well as employees are invited to vote in the **Grant programme of Nadace České spořitelny**. In 14 years of its existence, the foundation contributed more than CZK 217 million to the Czech society. In 2014, Nadace České spořitelny decided to recognise the work and courage of non-profit organisations and individuals by awarding **Cena Floccus (Floccus Award)**. In the second edition last year, it selected 9 laureates whose activities match the foundation's mission.

At the end of 2015, we launched a new donor application called **Melinda**, which our clients can use to help people in need easily. It does not take much – a smart phone, an account with ČS, and card payments. There are always roughly ten projects to choose from, and you decide how much you contribute and what your monthly limit is.

In 2015, we came up with the **Paleček charity café concept**. One of our partner social enterprises runs this café at various public events and uses the proceeds for its activities.

WE EDUCATE FOR COMPETITIVENESS

Česká spořitelna established the foundation **Nadace Depositum Bonum** in 2012 and endowed it with the extraordinary income from anonymous savings books. The foundation supports education in science and technical fields and the competitiveness of the Czech Republic. It strives for systemic, long-term solutions. The aim is to create best practices and to share them with the public.

The **Elixir for Schools** project, executed by 21 regional centres in the whole country, is a fun, handy way to make physics classes more interesting. The partner **Heuréka** project aims to improve the teaching of physics, too. Through the **H-Mat** organisation, the foundation also advocates Professor Milan Hejtný's approach to the teaching of mathematics. Moreover, it partners with the **Eurorebus** knowledge competition for pupils of elementary and secondary schools. Not only teachers, but also company and public administration representatives from the whole country discuss the direction of the Czech elementary and secondary education at the traditional autumn conferences **Czech School of the 21st Century**.

Česká spořitelna is committed to **improving financial literacy**. We are involved in the **Bankers Go to Schools** project by the Czech Banking Association and in the educational series **Inspector in Distress**. For pupils of elementary and secondary schools, we have created a comprehensive financial education programme called **Today's Financial World**, which encompasses the **Financial Freedom** board game. During 2015, we developed a new online game with financial literacy elements. It is called **Mysterious Journey**, and the Bank will introduce it to the public in March 2016.

We support good ideas – we work with **9 partner universities**, the latest addition being Jan Evangelista Purkyně University (UJEP). We also helped to create the xPORT business accelerator at the University of Economics in Prague. Last year, students executed two projects for Česká spořitelna in the accelerator. We also support other incubators where students can make their business ideas true, such as InovaJET at the Czech Technical University, Point One at the Czech Agricultural University, or the Endowment Fund at the Palacký University. The competitions Social Impact Award and Impact First emphasise the social impact of business activity. We were a long-standing partner of the DreamCatcher project for

people from 13 to 26 years of age, and we contributed to the Safe Internet project.

WE ARE BARRIER FREE

We are a bank for everyone! We tear down barriers to our services as well as barriers in our thinking so we can handle unusual requests and situations. In 2015, we launched the barrier-free website www.bankabezbarier.cz, which lists all of our services for clients with disabilities. Among other things, we work with the Prague Organisation of Wheelchair Users to map the accessibility of our branches and ATMs.

During 2015, we increased the number of ATMs that can be operated by visually impaired clients to 687, and we have as many as 143 fully barrier-free ATMs. For people with hearing impairments, 25 of our branches are equipped with induction loops, and another 26 branches offer simultaneous transcription.

Česká spořitelna Cares about the Environment

We also strive to reduce energy consumption and the environmental impact of our activities. In recognition of our effort, we won the first edition of the GEEN Green Bank competition in 2015. We prepare year-on-year reports and monitor our **carbon footprint** broken down to mobility, paper consumption and energy consumption.

We encourage employees to commute **to work on bike**. For this purpose, we have built several parking zones for bikes. We continue to improve the operation of our **paperless bank**, whose purpose is to move client documentation and the related administrative tasks from the branch network to the newly created central registry in Hradec Králové.

Česká spořitelna for Employees

In 2013, we introduced the **Cafeteria** benefits programme, in which employees can redeem points for a wide offer of benefits as they see fit – healthcare, wellness, fitness, holidays, welfare, sports, cultural events.

We have a comprehensive programme of equal opportunities called Diversitas. Among other things, we bring various generations of employees closer and offer **reverse mentoring**. In the Čáp programme, we try to facilitate the return of employees from parental leave. Moreover, we support the career growth of women and partner with the **Equilibrium** mentoring programme.

We do not neglect people with disabilities either. In 2013, we launched the Magnificent Five development programme, whose participants can improve their skills in various areas and go through monthly internship in various departments of the Bank.

We encourage employees to help on their own. Every year, they can use two working days for volunteering. Every spring and autumn, we organise **Charity Days**. In 2015, employees dedicated

2,027 days to 147 non-profit organisations throughout the Czech Republic. Managers have a whole week to employ their knowledge and experience in a non-profit organisation in the **Managers for a Good Cause** programme.

Česká spořitelna for Society

Our corporate and CSR strategy helps us to implement our social responsibility in a coherent fashion, reflecting the interests of all stakeholders: clients, employees, shareholders and the society as a whole. In addition to standard feedback tools, clients can also turn to the independent **ombudsman of Česká spořitelna**. Clients can obtain valuable information about a responsible attitude to loans thanks to the **Debt Advisory Centre**, whose establishment we proposed. Since its founding, the Centre has helped more than 84 thousand people.

In 2015, Česká spořitelna and Nadace České spořitelny supported charitable projects with **CZK 86 million**.

Detailed information about our CSR activities can be found in our [CSR Report 2015](#).



Česká spořitelna, a.s. Declaration

of Compliance of its Governance with the Code based on OECD Principles

In compliance with the statements made by Česká spořitelna, a.s. (the “Company”) in its previous annual reports, the members of the Company’s Board of Directors make every effort to improve the Company’s standards of corporate governance and ensure, to the extent set out hereunder, compliance with the Corporate Governance Code based on the OECD principles of 2004 (the “Code”). The Company systematically supports, develops and enhances its governance practices. No major changes adversely affecting the Company’s corporate governance standards were made in 2015. Česká spořitelna complies with all key provisions, principles and recommendations of the Code, which may be viewed on either the Česká spořitelna website: <http://www.csas.cz/kodex>, or the Czech Finance Ministry website (www.mfcr.cz/cps/rde/xbcr/mfcr/KODEX_KCP_2004_pdf). The principles of Česká spořitelna’s governance standards are set out below.

In conjunction with the document “Guidelines on the assessment of the suitability of members of the management body and key function holders” issued by the European Banking Authority (EBA) and the Czech National Bank, Česká spořitelna drafted guidelines and procedures for the assessment of the suitability of members of the management body and key function holders in Česká spořitelna.

A. Organisation of the Company

The **Board of Directors** is a five member body. The Board of Directors is the Company’s statutory body. It manages the Company and acts on its behalf while assuming responsibility for its long-term strategic direction and operational management. The scope of its powers is defined in the Company’s statutes and internal rules as well as by Czech legal regulations. The Board of Directors exercises its powers with due care and diligence; in discharging its activities, it is accountable to the extent set out in the Czech legal regulations. All Board of Directors members are internationally experienced professionals and team players skilled in managing large corporations. The Board of Directors members adhere to the legal rules and ethical standards.

Pursuant to the Company’s Statutes, the Board of Directors must obtain the Supervisory Board’s opinion or approval before performing a number of acts and, in certain cases determined by Supervisory Board decision, the Board of Directors must solicit the prior opinion of a committee established by the Supervisory Board. The Board

of Directors regularly presents reports on Company activities to the Supervisory Board and its committees. In compliance with the Banking Act, the Board of Directors is responsible for establishing, maintaining and evaluating an efficient and effective internal management and control system for the Company.

Board of Directors Decision-making Procedures

The work of the Board of Directors is directed by an activity plan, which the Board of Directors drafts in advance for every calendar quarter. The Board of Directors meets on an ad hoc basis, but no less than twice a month. Nonetheless, regular weekly sessions have become common practice. In 2015, the Board of Directors held 45 ordinary meetings. Board of Directors meetings are conducted in English or Czech, as required by the attending members. Board of Directors meetings are chaired by the chairman and, in the chairman’s absence, by the vice-chairman. Should both the chairman and vice-chairman be absent, an authorised Board of Directors member shall chair the meeting. All Board of Directors members and the Company secretary take part in meetings.

The Board of Directors only achieves a quorum if more than half of all its members are present at a meeting. The Board of Directors adopts decisions in the form of a resolution requiring a majority of votes of attending members. In the event of a tie, the chairman shall cast the deciding vote. If all the Board of Directors members are in agreement, the Board of Directors may pass a resolution by a written vote or a vote taken via remote means of communication (e.g. all Board of Directors members per rollam or individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Material submitted in per rollam form is approved, if a majority of the votes of all members of the Board of Directors is in agreement. Voting on matters under discussion is conducted openly at Board of Directors meetings by acclamation, i.e. a show of hands.

All Board of Directors members have the requisite character traits and professional experience to execute the role of a Board of Directors member. Members of the Board of Directors are appointed and recalled by the Supervisory Board. In compliance with the Banking Act, nominees for Board of Directors membership are discussed in advance with the Czech National Bank, which assesses the professional qualifications, credibility and experience

of the nominees. The term of office of a member of the Board of Directors is four years, and members may be re-elected.

Detailed professional biographies of the Board of Directors members attesting to their qualifications, professional abilities and practical experience are published on page 11 of the Annual Report.

The **Supervisory Board** of the Company has nine members. John James Stack and Maximillian Hardegg serve as independent members of the Supervisory Board pursuant to the requirements of the Code. The Supervisory Board also includes representatives of the Company's employees, namely Eliška Brambořová, Zdeněk Jirásek and Aleš Veverka, who ceased to be a member of the Supervisory Board on 29 November 2015. All Supervisory Board members are professionals, who guarantee the high quality of the Supervisory Board's function, and possess the requisite personal and professional qualifications to serve as Supervisory Board members. The Board members are elected by the General Meeting. The term of office of a Supervisory Board member is four years; re-election for another term is allowed. A full list of Supervisory Board members, including their professional biographies, is published on page 13 of the Annual Report.

The Supervisory Board oversees the execution of the Board of Directors' powers and the performance of the Company's business activities. In addition to its statutory duties and authorisations, the Supervisory Board, in accordance with the Company's statute, has the right to opine in advance on certain acts impacting the Company's assets (including, inter alia, capital expenditures for building, plans (projects) to acquire tangible and intangible assets for the Company in excess of a designated limit, the transfer of title to Company assets, the Company's equity investments, etc.). The Supervisory Board also furnishes an advance opinion on the strategic plan for Company activities and development, planning tools and regular financial information. Additionally, the Supervisory Board furnishes its advance opinion on proposals for the appointment and recall of a person for the position of risk management, compliance and internal audit and on the selection of an external auditor. The Supervisory Board set up Compensation, Appointments and Risk Committees to facilitate its work. In 2015, the Supervisory Board convened a total of four times.

Supervisory Board Decision-making Procedures

The work of the Supervisory Board is directed by an activity plan, which the Supervisory Board drafts annually in advance. Supervisory Board meetings are held on an ad hoc basis, usually in compliance with the activity plan, but no fewer than four times a year. Supervisory Board meetings are conducted in Czech or English, as required by the attending members. Supervisory Board meetings are chaired by the chairman, vice-chairman or an authorised member of the Supervisory Board and, in their absence, the most senior member of the Supervisory Board in attendance.

The Supervisory Board only achieves a quorum if more than half of all its members are present at a meeting. The Supervisory Board

adopts decisions in the form of a resolution requiring a majority of votes of the members. In the event of a tie, the chairman shall cast the deciding vote. If all the Supervisory Board members are in agreement, the Supervisory Board may pass a resolution by a written vote or a vote taken via remote means of communication (e.g. all Board of Directors members per rollam or individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Voting on matters under discussion is conducted openly at Supervisory Board meetings, i.e. by acclamation (a show of hands). The election and recall of a member of the Board of Directors is also conducted in an open vote at a Supervisory Board meeting; in this case, no written voting submissions or voting via remote means of communication are permitted.

The **Audit Committee** is a company body that shall perform the tasks assigned to an audit committee by law or the Company's statutes. The Audit Committee is chiefly responsible for monitoring procedures used to prepare the standalone and consolidated financial statements, monitoring the effectiveness of the Company's internal controls, internal audit function and any risk management systems in place, monitoring the process of performing the statutory audit of the standalone and consolidated financial statements, assessing the independence of the statutory auditor and audit company and, most importantly, providing ancillary services to the audited entity and recommending an auditor. A full list of Audit Committee members, including their professional biographies, is published on page 15 of the Annual Report.

Audit Committee Decision-making Procedures

The work of the Audit Committee is governed by its Rules of Procedure and activity plan. The Audit Committee met four times in 2015. Meetings of the Audit Committee are chaired by its chairman, vice-chairman or an authorised member. At Audit Committee meetings, votes on matters under discussion are taken openly, i.e. by acclamation (a show of hands). The Audit Committee only achieves a quorum if more than half of its members are present. It adopts decisions in the form of a resolution requiring a majority of votes of the Audit Committee members. In the event of a tie, the chairman shall cast the deciding vote. Where all Audit Committee members are in agreement, the Audit Committee may vote based on a written vote or a vote undertaken via remote means of communication, in which case those voting are deemed present at such meeting.

The Company sees to it that the members of the Board of Directors and Supervisory Board are **kept up to date** at all times; the Company has in place a well administered and highly developed system supporting the execution of corporate governance. Newly elected members of the bodies are given immediate access to all information regarding the Company's principles and rules of corporate governance.

The Company's highest bodies, i.e. the Board of Directors, Supervisory Board and Audit Committee, have adopted binding Rules of Procedure for the bodies. These deal in great detail with

administrative and procedural matters related to the activity of a given body. The Rules of Procedure of all three bodies regulate the technical process of convening and voting at meetings, the preparation of meeting minutes, the activities of the body outside of meetings and procedures to address the potential bias of a body member. Both Supervisory Board members and Board of Directors members take part in Supervisory Board meetings. All Board of Directors members take part in Board of Directors meetings, as do the authors of materials to be presented to the Board of Directors. Representatives of the external auditor, members of the Board of Directors and Supervisory Board and, on occasion, other guests, are invited to attend meetings of the Audit Committee. Members of the Board of Directors, Supervisory Board and Audit Committee may solicit a legal opinion on individual materials under discussion from the Company's Legal Services Department or may seek the services of independent advisors. The Office of the Company Secretary organises long-term training in corporate governance and legislation for the members of administrative bodies so as to develop and enhance their knowledge and skills on an ongoing basis.

The position of **Company Secretary** has long existed within the Company. The Secretary of the Company's bodies manages administrative and organisational matters for the Board of Directors and Supervisory Board, including the organisation of General Meetings. The Secretary familiarises new members of administrative bodies with the activities of those bodies and with the Company's corporate governance process.

The Company Secretary ensures mutual co-operation among the Company's bodies. The Secretary is appointed by the Company's Board of Directors and reports directly to the chairman of the Board of Directors. The Secretary is responsible for due and timely distribution of invitations and materials for meetings of the Company's Board of Directors and Supervisory Board. The Company has instituted binding regulations for the submission of materials to be discussed at meetings of the Supervisory Board and Board of Directors, which stipulate the basic rules for the preparation and submission of materials, comment procedures prior to the submission of materials and conditions for the archiving of materials. The Secretary takes the minutes of all meetings of the Board of Directors and Supervisory Board. The Company maintains an electronic database of all minutes from meetings of its bodies; these are available to authorised persons on the Company's internal archiving system. The Company Secretary is, inter alia, a member of the Czech Institute of Corporate Secretaries ("ČITOS") and of its steering committee. ČITOS's mission is to promote and support the professional development of secretaries of administrative bodies.

B. Shareholder Relations

The Company diligently ensures compliance with all the legal rights of shareholders and with the principle of equitable treatment of all shareholders. The Company's shares are held in book entry form. A list of all shareholders is maintained by the Central Securities Depository. In addition to ordinary shares, the Company has also

issued registered preference shares. The transferability of these shares is restricted to Czech towns and municipalities; transfers to other entities are subject to approval by the Company's Board of Directors. A preference right to receive dividends is attached to the preference shares. Decisions regarding transfers of preference shares are made by the Board of Directors and are always based on detailed information about the assignee.

The Company complies with all duties to inform its shareholders and other entities to the extent imposed by law and keeps shareholders updated throughout the year via the media and the Company's website. The Company posts information on its current financial results, shareholder structure, planned events and more on a web page designed specifically for shareholders and investors (www.csas.cz/vztahy_k_investorům). Press releases covering important information about the Company are issued on a regular basis. All material information the Company publishes on its website is available in Czech and English.

The Company convenes **General Meetings** by means of a letter sent to all shareholders. The invitation to a General Meeting always includes basic information for shareholders about the conditions of participation in the General Meeting, the exercising of shareholders' rights and basic financial indicators. General Meeting announcements are published on the Company's website as a matter of course. Shareholders may familiarise themselves in advance (within the statutory period) with the materials that are to be subject to General Meeting discussion. The Company always organises its General Meetings at venues that are accessible to all shareholders. For several years now, General Meetings have been held at the Company's registered office.

The powers of the General Meeting extend to decisions on matters that the law or Company statutes assign to the powers of a General Meeting. The General Meeting is held no less than once a year and no more than four months after the end of the accounting period. General Meeting voting is performed by ballot; details are stipulated by the Rules of Procedure of the General Meeting approved by the General Meeting. General Meeting votes are first taken on proposals presented by the individual who convened the General Meeting; if the General Meeting has been convened by request, then the proposals presented by the individual who requested that the General Meeting be convened are voted on first. If this proposal is passed, no votes shall be taken on further counter-proposals in the given matter. If the proposal is not passed, the proposals presented by attending shareholders are voted on in consecutive order according to the number of shareholder votes. The General Meeting adopts decisions in the form of a resolution requiring a majority of votes of attending shareholders, where the law does not stipulate a different majority.

Shareholders receive all supporting documents for a General Meeting at the time of their registration for the respective General Meeting. These materials always include the Rules of Procedure of the General Meeting, which the General Meeting approves. If

Supervisory Board members are to be elected, shareholders are provided with detailed biographical data of all nominees attesting to their professional and personal qualifications to hold such office. The bodies of the General Meeting are set up by the Board of Directors in a manner that ensures all the bodies are able to perform their functions with due and professional care. In most cases, a notary is present at the Company's General Meeting. In compliance with the Rules of Procedure, shareholders may exercise their shareholder rights in person or by proxy, i.e. vote on proposed items on the agenda, solicit and receive explanations on such items and put forward proposals and counter-proposals.

The members of the Board of Directors, Supervisory Board and Audit Committee take part in General Meetings (there must be at least as many members as are required for a quorum) as do members of the Supervisory Board committees who answer shareholders' questions. The Company provides sufficient time for shareholders to raise their questions on agenda items prior to a vote being taken. All shareholder questions and answers are recorded in the General Meeting minutes. Each item on the General Meeting agenda is subject to a separate vote taken after debate on the given item is closed. All shareholders registered in the attendance list and present at the General Meeting when the vote is being taken are entitled to vote, with the exception of those shareholders who hold preference shares. The right to vote at General Meetings is not attached to the Company's preference shares. In addition, shares whose holders' voting rights for General Meetings were suspended by a decision of the Czech National Bank are not considered voting shares; the shareholder is informed of such a suspension at the time of his/her registration in the attendance list and the Company indicates this fact (including the reasons for the suspension) in the attendance list.

C. Information disclosure and transparency

The Company rigorously endeavours to prevent the **misuse of insider information** that might allow persons who have special relationships with the Company to enjoy unauthorised gains in dealing with the Company's securities. Board of Directors members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Company or with investment instruments derived from such securities, which they perform on their own account. Erste Group Bank's rules for securities trading are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies – members of the Company's Board of Directors are obliged to inform the Company's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a stipulated period.

The Company has established a **Compliance** Department whose principal activities include ensuring compliance of the Company's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of

the employees' conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of Company activities and administration and forms a part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Department informs the Company's Board of Directors and Supervisory Board of its activities on a regular basis and keeps a regularly updated **list of persons** with access to insider information.

The Company diligently fulfils and complies with all Czech legal regulations, principles of the Corporate Governance Code based on OECD principles and EU Commission recommendations regarding corporate governance and, on an ongoing basis, **provides shareholders and investors with all material information** on its business activities, the Company's financial and operating results, ownership structure and other significant events. All information is prepared and disclosed in compliance with the top standards of accounting and the disclosure of financial and non-financial information. Moreover, the Company discloses a great deal more information than the statutory requirements so that shareholders and investors may make informed decisions concerning ownership of the Company's securities and voting at General Meetings. The Company uses various distribution channels to publish such information, e.g. the media or the Company website, where information is published in both Czech and English to enable equal participation of foreign investors and shareholders in decisions regarding the Company's business and development.

The Company regularly publishes annual and semi-annual reports. The annual report principally includes the audited financial statements and provides a picture of the Company's financial position, business activities and operating results. The report also provides information on the **Board of Directors and Supervisory Board member remuneration policy** in compliance with the legal regulations. The Company has no option scheme for remuneration either for the members of the Board of Directors or the Supervisory Board.

D. Committees of Company Administrative Bodies

The Company has established committees under the Board of Directors and Supervisory Board to support the Company's activities and to ensure the internal management and accountability of these bodies. The individual committees' Rules of Procedure define the scope of their powers and include a precise description of applicable rules, tasks and decision-making procedures.

Committees of the Supervisory Board

Risk Committee

The Risk Committee has an advisory function in respect of the overall current and future approach to risks, strategy in the risk

area and the accepted risk level, as well as the drawing up of credit policy and credit portfolio. The Committee also oversees the implementation of risk management strategies. In specific credit-related cases the Committee has an approval function. The members of the Risk Committee are: P. Bosek, S. Dörfler and A. Treichl.

Compensation Committee

The Compensation Committee provides support to the Supervisory Board when formulating the basic principles of compensation. Its duties include submitting to the Supervisory Board proposals for Board of Directors member remuneration, overseeing the remuneration of departmental directors carrying out internal controls and supervising the basic principles of compensation and their application. The Compensation Committee members are: M. Hardegg, S. Dörfler and J. Stack.

Appointments Committee

The Appointments Committee primarily assesses the suitability of nominated and appointed members of the management body and evaluates the activities of the members of the management body and the management body as a whole. The members of the Appointments Committee are: J. Stack and A. Treichl.

Committees of the Board of Directors

Board of Directors Committees are advisory bodies of the Board of Directors established by resolution of the Board of Directors. The purpose of the committees is to create and present technical recommendations to the Board of Directors; committees consist of Board of Directors members and selected Company employees. All the committees are accountable to the Board of Directors and submit a report on their activities at least once a year.

Credit Committee

The Credit Committee is the body that assesses and approves credit transactions and products, as well as assessing and approving the business policy principles, the credit risk measurement and management system and the level of Česká spořitelna's credit portfolio structure for the purpose of achieving the designated level of financial objectives.

Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is the highest body that assesses and approves the process of planning, managing and controlling financial transactions and the structure of Česká spořitelna's assets and liabilities and off-balance sheet items with the aim of achieving an optimal combination of the Bank's profitability and assigned financial risks. The Committee determines Česká spořitelna's strategy in this area and assigns tasks to Česká spořitelna's organisational units to fulfil the strategy.

Financial Markets Risk Management Committee

The Financial Markets Risk Management Committee is the body that deals with decisions on operational issues of risk management processes related to financial markets.

Investment Committee

The Investment Committee is the body that assesses the expediency and effectiveness of capital expenditure, including ATMs, projects and related purchased services. In addition, the Committee assesses the expediency and efficiency of advisory services.

Česká spořitelna Financial Group Marketing and Sponsorship Committee

The Česká spořitelna Financial Group Marketing and Sponsorship Committee is an advisory body of the Board of Directors, which discusses proposed marketing and sponsorship strategies and strategic communication concepts and campaigns. The Committee deals with the Česká spořitelna brand and support of sales channels, including branch merchandising.

Retail Committee

The Committee:

- a) assesses and approves the launch, innovation or discontinuation of retail banking products and services,
- b) manages and implements Česká spořitelna's pricing policy and strategies in the retail banking segment and assesses and approves retail prices of products and services.

Compliance, Operational Risks and Security Committee

The Compliance, Operational Risk and Security Committee is a body of the Board of Directors whose role is to decide on issues regarding the management of operational risk, compliance risk and security in relation to compliance in the Bank.

Financial Market Products and Wholesale Banking Committee

The Committee:

- a) assesses and approves innovations and the launch or discontinuation of products and services in the area of assets and liabilities management (ALM), financial markets and wholesale banking;
- b) manages and implements Česká spořitelna's pricing policy and strategies in the financial markets and corporate banking segment.

Business Intelligence Committee

The Business Intelligence Committee is the body that oversees the fulfilment of BI strategy.

Statistical Models Committee

The Statistical Models Committee is the highest body for the approval of any changes to the internal approaches to calculating capital requirements for credit, market and operational risk and methods of determining economic capital for all risk types. The Committee approves changes in the IRB approach (changes in the rating system, including the ratings policy, changes in methods for estimating risk parameters and changes to all relevant risk parameters) or changes in ICAAP (the Internal Capital Adequacy Assessment Process).

E. Company Shareholder Policy

Information on this topic is available in the section Corporate Responsibility of Česká spořitelna (see page 69).

F. Principles of Internal Control and Rules for Accepting Risk in the Financial Reporting Process

The Company processes its financial accounts via SAP, which complies with exacting requirements for the security and quality of account preparation. System inputs are entered both manually and automatically from other transaction systems.

The entity complies with all statutory and legislative requirements. Procedures pertaining to accounting documents and their circulation have been put in place as required by the Accounting Act and in a manner that serves the needs of the controlling and management accounting functions. The entity established separate internal regulations for accounting documents and their circulation and these are subject to regular review, particularly internal regulation on accounting document circulation, which requires the “four-eyes” control principle and eliminates the possibility of unauthorised accounting transactions by defining persons authorised to approve and perform accounting entries, i.e. who may be involved in the accounting process. Any correction of accounting entries is subject to the same controls. Manual and automatic controls of the completeness and correctness of SAP system inputs are performed in respect of automatic accounting between SAP and the transaction accounting systems. Accounting documents are archived both in the system and manually and the archiving process has been set up to comply with statutory requirements (the Accounting Act and Archiving and Records Service Act).

The entity fulfils asset valuation requirements pursuant to Part IV of the Accounting Act (in accordance with the general principle of prudence) and International Financial Reporting Standards. The entity has instituted several separate internal regulations for this area that comply with these statutory requirements and principally address the setting of asset input prices, i.e. their valuation under Accounting Act requirements, changes in their valuation, in

particular provisioning, asset amortisation, depreciation, impairment, disposal, stock taking and related tax requirements.

The statutory and legislative regulations do not separately address the area of management accounting, with the exception of the definition of basic features required, inter alia, for clarity. The entity established management accounting based on historical developments while respecting current requirements for bookkeeping and for cost controlling within the entity. Management accounting is primarily kept in the form of sub-ledger accounts whose contents are subject to regular review. Bookkeeping operations on sub-ledger accounts are controlled for accuracy on an ongoing basis.

The entity primarily recognises impairment allowances and provisions pursuant to the basic principles stipulated by the statutory accounting and tax regulations. The accounting procedures are additionally regulated by internal rules that, in addition to the foregoing, reflect the needs of key departments in relation to the accounting system in this area (audit, reporting, controlling, etc.). The methodology and accounting for the creation and release of impairment allowances in the Company is concentrated in a single location and carried out by a small group of staff, which is advantageous, inter alia, from the perspective of logic, operational and reconciliation controls. The controls are performed on an ongoing basis both before and after accounting operations. Given the impact on financial results, the general creation of impairment allowances is not monitored by individual accounting item, but in a broader context.

Aggregated financial statements are submitted to the Company’s statutory body on a monthly basis. The Company’s Supervisory Board has the aggregated financial statements on hand at every one of its meetings. The Audit Committee monitors the process of compiling the consolidated and standalone financial statements while also evaluating the effectiveness of internal controls. The Audit Committee additionally monitors the process of the statutory audit of the consolidated and standalone financial statements, which are subject to a standard external audit once a year; the preliminary work is done first and this is followed by the audit work on both the consolidated and standalone financial statements and the annual report.

Organizational Structure

with effect from December 31, 2015

Chairman of the BoD	Vice-chairman of the BoD	Member of the BoD	Member of the BoD	Member of the BoD
Pavel Kysilka	Wolfgang Schopf	Daniel Heler	Tomáš Salomon	Karel Mourek
Operations and IT Management	Accounting, Controlling and BI	Markets – Wholesale / Trading and Financial Situations	Company Office	Steering and Support
Enterprise Architecture	Property Management	Market – Retail Investments	Economic and Strategic Research	Legal Services
Solution Delivery	Group Balance Management – ALM	Funding and Advisory Group	Communication	Strategic Risk Management
Data a integrance	Business Intelligence	Local Corporate Client Banking (Regional Corporate Clients)	Ombudsman and Customer Experience	Credit Risk Management Corporate Banking
IT Digital and Online	Capital Participation and Investor Relations	Public Sector	Internal Audit	Security
Operations and IT Governance		Large Corporates Banking	Human Resources	Credit Risk
Administration of Accounts and Client Documentation		Product Management and Sales Support	Marketing	Compliance, Financial Crime and Anti-fraud Management
Wholesale Back Office and Payments		Transaction Banking Services	Strategic Project Portfolio	
Client Center			Social Bank	
			Segment Management and Customer Experience	
			Sales Planning and Performance Management	
			Branch and External Sales (Regions – Retail Branch Network)	
			Digital and Direct Sale	
			Retail Support and Card Center	
			Retail Products	



Supervisory Board Report For Year 2015

In the year 2015 the Supervisory Board supervised the discharge of the Managing Board's powers and the operation of the Česká spořitelna, a.s. business in accordance with the Articles of Association and legal provisions.

The Supervisory Board, among others, approved the Financial Statements and distribution of Profit for the year 2015, and it discussed regularly the Financial Reports of the FGČS, macro-economic development in the Czech Republic, the development of the Loan Portfolio, Capital participation strategy, Real Estate investment strategy, and asset management. Further, Supervisory Board discussed the centralization of Česká spořitelna Financial Group activities, optimization of the branch network, principles of remuneration as well as approving the 2016 Budget.

The Supervisory Board continuously monitored the execution of the powers / authorities of the Managing Board, carrying out the Bank's business activity and implementing its strategy.

The Managing Board provided the Supervisory Board with the documentation and information necessary for the discharge of its functions in accordance with the Articles of Association and legal provisions. The Supervisory Board states that the Managing Board in the year 2015 duly fulfilled its tasks arising mainly from the law, the Articles of Association and decisions of the Supervisory Board and the General Meeting.

In 2015 the Supervisory Board held four regular meetings; besides these meetings, the Supervisory Board also made use of the "per rollam" voting.

During the year, the Supervisory Board members discussed the results of activities of the individual committees - Risk Committee, Remuneration Committee and Nomination Committee. The Supervisory Board was also informed about activities of Audit Committee, which is an independent body of the company.

During 2015 one change in the Supervisory Board's membership took place. Mr. Veverka's membership in the Supervisory Board ended in November.

In accordance with legal provisions, the Supervisory Board reviewed the Non-consolidated and Consolidated Financial Statements as of 31.12.2015 and came to the conclusion that the books and accounting records were kept in a transparent manner in accordance with accounting regulations and that the accounts and Non-consolidated and Consolidated Financial Statements correctly reflect the financial situation of Česká spořitelna, a.s. and the consolidated unit as of 31.12.2015.

The Supervisory Board also reviewed the Report on Relations between the Related Parties and in accordance with the provision 83 para 1 of the Business Corporations Act states that it took account of this Report without comments.

Based on these facts, the Supervisory Board hereby recommends to the General Meeting to approve the Non-consolidated and Consolidated Financial Statements of Česká spořitelna, a.s. as of 31.12.2015 and the proposed distribution of profit of the Company submitted by the Board of Directors.



Report of the Audit Committee

In 2015, the Audit Committee of Česká spořitelna, a. s. operated as an independent body of the company.

In compliance with Act No. 93/2009 Sb. on Auditors and the Articles of Association of Česká spořitelna, a. s., the Audit Committee monitored the procedure applied at compilation of the individual financial statement and the consolidated financial statement, observed the effectiveness of internal control, the risk management system and internal audit in the company; monitored the process of statutory audit of the financial statements and the consolidated financial statements, assessed the independence of the statutory auditor and recommended that the company Ernst & Young Audit, s. r. o. perform the audit of annual financial statements for 2015.

In compliance with the Czech National Bank requirements, the Audit Committee performed an evaluation of the functionality and effectiveness of the internal control system in the bank. At its regularly held meetings in 2015, the Committee discussed planned Internal Audit activities and strategies, reports on Internal Audit plans and activities and information about the fulfilment of measures that the bank management had adopted upon the results of audits and inspections. The Audit Committee also focused its attention on the system of risk management, activities of the compliance function and protocols on inspections of the Czech National Bank, including the fulfillment of adopted measures.

During 2015, the Audit Committee analyzed, and took specific steps aimed at the fulfillment of, the updated requirements of Act no. 93/2009 Sb., on Auditors, for independence and professional competence of all audit committee members.

Jack Stack
Chairman of the Supervisory Board
Chairman of the Audit Committee

Consolidated Financial Statements

For the Year Ended 31 December 2015

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

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Independent Auditor's Report

To the Shareholders of Česká spořitelna, a. s.

We have audited the accompanying consolidated financial statements of Česká spořitelna, a.s., and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, consolidated statement of comprehensive income for the year then ended, consolidated statement of changes in total equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Group, see part A and Note 45 to the consolidated financial statements.

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Information

Other information comprises information included in the consolidated annual report other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information in the consolidated annual report is materially inconsistent with the separate or consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and whether the consolidated annual report has been prepared in accordance with applicable law or regulation. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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



Roman Hauptfleisch, Auditor
License No. 2009

24 March 2016
Prague, Czech Republic

Consolidated Statement of Comprehensive Income

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.

Consolidated Statement of Financial Position

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
Board of Directors Chairman



Wolfgang Schopf
Board of Directors Vice-chairman

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
Reallocation 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.

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.

Notes to the Consolidated Financial Statements

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:

- Change in the Net result for the period in amount of CZK 76 million
- Change in the Net fee and commission income in amount of CZK 95 million

- Change in the Taxes on income in amount of CZK 18 million
- 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 technique 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:

Statement 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, impairment 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 an 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 have to be adapted, notably in the light of the new reporting and disclosure requirements of IFRS7, as triggered by IFRS9. Such adaptations 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:

in CZK million	2015			2014		
	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 description of AT1) distribution would be CZK 659 million from total nominal value of EUR 300 million. Management of the Group proposed further 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

in CZK million	2015			2014		
	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 instruments 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 instruments 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.

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.

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.

17. Financial assets – held to maturity

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	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

in CZK million	Loans and advances to customers and credit institutions		Trading assets		Financial assets						Total	
					At fair value through profit or loss		Available for sale		Held to maturity			
	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.

transactions are disclosed in Note 36 Transfers of financial assets – repurchase transactions and securities lending.

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

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 Dec 14	Allocations	Release	Transfer between allowances	As of 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 Dec 13	Allocations	Release	Transfer between allowances	As of 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 Dec 14	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of Dec 15	Amounts written off	Recoveries of amounts previously written off
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 Dec 13	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of Dec 14	Amounts written off	Recoveries of amounts previously written off
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

in CZK million	Property and equipment – Acquisition and production costs				
	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 fluctuations (+/-)	–	–	–	–	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

in CZK million

	Property and equipment – Accumulated depreciation				
	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 fluctuations (+/-)	–	–	–	–	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

in CZK million

	Property and equipment				
	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

in CZK million

	Acquisition and production costs			
	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

in CZK million

	Amortisation			
	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:

in CZK million	Tax assets 2015	Tax assets 2014	Tax liabilities 2015	Tax liabilities 2014	Net variance 2015			Net variance 2014		
					Total	Through profit or loss	Through other comprehensive income	Total	Through profit or loss	Through other comprehensive 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

in CZK million	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	
	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 equity¹⁾	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

in CZK million	Retail			SME		Real estate		ALM & LCC		Large Corporate		GM		Total group
	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

in CZK million	2015			2014		
	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 commission 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

in CZK million	2015		2014	
	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.

in CZK million	2015			2014		
	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

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
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

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
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

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
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

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
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, sub-standard, 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 a 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 portfolio 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 (deferments 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

in CZK million	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments					Contingent liabilities	Credit risk exposure
				Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments		
	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

in CZK million	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments					Contingent liabilities	Credit risk exposure
				Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments		
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 in CZK million	Credit risk exposure				
	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 in CZK million	Credit risk exposure				
	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 asset'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-performing 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-performing 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				Provisions	Collateral
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborne		
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				Provisions	Collateral
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborene		
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 forbore 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 forbore assets, which have been derecognised during the reporting period.

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

in CZK million	2015			2014		
	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 forbore 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.

38.3.1 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.

in CZK million	2016		2015	
	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 the 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.

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

in CZK million	< 1 month		1 -12 months		1-5 years		> 5 years	
	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.

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.

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:

in CZK million	2015		2014	
	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	Nominal hedged
	In CZK million	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 parameters.

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.

in CZK million	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	
	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.

In CZK million	2015		2014	
	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 comprehensive income	Purchases	Sales/Settlements	Transfer into Level 3	Transfer out of 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 comprehensive income	Purchases	Sales/Settlements	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	2014
	Unrealized gain/loss in profit or loss	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:

in CZK million	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
	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 instruments 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 COMMITMENTS					
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 COMMITMENTS					
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 activity of 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.

in CZK million	As of 31 December 2015								
	Category of financial instruments								
	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

in CZK million	As of 31 December 2014								
	Category of financial instruments								
	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

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	2014	
	Interest in %	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.

**) Česká 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.

Separate Financial Statements

For the Year Ended 31 December 2015

**Prepared in Accordance with International Financial Reporting
Standards as Adopted by the European Union**

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Independent Auditor's Report

To the Shareholders of Česká spořitelna, a.s.

We have audited the accompanying financial statements of Česká spořitelna, a.s., which comprise the statement of financial position as at 31 December 2015, statement of comprehensive income, statement of changes in total equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of Česká spořitelna, a.s., see Part A to the financial statements.

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Česká spořitelna, a.s., as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Information

Other information comprises information included in the annual report other than the financial statements and our auditor's report thereon. Management is responsible for the other information. In connection with our audit of the financial statements, our responsibility is to report on the other information.

As described in Part A to the financial statements, of Česká spořitelna, a.s., has not prepared the annual report and Intends to include the Information in the consolidated annual report. Accordingly, our comments on the other information do not form part of the independent auditor's report.

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



Roman Hauptfleisch, Auditor
License No. 2009

24 March 2016
Prague, Czech Republic

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	24,304	24,820
Net fee and commission income	2	9,280	10,486
Dividend income	3	427	641
Net trading and fair value result	4	3,016	2,342
Rental income from investment properties & other operating leases	5	116	106
Personnel expenses 20582742	6	(7,713)	(7,561)
Other administrative expenses	6	(7,434)	(7,155)
Depreciation and amortisation	6	(1,857)	(1,937)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	324	149
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(2,170)	(3,284)
Other operating result	9	(746)	(390)
Pre-tax result from continuing operations		17,547	18,217
Taxes on income	10	(3,403)	(3,416)
Post-tax result from continuing operations		14,144	14,801
Net result for the period		14,144	14,801

Statement of Comprehensive Income

in CZK million	Notes	2015	2014
Net result for the period		14,144	14,801
Items that may be reclassified to profit or loss			
Available for sale reserve			
Gain/(loss) during the period	10	1,508	1,589
Cash flow hedge reserve			
Gain/(loss) during the period	10	(81)	175
Deferred taxes relating to items that may be reclassified			
Gain/(loss) during the period	10, 25	(269)	(335)
Total		1,158	1,429
Total other comprehensive income		1,158	1,429
Total comprehensive income for the year		15,302	16,230

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

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	100,895	50,157
Financial assets – held for trading		14,914	23,312
Derivatives	13	14,184	18,821
Other trading assets	14,18	730	4,491
Financial assets – designated at fair value through profit or loss	15,18	354	679
Financial assets – available for sale	16,18	77,796	99,033
Financial assets – held to maturity	17,18	151,682	141,326
Loans and receivables to credit institutions	19	34,120	37,233
Loans and receivables to customers	20	494,915	465,525
Derivatives – hedge accounting	21	663	878
Property and equipment	22	11,947	13,019
Intangible assets	23	3,675	3,289
Investments in subsidiaries and associates	24	8,432	8,029
Current tax assets	25	689	499
Deferred tax assets	25	-	-
Other assets	26	1,196	1,859
Total assets		901,278	844,838
Liabilities and equity			
Financial liabilities – held for trading		15,020	23,441
Derivatives	13	15,008	20,664
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	759,445	701,816
Deposits from banks		92,313	73,397
Deposits from customers		636,694	587,234
Debt securities issued		28,319	38,710
Other financial liabilities		2,119	2,475
Derivatives – hedge accounting	21	495	169
Provisions	30	2,482	2,323
Current tax liabilities	25	-	-
Deferred tax liabilities	25	509	312
Other liabilities	31	3,972	3,802
Total equity	32	115,336	103,311
Total liabilities and equity		901,278	844,838

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

These separate financial statements were prepared by the Bank 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

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	Total equity
As of 1 January 2014	15,200	12	77,185	–	3,040	9	755	96,201
Dividends paid	–	–	(9,120)	–	–	–	–	(9,120)
Total comprehensive income	–	–	14,801	–	–	142	1,287	16,230
Net result for the period	–	–	14,801	–	–	–	–	14,801
Other comprehensive income	–	–	–	–	–	142	1,287	1,429
As of 31 December 2014	15,200	12	82,866	–	3,040	151	2,042	103,311
As of 1 January 2015	15,200	12	82,866	–	3,040	151	2,042	103,311
Dividends paid	–	–	(11,384)	–	–	–	–	(11,384)
Issuance of other capital instruments	–	–	–	8,107	–	–	–	8,107
Total comprehensive income	–	–	14,144	–	–	(64)	1,222	15,302
Net result for the period	–	–	14,144	–	–	–	–	14,144
Other comprehensive income	–	–	–	–	–	(64)	1,222	1,158
As of 31 December 2015	15,200	12	85,626	8,107	3,040	87	3,264	115,336

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

Cash Flow Statement

for the year ended 31 December 2015

in CZK million	Notes	2015	2014
Net profit/loss for the year		17,547	18,217
Non-cash adjustments for items in net profit/loss for the year			
Allocation to and release of provisions (including risk provisions)		2,675	3,768
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	6	1,857	1,937
Gains/(losses) from the sale of assets		(57)	(59)
Change in fair values of derivatives		(478)	(950)
Accrued interest, amortisation of discount and premium		(1,447)	(1,865)
Other adjustments		(191)	150
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with CNB		2,820	(6,111)
Loans and advances to credit institutions		4,157	12,318
Loans and advances to customers		(31,799)	(11,871)
Trading assets		3,884	15,518
Financial assets – at fair value through profit or loss		367	3,378
Financial assets – available for sale		13,463	(37,014)
Other assets from operating activities		315	704
Deposits by banks		22,743	(38,459)
Customer deposits		49,460	18,568
Trading liabilities		(8,411)	(1,991)
Other liabilities from operating activities		13	21
Payments for taxes on income		(3,738)	(4 304)
Cash flow from operating activities		73,180	(28,045)
Proceeds of disposal			
Financial assets – held to maturity and associated companies		11,410	3,141
Property and equipment and intangible assets		214	296
Acquisition of			
Financial assets – held to maturity and associated companies		(17,602)	(17,011)
Property and equipment, intangible assets and investment properties		(1,950)	(1,959)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		(321)	(2,688)
Disposal of subsidiaries		–	605
Cash flow from investing activities		(8,249)	(17,616)
Issuance of other capital instruments		8,107	–
Dividends paid to equity holders of the parent		(11,267)	(9,026)
Dividends paid to non-controlling interests		(117)	(94)
Other financing activities (mainly changes of subordinated liabilities)		(262)	(1,904)
Proceeds from bonds issued		509	1,418
Repurchase of bonds in issue		(10,143)	(6,200)
Cash flow from financing activities		(13,173)	(15,806)
Cash and cash equivalents at beginning of period		32,456	93,923
Cash flow from operating activities		73,180	(28,045)
Cash flow from investing activities		(8,249)	(17,616)
Cash flow from financing activities		(13,173)	(15,806)
Cash and cash equivalents at end of period	12	84,214	32,456
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(3,738)	(4,304)
Interest received		25,694	25,713
Dividends received		427	641
Interest paid		(2,241)	3,353
Dividends paid		(11,400)	(9,120)

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

Notes to the 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 with 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 Bank 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 Bank, liquidity, interest rate risk, foreign currency positions and operating risk.

The Bank 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 of financial statements

The financial statements of the Bank 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 financial statements have been prepared on a historical cost basis, except for financial assets available-for-sale, derivative financial instruments, 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 financial statements have been prepared on a going concern basis.

The Bank has not prepared the annual report on the separate basis and intends to include the information in the consolidated annual report.

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

b) Accounting and Measurement Methods

Foreign currency translation

The financial statements are presented in Czech crowns, which is the functional currency of the Bank. The functional currency is the currency of the primary business environment in which the Bank operates.

For foreign currency translation, exchange rates quoted by the Czech National Bank are used.

(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.

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.

Bank 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 Bank 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 for financial assets not stated at fair value at settlement date. 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 Bank 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.

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they 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 item.

(iv) Derivative financial instruments

Derivatives used by the Bank 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 statement of financial position, 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 (clean 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 (dirty price) of derivatives in cash flow hedges is recognised in the income statement 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 statement of financial position, 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 Bank 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 and Financials.

Financial assets – designated at fair value through profit or loss are recorded on the statement of financial position 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 Bank 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 statement of financial position 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 statement of financial position as 'Financial assets – held to maturity' if the Bank 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 statement of financial position line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables.

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 Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank, upon initial recognition, designates as available for sale; or
- those for which the Bank 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. 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 statement of financial position 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 technique 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:

Statement of financial position 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 Bank, 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 Bank, 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 Bank 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 Bank 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 Bank retains substantially all the risks and rewards of ownership because the securities are repurchased when the repo transaction ends. Furthermore, the Bank 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 Bank 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 Bank. 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 Bank under repurchase agreements remain on the Bank’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 Bank. 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 Bank as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Bank 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 Bank 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 Bank 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 Bank uses the incurred but not reported losses concept. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the Bank 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 Bank 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 Bank 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 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 Bank.

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 Bank 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, impairment 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 Bank, '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 Bank makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of a hedge relationship, the Bank 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 Bank 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 Bank is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at the Bank are classified as operating leases.

The Bank as a lessor

In the case of operating leases, the leased asset is reported by the lessor in 'Property and equipment' 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'.

The Bank as a lessee

As a lessee, the Bank 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.

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'.

Intangible assets

The Bank's intangible assets include computer software, licences, know-how 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 Bank.

Costs of internally generated software are capitalised if the Bank 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.

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

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

The Bank 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.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash generating unit's (CGU) 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank'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 Bank 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. They also include service cost for severance payment.

(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.

(viii) Depreciation and amortisation

This line item comprises depreciation of property and equipment, and amortisation of intangible assets.

(ix) 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.

(x) Net impairment loss on financial assets

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.

(xi) Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Bank'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 separate 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:

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 Bank 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 Bank 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. 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 part 'Impairment of non-financial assets (property and equipment, 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 Bank 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 43 Contingent assets and liabilities. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 43 Contingent assets and liabilities.

Leases

From the Bank'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 Bank 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 Bank's financial statements.

Application of other standards and amendments had no material effect on the financial statements of the Bank.

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 Bank 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 Bank'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 Bank'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 Česká spořitelna's IFRS 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 Bank'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 Bank's financial statements.

The standards and interpretations shown below were issued by the IASB but are not yet endorsed by European Union ("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 Bank, 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 Bank 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 Bank 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 Bank 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 cashflows 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 Bank expects that the structure of the financial statements (both main components and explanatory notes) will have to be adapted, notably in the light of the new reporting and disclosure requirements of IFRS7, as triggered by IFRS9. Such adaptations 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 Bank 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 Bank'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 Bank's financial statements will be evaluated.

C. Notes to the statement of comprehensive income and the 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	11	42
Available-for-sale financial assets	687	646
Loans and receivables	20,612	22,293
Held-to-maturity investments	4,599	4,791
Derivatives – Hedge accounting, interest rate risk	74	31
Other assets	7	6
Total interest income	26,244	27,911
Interest expenses		
Financial liabilities held for trading	(212)	(34)
Financial liabilities measured at amortised cost	(2,033)	(3,410)
Derivatives – Hedge accounting, interest rate risk	305	353
Total interest expenses	(1,940)	(3,091)
Net interest income	24,304	24,820

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to CZK 25,979 million (2014: CZK 27,767 million) and the total interest expense to CZK (1,728) million (2014: CZK (3,057) million).

Net interest income for these items is therefore CZK 24,251 million (2014: CZK 24,710 million). Accrued Interest income on impaired financial assets amounted to CZK 418 million (2014: CZK 517 million).

2. Net fee and commission income

in CZK million	2015	2014
Securities	1,020	829
Own issues	158	122
Transfer orders	862	707
Clearing and settlement	248	302
Asset management	146	153
Custody	146	126
Payment services	5,060	5,709
Card business	810	1,023
Other	4,250	4,686
Customer resources distributed but not managed	749	947
Insurance products	489	577
Building society brokerage	212	322
Foreign exchange transactions	–	–
Other	48	48
Lending business	1,956	2,495
Loan commitments given, loan commitments received	55	57
Guarantees given, guarantees received	187	192
Other lending business	1,714	2,246
Other	(45)	(75)
Net fee and commission income	9,280	10,486

3. Dividend income

in CZK million	2015	2014
Financial assets – designated at fair value through profit or loss	10	11
Financial assets – available for sale	32	29
Dividend income from equity investments	385	601
Dividend income	427	641

4. Net trading and fair value result

in CZK million	2015	2014
Net trading result	3,098	2,372
Securities and derivatives trading	2,092	1,447
Foreign exchange transactions	1,006	925
Result from financial assets and liabilities designated at fair value through profit or loss	(113)	(44)
Result from measurement/sale of financial assets designated at fair value through profit or loss	(22)	98
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	3,016	2,342

With effect from 4 February 2008, the Bank 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 Bank's liquidity management purposes (money market), is regularly transferred to Erste Group Bank using back – to – back transactions. Trading gains (i.e. from 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 the 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
Other operating leases	116	106
Rental income from investment properties & other operating leases	116	106

6. General administrative expenses

in CZK million	2015	2014
Personnel expenses	(7,713)	(7,561)
Wages and salaries	(5,497)	(5,442)
Compulsory social security	(1,723)	(1,685)
Other personnel expenses	(493)	(434)
Other administrative expenses	(7,434)	(7,155)
Deposit insurance contribution	(955)	(873)
IT expenses	(2,796)	(2,631)
Expenses for office space	(1,431)	(1,407)
Office operating expenses	(681)	(690)
Advertising / marketing	(824)	(724)
Legal and consulting costs	(251)	(275)
Sundry administrative expenses	(496)	(555)
Depreciation and amortization	(1,857)	(1,937)
Software and other intangible assets	(749)	(745)
Owner occupied real estate	(673)	(654)
Office furniture and equipment and sundry property and equipment	(493)	(538)
General administrative expenses	(17,004)	(16,653)

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	9 473	9 448

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 sale of loans and receivables	3	3
From repurchase of liabilities measured at amortised cost	(3)	(19)
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	324	149

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

in CZK million	2015	2014
Loans and receivables	(2,172)	(3,288)
Allocation to risk provisions	(4,018)	(5,243)
Release of risk provisions	1,511	1,679
Direct write-offs	(11)	(10)
Recoveries recorded directly to the income statement	346	286
Financial assets – held to maturity	2	4
Net impairment loss on financial assets not measured at fair value through profit or loss	(2,170)	(3,284)

9. Other operating result

in CZK million	2015	2014
Result from properties/moveables/other intangible assets other than goodwill	(391)	(240)
Allocation to/release of other provision	(2)	(32)
Allocation to/release of provisions for commitments and guarantees given	(157)	101
Other taxes	(50)	(60)
Result from other operating expenses/income	(146)	(159)
Other operating result	(746)	(390)

10. Taxes on income

Taxes on income are made up of current taxes on income 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 / income	(3,475)	(3,437)
current period	(3,432)	(3,367)
prior period	(43)	(70)
Deferred tax expense / income	72	21
current period	72	21
Total	(3,403)	(3,416)

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

in CZK million	2015	2014
Pre-tax profit/loss	17,547	18,217
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,334)	(3,461)
Non-taxable income	74	403
Non-deductible expenses	(108)	(328)
Other	8	40
Prior period over/(under) accrual	(43)	(70)
Total	(3,403)	(3,416)
Effective tax rate	19.39%	18.75%

Tax effects relating to each component of other comprehensive income:

in CZK million	2015			2014		
	Before-tax amount	Tax benefit/(expense)	Net-of-tax amount	Before-tax amount	Tax benefit/(expense)	Net-of-tax amount
Available for sale-reserve	1,508	(286)	1,222	1,589	(302)	1,287
Unrealized profits / (losses) on revaluation	1,787	(339)	1,448	1,667	(317)	1,350
Reclassification adjustments to the income statement	(279)	53	(226)	(78)	15	(63)
Cash flow hedge-reserve	(81)	17	(64)	175	(33)	142
Gains and losses on the hedging instruments	(81)	17	(64)	175	(33)	142
Reclassification adjustments to the income statement	–	–	–	–	–	–
Other comprehensive income	1,427	(269)	1,158	1,764	(335)	1,429

11. Appropriation of profit

Management of the Bank 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 Bank proposed that AT1 (see Note 32 Total equity for description of AT1) distribution would be CZK 659 million from total nominal value of EUR 300 million. Management of the Bank proposed further 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	23,776	21,813
Cash balances at central banks	73,819	26,086
Other demand deposits	3,300	2,258
Cash and cash balances	100,895	50,157

A portion of 'Balances with central banks' includes mandatory reserve deposits in amount of CZK 8,161 million (2014: CZK 12,022 million). Mandatory reserve deposits accrue interest at the CNB's two week repo rate. The Bank 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.

Other demand deposits consist of current accounts and overnight deposits with credit institutions.

Cash and cash equivalents

in CZK million	2015	2014
Cash on hand	23,776	21,813
Nostro accounts at central banks	65,658	14,064
Treasury bills and treasury bonds with maturity of less than three months	3,448	9,910
Nostro accounts with financial institutions	3,300	2,258
Loro accounts with financial institutions	(11,968)	(15,589)
Total cash and cash equivalents	84,214	32,456

13. Derivatives – held for trading

in CZK million	2015			2014		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	509,870	12,466	12,338	581,956	18,821	20,664
Interest rate	314,058	9,922	9,841	311,534	13,939	12,667
Equity	3,552	65	10	7,318	235	13
Foreign exchange	188,015	2,123	2,177	256,900	4,338	7,650
Credit	324	1	1	333	3	3
Commodity	3,921	355	309	5,871	306	331
Derivatives held in the banking book	54,161	1,718	2,670	–	–	–
Interest rate	9,818	1,073	23	–	–	–
Foreign exchange	44,343	645	2,647	–	–	–
Total	564,031	14,184	15,008	581,956	18,821	20,664

In 2015 the Bank 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 instruments classified as trading assets amounted to CZK 100 million CZK (2014: 1,346 million CZK).

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

in CZK million	2015	2014
Equity instruments	38	344
Debt securities	316	335
General governments	–	–
Credit institutions	316	335
Financial assets designated at fair value through profit and loss	354	679

16. Financial assets – available for sale

in CZK million	2015	2014
Equity instruments	2,183	763
Debt securities	75,613	98,270
General governments	63,850	89,083
Credit institutions	6,443	6,644
Other financial corporations	270	278
Non-financial corporations	5,050	2,265
Financial assets – available for sale	77,796	99,033

Equity instruments classified as available for sale amounted to CZK 2,183 million CZK (2014: 763 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

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	2015	2014	2015	2014	2015	2014
General governments	139,065	127,934	(1)	(5)	139,064	127,929
Credit institutions	11,108	11,856	(2)	(1)	11,106	11,855
Other financial corporations	852	472	(1)	–	851	472
Non-financial corporations	664	1,073	(3)	(3)	661	1,070
Financial assets – held to maturity	151,689	141,335	(7)	(9)	151,682	141,326

18. Securities

in CZK million	Loans and advances to customers and credit institutions		Trading assets		Financial assets						Total	
					At fair value through profit or loss		Available for sale		Held to maturity			
	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	316	335	75,612	98,270	151,682	141,326	230,514	244,773
Listed	–	–	79	2,269	–	–	65,341	63,539	137,393	125,118	202,813	190,926
Unlisted	2,285	1,698	540	875	316	335	10,271	34,731	14,289	16,208	27,701	53,847
Equity-related securities	–	–	11	1	38	344	2,126	763	–	–	2,175	1,108
Listed	–	–	11	1	–	294	502	–	–	–	513	295
Unlisted	–	–	–	–	38	50	1,624	763	–	–	1,662	813
Equity holdings	–	–	–	–	–	–	58	8,029	–	–	58	8,029
Total	2,285	1,698	630	3,145	354	679	77,796	107,062	151,682	141,326	232,747	253,910

Investment funds are disclosed within equity-related securities.

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	32,403	(1)	(4)	32,398
Credit institutions	32,403	(1)	(4)	32,398
Total	34,134	(1)	(13)	34,120
As of 31 December 2014				
Debt securities	1,356	–	(7)	1,349
Credit institutions	1,356	–	(7)	1,349
Loans and receivables	35,886	(1)	(1)	35,884
Credit institutions	35,886	(1)	(1)	35,884
Total	37,242	(1)	(8)	37,233

As at 31 December 2015, the Bank 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 901 million).

Allowances for loans and receivables to credit institutions

in CZK million	As of Dec 14	Allocations	Release	Transfer between allowances	As of 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 Dec 13	Allocations	Release	Transfer between allowances	As of 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	509,313	(13,353)	(1,608)	494,352
General governments	19,934	(1)	(1)	19,932
Other financial corporations	25,107	(127)	(17)	24,963
Non-financial corporations	191,239	(6,528)	(969)	183,742
Households	273,033	(6,697)	(621)	265,715
Total	509,878	(13,353)	(1,610)	494,915
As of 31 December 2014				
Debt securities with customers	342	–	–	342
Non-financial corporations	342	–	–	342
Loans and receivables to customers	481,691	(15,085)	(1,423)	465,183
General governments	20,418	(4)	(1)	20,413
Other financial corporations	30,473	(132)	(32)	30,309
Non-financial corporations	174,945	(6,738)	(864)	167,343
Households	255,855	(8,211)	(526)	247,118
Total	482,033	(15,085)	(1,423)	465,525

Allowances for loans and receivables to customers

in CZK million	As of	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of	Recoveries of amounts previously written off	Amounts written off
	Dec 14							Dec 15		
Specific allowances	(15,085)	(3,315)	3,601	1,000	418	1	27	(13,353)	346	(11)
Loans and receivables to customers	(15,085)	(3,315)	3,601	1,000	418	1	27	(13,353)	346	(11)
General governments	(2)	(8)	–	9	–	–	–	(1)		
Other financial corporations	(131)	(8)	–	12	–	–	–	(127)		
Non-financial corporations	(6,741)	(1,782)	1,147	637	184	–	27	(6,528)	217	(2)
Households	(8,211)	(1,517)	2,454	342	234	1	–	(6,697)	129	(9)
Collective allowances	(1,423)	(691)	–	503	–	–	1	(1,610)	–	–
Debt securities with customers				–	–	–	–	(2)		
Non-financial corporations		(2)	–	–	–	–	–	(2)		
Loans and receivables to customers	(1,423)	(689)	–	503	–	–	1	(1,608)	–	–
General governments	(1)	(1)	–	1	–	–	–	(1)	–	–
Other financial corporations	(32)	(40)	–	55	–	–	–	(17)	–	–
Non-financial corporations	(865)	(519)	–	414	–	–	1	(969)	–	–
Households	(525)	(129)	–	33	–	–	–	(621)	–	–
Total	(16,508)	(4,006)	3,601	1,503	418	1	28	(14,963)	346	(11)

in CZK million	As of	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of	Recoveries of amounts previously written off	Amounts written off
	Dec 13							Dec 14		
Specific allowances	(15,316)	(4,573)	3,561	1,043	517	(303)	(14)	(15,085)	286	(10)
Loans and receivables to customers	(15,316)	(4,573)	3,561	1,043	517	(303)	(14)	(15,085)	286	(10)
General governments	(19)	(5)	–	22	–	–	–	(2)	–	–
Other financial corporations	–	(13)	–	5	–	(123)	–	(131)	–	–
Non-financial corporations	(7,150)	(2,420)	1,999	833	183	(172)	(14)	(6,741)	179	(3)
Households	(8,147)	(2,135)	1,562	183	334	(8)	–	(8,211)	107	(7)
Collective allowances	(1,363)	(589)	–	533	–	–	(4)	(1,423)	–	–
Loans and receivables to customers	(1,363)	(589)	–	533	–	–	(4)	(1,423)	–	–
General governments	–	–	–	–	–	(1)	–	(1)	–	–
Other financial corporations	–	(6)	–	15	–	(41)	–	(32)	–	–
Non-financial corporations	(876)	(464)	–	397	–	82	(4)	(865)	–	–
Households	(487)	(119)	–	121	–	(40)	–	(525)	–	–
Total	(16,679)	(5,162)	3,561	1,576	517	(303)	(18)	(16,508)	286	(10)

Related Party's provisions for doubtful debts related to the amount of outstanding balances were CZK 345 million (2014: CZK 345 million).

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)	13,249	670	166
Interest rate	8,000	342	(6)	12,071	670	22
Foreign exchange	–	–	–	1,178	–	144
Cash flow hedge	29,806	321	(489)	7,550	208	3
Interest rate	21,137	321	(97)	7,550	208	3
Foreign exchange	8,669	–	(392)	–	–	–
Total	37,806	663	(495)	20,799	878	169

22. Property, equipment and other assets

a) At Cost

in CZK million	Property and equipment – Acquisition and production costs			
	Land and buildings (used by the Bank)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2014	20,579	4,700	2,640	27,919
Additions in current year (+)	539	239	149	927
Disposals (-)	(552)	(298)	(580)	(1,430)
Reclassification (+/-)	–	(28)	28	–
Balance as of 31 Dec 2014	20,566	4,613	2,237	27,416
Additions in current year (+)	516	204	88	808
Disposals (-)	(659)	(284)	(537)	(1,480)
Reclassification (+/-)	–	(6)	6	–
Balance as of 31 Dec 2015	20,423	4,527	1,794	26,744

b) Accumulated Depreciation

in CZK million	Property and equipment – Accumulated depreciation			
	Land and buildings (used by the Bank)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2014	(8,616)	(3,342)	(2,229)	(14,187)
Depreciation (-)	(654)	(326)	(212)	(1,192)
Disposals (+)	330	284	580	1,194
Reversal of impairment (+)	(174)	(1)	(40)	(215)
Impairment (-)	–	3	–	3
Reclassification (+/-)	–	(39)	39	–
Balance as of 31 Dec 2014	(9,114)	(3,421)	(1,862)	(14,397)
Depreciation (-)	(673)	(291)	(144)	(1,108)
Disposals (+)	512	276	536	1,324
Impairment (-)	(617)	–	–	(617)
Reversal of impairment (+)	1	–	–	1
Reclassification (+/-)	–	–	–	–
Balance as of 31 Dec 2015	(9,891)	(3,436)	(1,470)	(14,797)

c) Carrying Amounts

in CZK million

	Property and equipment			
	Land and buildings (used by the Bank)	Office and plant equipment/ other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2014	11,963	1,358	411	13,732
Balance as of 31 Dec 2014	11,452	1,192	375	13,019
Balance as of 31 Dec 2015	10,532	1,091	324	11,947

The balances as at 31 December 2015 shown above include CZK 464 million (2014: CZK 567 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 4,788 million as at 31 December 2015 (2014: CZK 5,110 million).

23. Intangible assets

a) At Cost

in CZK million

	Acquisition and production costs		
	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2014	8,612	6,229	14,841
Additions in current year (+)	937	90	1,027
Disposals (-)	(223)	(105)	(328)
Reclassification (+/-)	105	(105)	–
Balance as of 31 Dec 2014	9,431	6,109	15,540
Additions in current year (+)	1,079	63	1,142
Disposals (-)	(112)	(529)	(641)
Reclassification (+/-)	27	(27)	–
Balance as of 31 Dec 2015	10,425	5,616	16,041

b) Amortisation

in CZK million

	Amortisation		
	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2014	(6,061)	(5,737)	(11,798)
Amortisation charge (-)	(640)	(105)	(745)
Disposals (+)	223	105	328
Impairment (-)	(25)	(11)	(36)
Balance as of 31 Dec 2014	(6,503)	(5,748)	(12,251)
Amortisation charge (-)	(658)	(91)	(749)
Disposals (+)	110	528	638
Impairment (-)	(3)	(1)	(4)
Balance as of 31 Dec 2015	(7,054)	(5,312)	(12,366)

c) Carrying Amounts

in CZK million	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2014	2,551	492	3,043
Balance as of 31 Dec 2014	2,928	361	3,289
Balance as of 31 Dec 2015	3,371	304	3,675

Other intangible assets include licenses and know-how. In addition, the item includes CZK 1,104 million in intangibles under construction as at 31 December 2015 (2014: CZK 880 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 6,399 million as at 31 December 2015 (2014: CZK 6,879 million).

24. Investments in subsidiaries and associates

As of 31 December 2015	Share capital in MCZK/TEUR	Currency	Ownership %	Voting power in %	Net Carrying amount in MCZK
Investments in subsidiaries					
brokerjet ČS, a.s.	120.0	CZK	100%	100%	79
CEE Property Development Portfolio B.V.	20.0	EUR	20%	20%	–
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	924
CS Investment Limited	0.1	EUR	100%	100%	–
CS Property Investment Limited	120.0	EUR	100%	100%	470
Czech and Slovak Property Fund B.V.	30.0	EUR	20%	20%	745
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	30
Erste Corporate Finance, a.s.	6.0	CZK	100%	100%	15
Erste Energy Services, a.s.	2.0	CZK	100%	100%	103
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	30
Factoring České spořitelny, a.s.	114.0	CZK	100%	100%	985
ČS do domu, a.s.	4.0	CZK	100%	100%	–
Česká spořitelna – penzijní společnost, a.s.	350.0	CZK	100%	100%	841
Mopet, a.s.	102	CZK	100%*	100%	39
Realitní společnost ČS, a.s.	2.0	CZK	100%	100%	–
REICO investiční společnost ČS, a.s.	25.2	CZK	100%	100%	110
sAutoleasing, a.s.	500.0	CZK	100%	100%	1,694
s IT Solutions CZ, s.r.o.	0.2	CZK	100%*	100%	28
Erste Leasing, a.s.	200.0	CZK	100%	100%	742
Stavební spořitelna ČS, a.s.	750.0	CZK	100%	100%	1,515
Věrnostní program IBOD, a.s.	2.0	CZK	100%	100%	–
Investicniweb s.r.o	0.1	CZK	100%*	100%	3
Holding Card Service, s.r.o.	0.2	CZK	100%	100%	0.2
Subtotal					8,353
Investments in associates					
CBCB-Czech Banking Credit Bureau, a.s.	1.2	CZK	20%	20%	0.24
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	0.08
ÖCI-Unternehmensbeteiligungs	18.2	EUR	40%	40%	0.19
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	0.08
První certifikační autorita, a.s.	20.0	CZK	23.25%	23.25%	7.94
s IT Solutions SK, spol. s r.o.	6.8	EUR	23.50%	23.50%	–
Subtotal					9
Foreign exchange differences hedges relating to equity investments denominated in EUR					70
Total					8,432

*) Increase (movement) in ownership was not registered by the Commercial Register as of 31 December 2015.

As of 31 December 2014	Share capital in MCZK/TEUR	Currency	Ownership %	Voting power in %	Net Carrying amount in MCZK
Investments in subsidiaries					
brokerjet ČS, a.s.	120.0	CZK	100%	100%	129
CEE Property Development Portfolio B.V.	20.0	EUR	20%	20%	–
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	842
CS Investment Limited	0.1	EUR	100%	100%	–
CS Property Investment Limited	120.0	EUR	100%	100%	471
Czech and Slovak Property Fund B.V.	30.0	EUR	20%	20%	736
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	30
Erste Corporate Finance, a.s.	6.0	CZK	100%	100%	15
Erste Energy Services, a.s.	2.0	CZK	100%	100%	73
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	30
Factoring České spořitelny, a.s..	114.0	CZK	100%	100%	986
ČS do domu, a.s.	4.0	CZK	100%	100%	–
Česká spořitelna – penzijní společnost, a.s.	350.0	CZK	100%	100%	841
Mopet, a.s.	76.8	CZK	93.91%	93.91%	13
Realitní společnost ČS, a.s.	2.0	CZK	100%	100%	–
REICO investiční společnost ČS, a.s.	25.2	CZK	100%	100%	–
sAutoleasing, a.s.	500.0	CZK	100%	100%	1,423
s IT Solutions CZ, s.r.o.	0.2	CZK	40%	40%	4
Erste Leasing, a.s.	200.0	CZK	100%	100%	742
Stavební spořitelna ČS, a.s.	750.0	CZK	100%	100%	1,515
Věrnostní program IBOD, a.s.	2.0	CZK	100%	100%	10
Subtotal					7,860
Investments in associates					
CBCB-Czech Banking Credit Bureau, a.s.	1.2	CZK	20%	20%	0.24
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	0.08
ÖCI-Unternehmensbeteiligungs	18.2	EUR	40%	40%	0.19
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	0.08
První certifikační autorita, a.s.	20.0	CZK	23.25%	23.25%	7.94
s IT Solutions SK, spol. s r.o.	6.8	EUR	23.50%	23.50%	–
Subtotal					9
Foreign exchange differences hedges relating to equity investments denominated in EUR					160
Total					8,029

Name of company	Registered office	Principal activities
Investments in subsidiaries		
brokerjet ČS, a.s.	Prague	Investment services
CEE Property Development Portfolio B.V.	The Netherlands	Real estate investment
CEE Property Development Portfolio 2 a.s.	Prague	Real estate investment
CS Investment Limited	Guernsey	Investments and equity holdings
CS Property Investment Limited	Cyprus	Investments in securities, issuance of loans
Czech and Slovak Property Fund B.V.	The Netherlands	Real estate investment
Czech TOP Venture Fund B.V.	The Netherlands	Management and financing services
Erste Corporate Finance, a.s.	Prague	Consultancy
Erste Energy Services, a.s.	Prague	Electricity and gas trading
Erste Grantika Advisory, a.s.	Brno	Business consulting
Factoring České spořitelny, a.s.	Prague	Factoring
ČS do domu, a.s.	Prague	Financial advisory network
Česká spořitelna – penzijní společnost, a.s.	Prague	Pension insurance
Mopet, a.s.	Prague	Mobile payment services
Realitní společnost ČS, a.s.	Prague	Real estate activities
REICO investiční společnost ČS, a.s.	Prague	Real estate investment
sAutoleasing, a.s.	Prague	Leasing
s IT Solutions CZ, s.r.o.	Prague	Provision of software and advisory involving hardware and software
Erste leasing, a.s.	Znojmo	Leasing
Stavební spořitelna ČS, a.s.	Prague	Construction savings bank
Věrnostní program IBOD, a.s.	Prague	Management of loyalty program
Investicniweb s.r.o	Prague	Web portal for investors
Holding Card Service, s.r.o.	Prague	Property Management
Investments in associates		
CBCB-Czech Banking Credit Bureau, a.s.	Prague	Provision of information from the client information banking register
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	Foreign payments services
ÖCI-Unternehmensbeteiligungs	Austria	Provision of management services
Procurement Services CZ, s.r.o.	Prague	Provision of procurement services
První certifikační autorita, a.s.	Prague	Digital signature certification services
s IT Solutions SK, spol. s r.o.	Slovakia	Provision of software

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.

in CZK million	Tax assets 2015	Tax assets 2014	Tax liabilities 2015	Tax liabilities 2014	Net variance 2015			Net variance 2014		
					Total	Through profit or loss	Through other comprehensive income	Total	Through profit or loss	Through other comprehensive income
Temporary differences relate to the following items:										
Loans and advances to credit institutions and customers	–	–	351	248	103	103	–	60	60	–
Financial assets – available for sale	–	–	(765)	(479)	(286)	–	(286)	(302)	–	(302)
Property and equipment	–	–	(256)	(227)	(29)	(29)	–	21	21	–
Sundry provisions	–	–	131	108	23	23	–	(32)	(32)	–
Other	–	–	30	38	(8)	(25)	17	(61)	(28)	(33)
Total deferred taxes	–	–	(509)	(312)	(197)	72	(269)	(314)	21	(335)
Current taxes	689	499	–	–						
Total taxes	689	499	(509)	(312)						

26. Other assets

in CZK million	2015	2014
Prepayments and accrued income	261	328
Sundry assets	935	1,531
Other assets	1,196	1,859

‘Sundry assets’ consist mainly of not invoiced receivables from customers relations of CZK 526 million (2014: CZK 510 million).

In 2014 ‘Sundry assets’ included mainly Receivables from withdrawals from ATMs of CZK 808 million, Receivables for payments with payment cards of CZK 254 million and Not invoiced receivables from customers relations of CZK 510 million.

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.

Decrease in deposits in 2015 comparing to 2014 is influenced by the clients' (i.e. other financial corporations) liquidity.

There are no short positions as of 31 December 2015.

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 designed 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.

in CZK million	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	
	2015	2014	2015	2014
Financial liabilities – at fair value through profit or loss				
Deposits from banks	–	–	–	–
Deposits from customers	(25)	(14)	7	32
Debt securities issued	–	(4)	–	–
Other financial liabilities	–	–	–	–

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	729,007	660,631
Deposits from banks	92,313	73,397
Deposits from customers	636,694	587,234
Debt securities issued	28,319	38,710
Bonds	28,319	38,448
Subordinated debt	–	262
Other financial liabilities	2,119	2,475
Financial liabilities measured at amortised costs	759,445	701,816

Other financial liabilities included mainly payables to creditors in amount of CZK 748 million (2014: CZK 943 million), payables to employees including social security charges in amount of CZK 515

million (2014: CZK 477 million) and Payables to securities clearing entities CZK 496 million (2014: CZK 531 million).

Deposits from banks

in CZK million	2015	2014
Current accounts/Overnight deposits	11,968	15,589
Term deposits	67,355	55,669
Repurchase agreements	12,990	2,139
Deposits from banks	92,313	73,397

Deposits from customers

in CZK million	2015	2014
Current accounts/Overnight deposits	597,458	533,187
General governments	44,619	42,035
Other financial corporations	16,651	15,912
Non financial corporations	114,714	93,015
Households	421,474	382,225
Term deposits	33,289	42,345
General governments	37	104
Other financial corporations	269	732
Non financial corporations	1,682	2,283
Households	31,301	39,226
Repurchase agreements	5,947	11,702
General governments	5,947	8,042
Other financial corporations	–	3,660
Non financial corporations	–	–
Deposits from customers	636,694	587,234
General governments	50,603	50,181
Other financial corporations	16,920	20,304
Non financial corporations	116,396	95,298
Households	452,775	421,451

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%	–	7,620
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	7,829	7,887
Mortgage bonds	CZ0002001068	June 2007	October 2015	4.50%	–	759
Mortgage bonds	CZ0002001134	August 2007	August 2017	floating	3,002	3,003
Mortgage bonds	CZ0002001191	October 2007	October 2022	floating	2,002	2,002
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,095	1,977
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	3,999	3,999
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	1,181	1,181
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					28,319	38,448

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 issues 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	1,776	1,751
Commitments and guarantees given	402	245
Provisions for guarantees – off balance (defaulted customers)	139	67
Provisions for guarantees – off balance (non defaulted customers)	263	178
Other provisions	304	327
Provisions for onerous contracts	16	1
Other	288	326
Provisions	2,482	2,323

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

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

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

31. Other liabilities

in CZK million	2015	2014
Deferred income and accrued expenses	321	365
Sundry liabilities	3,651	3,437
Other liabilities	3,972	3,802

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).

32. Total equity

in CZK million	2015	2014
Subscribed capital	15,200	15,200
Share capital	15,200	15,200
Additional paid-in capital	12	12
Other capital instruments	8,107	–
Retained earnings and other reserves	92,017	88,099
Total equity¹⁾	115,336	103,311

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 AT1 within financial liabilities is not met from the following reasons:

- Based on the AT1 features (i.e. conditions of issue) the bank 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.

Segment reporting

The Bank 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 Bank'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 Česká spořitelna's finance group for which it is primarily responsible.

Retail

The retail segment comprises branch networks within which the Bank sells products to citizens, traders, entrepreneurs and micro-businesses.

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).

Real Estate

The real estate segment covers commercial property projects financed by Česká spořitelna.

Asset and Liability Management and Local Corporate Center (ALM&LCC)

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.

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

in CZK million	Retail			SME		Real estate		ALM & LCC		Large Corporate		GM		Total group
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net interest income	18,761	17,817	2,829	2,823	823	728	1,094	2,595	735	720	62	137	24,304	24,820
Net fee and commission income	7,821	9,219	758	920	68	113	(84)	(339)	344	489	373	84	9,280	10,486
Dividend income	–	–	–	–	–	–	427	641	–	–	–	–	427	641
Net trading and fair value result	493	470	268	200	21	23	633	48	66	35	1,535	1,566	3,016	2,342
Rental income from investment properties & other operating leases	–	–	–	–	–	–	116	106	–	–	–	–	116	106
General administrative expenses	(13,499)	(13,552)	(1,681)	(1,581)	(121)	(107)	(716)	(567)	(404)	(357)	(583)	(489)	(17,004)	(16,653)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	–	–	–	90	–	–	324	41	–	19	–	(1)	324	149
Net impairment loss on financial assets not measured at fair value through profit or loss	(1,219)	(2,178)	(501)	(616)	(238)	(247)	32	(29)	(244)	(214)	–	–	(2,170)	(3,284)
Other operating result	18	35	–	–	–	–	(746)	(427)	(18)	–	–	2	(746)	(390)
Pre-tax result from continuing operations	12,375	11,811	1,673	1,836	553	510	1,080	2,069	479	692	1,387	1,299	17,547	18,217
Taxes on income	(2,351)	(2,244)	(318)	(349)	(105)	(97)	(269)	(348)	(95)	(131)	(265)	(246)	(3,403)	(3,416)
Post-tax result from continuing operations	10,024	9,567	1,355	1,487	448	413	811	1,721	384	561	1,122	1,053	14,144	14,801
Net result for the period	10,024	9,567	1,355	1,487	448	413	811	1,721	384	561	1,122	1,053	14,144	14,801
Operating income	27,075	27,506	3,855	3,943	912	864	2,186	3,051	1,145	1,244	1,970	1,787	37,143	38,395
Operating expenses	(13,499)	(13,552)	(1,681)	(1,581)	(121)	(107)	(716)	(567)	(404)	(357)	(583)	(489)	(17,004)	(16,653)
Operating result	13,576	13,954	2,174	2,362	791	757	1,470	2,484	741	887	1,387	1,298	20,139	21,742
Risk-weighted assets (credit risk, eop)	129,287	119,107	106,166	109,278	35,229	29,088	32,342	24,571	45,847	42,865	12,486	15,731	361,357	340,636
Average allocated capital	12,938	12,303	8,453	9,130	2,522	2,402	6,660	6,571	3,075	3,568	1,796	2,038	35,444	36,012
Cost/income ratio	49.9%	49.3%	43.6%	40.1%	13.3%	12.4%	32.8%	18.6%	35.3%	28.7%	29.6%	27.4%	45.8%	43.4%
Return on allocated capital	77.5%	77.8%	16.0%	16.3%	17.8%	17.1%	12.2%	26.2%	12.5%	15.7%	62.5%	51.6%	39.9%	41.1%
Total assets (eop)	317,773	295,870	121,667	119,699	37,110	35,413	365,866	332,723	40,955	35,419	17,907	25,714	901,278	844,838
Total liabilities excluding equity (eop)	502,386	483,298	80,901	58,660	5,008	3,946	159,026	149,772	25,895	23,600	12,728	22,251	785,942	741,527

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

34. Leases

a) Finance leases

The Bank leases no real estate and moveable property to other parties under finance lease arrangements.

b) Operating leases

Under operating leases, the Bank leases both real estate and moveable property from other parties.

Operating leases from the view of the Bank 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

Lease payments from operating leases recognised as expense in the period amounted to CZK 653 million (2014: CZK 617 million)

35. Related party transactions

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

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 Bank is controlled by Erste Group Bank over which DIE ERSTE österreichische Spar-Casse Privatstiftung exercises significant influence. The remaining investment in Erste Group Bank is held by minority shareholders and institutional investors via publicly traded shares on the stock exchanges in Vienna, Prague and Bucharest.

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

Pursuant to the definitions outlined above, the categories of the Bank's related parties principally comprise Erste Group Bank, the Bank's subsidiaries, which include both direct and indirect investments with controlling influence, 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 except for loans to finance investment property and property under construction.

Guarantees received represent payment guarantees related to the Bank's credit exposures. Issued guarantees relate to amounts owed by the Bank's subsidiaries to financial institutions outside of the Group. They are provided under standard market conditions.

Loans and advances to and amounts owed to related parties

in CZK million	2015				2014			
	Erste Group Bank AG	Investments in subsidiaries	Other related parties	Members of the Board of Directors and Supervisory Board	Erste Group Bank AG	Investments in subsidiaries	Other related parties	Members of the Board of Directors and Supervisory Board
Assets								
Cash and cash balances	2,495	–	22	–	1,636	–	27	–
Financial assets – held for trading	4,374	195	–	–	5,910	82	491	–
Loans and receivables to credit institutions	25,610	4	2	–	26,355	–	1	–
Loans and receivables to customers	–	16,767	195	20	–	16,954	211	10
Derivatives Hedge Accounting	6	–	–	–	2	–	–	–
Other assets	–	130	33	–	–	98	40	–
Liabilities								
Financial liabilities held for trading	4,032	64	–	–	5 967	10	–	–
Financial liabilities measured at amortised costs	43,736	26,432	1 032	21	14,990	39,307	1,774	21
Derivatives Hedge Accounting	11							
Other Liabilities	59	117	41	–	75	149	61	–
Profit&Loss statement								
Net interest income	439	(38)	5	–	424	(139)	5	–
Net fee and commission income	10	151	457	–	5	225	365	–
Dividend income	–	379	–	–	–	593	1	–
Net trading and fair value result	607	114	(122)	–	1,434	5	65	–
Rental income from investment properties & other operating lease	–	20	15	–	–	43	12	–
Other administrative expenses	(160)	(967)	(385)	(88)	(151)	(1,022)	(295)	(68)
Other operating result	20	49	21	–	12	46	6	–
Loans commitments, financial guarantees and other commitments given	14	5,253	99	–	20	5,891	39	–
Loan commitments, financial guarantees and other commitments received	–	–	–	–	576	–	771	–

‘Other related parties’ include relationships to investments to companies wholly or partly owned by Erste Group Bank.

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

in CZK million	2015		2014	
	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	18,862	8,008	9,366
Total – repurchase agreements	16,504	18,937	12,483	13,841
Securities lendings				
Financial assets – held to maturity	–	–	7,395	9,248
Total – securities lendings	–	–	7,395	9,248
Total	16,504	18,937	19,878	23,089

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

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 Bank, a.s., these assets and liabilities relate to repo transactions.

in CZK million	2015			2014		
	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

in CZK million	Gross amounts in balance sheet	Amounts set off against financial liabilities	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	14,847	–	14,847	8,985	1,824	–	4,038
Reverse repurchase agreements	560	–	560	–	–	655	(95)
Total	15,407	–	15,407	8,985	1,824	655	3,943

Financial liabilities subject to offsetting and potential offsetting agreements in 2015

in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	15,503	–	15,503	8,985	171	–	6,347
Repurchase agreements	18,937	–	18,937	–	–	16,504	2,433
Total	34,440	–	34,440	8,985	171	16,504	8,780

Financial assets subject to offsetting and potential offsetting agreements in 2014

in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	19,699	–	19,699	11,578	5,175	–	2,946
Reverse repurchase agreements	817	–	817	–	–	817	–
Total	20,516	–	20,516	11,578	5,175	817	2,946

Financial liabilities subject to offsetting and potential offsetting agreements in 2014

in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	20,833	–	20,833	11,578	1,138	–	8,117
Repurchase agreements	13,841	–	13,841	–	–	13,793	48
Total	34,674	–	34,674	11,578	1,138	13,793	8,165

The Bank 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 Bank aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

The Bank 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 Bank control and risk management systems have been developed to fulfil external and, in particular, regulatory requirements.

Given Česká spořitelna's business strategy, the key risks are credit risk, market risk, liquidity risk and operational risk. The most significant risk is credit risk. In addition, the investment portfolio of the Bank 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 Bank 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.

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 Bank'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 Bank's overall steering and management system. To ensure all aspects of regulatory requirements and support the Bank's management in pursuing its strategy the main components of this system can be clustered as follows:

- Risk appetite statement
- Risk materiality assessment including 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 the Bank'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 and liquidity 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 Bank, the Bank 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 Bank. The Bank 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 Bank's limit system.

Internal Capital Assessment Process and Stress Testing

With respect to the 'ICAAP', the Bank has been using the Erste Group Bank methodology, which serves as a uniform set of rules for capital management within the Bank.

The Bank methodology is continuously updated in order to reflect the latest trends, best practices and regulatory requirements. The Bank'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 Bank'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 Bank also developed models for other risk

types (business, strategic, reputational and concentration risk). The overall risk of the Bank 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 Bank 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 Bank 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 Bank meets the internal limits approved by the Board of Directors with a sufficient buffer.

The Bank 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 Bank 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%

*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)	95,627
Tier 1 + Tier 2 capital	96,129
Risk exposure to credit risk	389,127
Risk exposure to market risk	5,476
Risk exposure to operational risk	48,451
Total risk exposure	443,054
Capital adequacy ratio for the year (Tier 1 ratio)	21.6%

*Reported figures are based on the methodology, where the Bank 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 Bank meets all capital adequacy requirements as requested by regulators.

38.2 Credit risk

In the course of its business, the Bank 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 Bank applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy defines a comprehensive policy for the Bank'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 Bank's credit exposure is higher than CZK 5 million, and receivables which are individually insignificant. Within these two sub-portfolios the Bank also monitors five customer portfolios for individually significant receivables and 16 product portfolios for individually insignificant receivables. The Bank 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 Bank'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. 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.

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 Bank 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 Bank aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis.

Individually significant loans predominantly include loans from the Bank'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 Bank 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 Bank'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 Bank's retail loans match the 'Retail' asset class (segment) under BASEL II.

Collection of Key Risk Management Information

In managing credit risk, the Bank refers not only to the Bank's portfolio information but also the portfolio information of other members of the Group. The Bank 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 Bank 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 Bank allocates internal ratings to all clients with credit exposures. The Bank 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 Bank 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 Bank 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 Bank 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 Bank'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 Bank uses this information as an additional source of information. Based upon its historical experience, the Bank has created a transfer bridge between its own internal ratings and the external ratings.

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

For the purpose of external reporting, internal rating grades of the Bank are grouped into the following four risk categories:

Low risk: Typically regional customers with well-established and rather long-standing relationships with the Bank 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, the Bank applies the customer view. Accordingly, if a 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 Bank may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Bank strives to protect its revenues and capital from concentration risk.

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

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

Impairment Allowance for Loan Losses

The Bank recognises impairment allowances for incurred losses. These losses are determined and recognised in accordance with IAS 39. The Bank 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 Bank defines collateral as assets that can be realized in case the primary source of repayment fails. Collateralisation of the Bank's receivables represents the Bank'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 Bank's loan products, requirements and professional assessment by the Bank's responsible employees. The possibility to pledge the collateral is always assessed before the collateral is accepted by the Bank.

The value of collateral (nominal 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 Bank 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 Bank;
- 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 Bank uses portfolio models for updating base collateral values. In addition, the Bank 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 Bank, which may have an impact on risk level within the credit portfolio.

Stress testing

The Bank 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 Bank 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 Credit risk.

Forborne exposures

The Bank 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 Bank 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 Net Credit Risk by On-balance Sheet and Off-balance Sheet Items

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

In CZK million	2015
Net credit risk exposures relating to on-balance sheet items	
Other demand deposits	3,300
Financial assets held for trading – derivatives	14,184
Financial assets held for trading – debt securities	719
Financial assets designated at fair value through profit or loss – debt securities	316
Available-for-sale financial assets – debt securities	75,613
Loans and advances to banks	34,120
Loans and advances to customers	494,915
General governments	19,932
Other financial corporations	24,963
Non-financial corporations	184,305
Households	265,715
Held-to-maturity investments	151,682
Derivatives – Hedge accounting	663
Credit risk exposure relating to off-balance sheet items	
Irrevocable financial guarantees given	27,778
Irrevocable loan commitments given	86,301
Total	889,593

In CZK million	2014
Net credit risk exposures relating to on-balance sheet items	
Balances at central banks and other demand deposits	28,344
Financial assets held for trading – derivatives	18,821
Financial assets held for trading – debt securities	4,491
Financial assets designated at fair value through profit or loss – debt securities	335
Available-for-sale financial assets – debt securities	98,270
Loans and advances with banks	37,233
Loans and advances with customers	465,525
General governments	20,413
Other financial corporations	30,309
Non-financial corporations	167,685
Households	247,118
Held-to-maturity investments	141,326
Derivatives – Hedge accounting	878
Credit risk exposure relating to off-balance sheet items	
Irrevocable financial guarantees given	27,108
Irrevocable loan commitments given	71,288
Total	893,619

Starting 2015 the Bank 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, 59% of the total exposure is derived from loans and advances to financial institutions and customers (2014: 56%); 26% represents investments in debt securities (2014: 27%).

The Bank 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	224,747	253,932
Contingent liabilities	–	10,267
Total	226,972	266,164

Type of collateral securing the above receivables is as follows:

in CZK million	2015	2014
Guarantees	17,336	27,382
Real estate	192,867	213,808
Other (securities & other financial assets)	16,769	24,974
Total	222,972	266,164

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) Gross Credit risk exposure by industry and financial instrument

The following tables present Bank'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

in CZK million	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments					Contingent liabilities	Credit risk exposure
				Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments		
	At amortised cost			Fair value						
Agriculture and forestry	–	–	10,360	–	–	–	–	106	1,243	11,709
Mining	–	–	1,750	–	–	–	–	–	86	1,837
Manufacturing	–	–	45,520	121	–	–	1,142	452	19,509	66,744
Energy and water supply	–	–	21,201	–	–	–	810	1,000	7,356	30,366
Construction	–	–	6,833	–	–	–	–	12	12,149	18,994
Trade	–	–	29,936	–	–	–	–	146	9,604	39,686
Transport and communication	–	–	12,726	540	–	–	3,099	902	12,286	29,553
Hotels and restaurants	–	–	2,770	–	–	–	–	6	283	3,059
Financial and insurance services	3,300	34,134	24,763	20,408	599	316	11,543	8,429	8,395	111,889
Real estate and housing	–	–	65,428	3	–	–	–	297	4,691	70,419
Services	–	–	10,454	–	–	–	–	36	3,945	14,434
Public administration	–	–	34,531	130,616	120	–	59,019	3,362	2,066	229,716
Education, health and art	–	–	6,156	–	–	–	–	94	786	7,036
Private households	–	–	237,449	–	–	–	–	6	31,679	269,134
Other	–	–	–	–	–	–	–	–	–	–
Total	3,300	34,134	509,878	151,689	719	316	75,613	14,847	114,079	904,576

Gross credit risk exposure by industry and financial instrument in 2014

in CZK million	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments					Contingent liabilities	Credit risk exposure
				Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments		
At amortised cost				Fair value						
Agriculture and forestry	–	–	10,576	–	–	–	–	167	1,094	11,837
Mining	–	–	1,947	–	–	–	–	1	102	2,050
Manufacturing	–	–	37,218	127	–	–	200	634	17,333	55,512
Energy and water supply	–	–	16,543	–	–	–	–	1,049	5,528	23,120
Construction	–	–	6,190	–	–	–	–	19	10,316	16,525
Trade	–	–	29,848	–	–	–	–	170	8,768	38,786
Transport and communication	–	–	10,481	943	–	–	2,065	734	4,036	18,259
Hotels and restaurants	–	–	3,067	–	–	–	–	5	224	3,296
Financial and insurance services	28,344	37,242	29,937	12,328	2,131	335	6,921	12,800	6,544	136,582
Real estate and housing	–	–	63,847	3	–	–	–	357	5,036	69,243
Services	–	–	8,374	–	–	–	–	51	4,498	12,923
Public administration	–	–	19,460	127,934	2,360	–	89,084	3,576	5,401	247,815
Education, health and art	–	–	7,407	–	–	–	–	108	1,369	8,884
Private households	–	–	235,361	–	–	–	–	28	28,147	263,536
Other	–	–	1,777	–	–	–	–	–	–	1,777
Total	28,344	37,242	482,033	141,335	4,491	335	98,270	19,699	98,396	910,145

c) Credit risk exposure by risk category

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

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	819 274	58 789	5 097	21 416	904 576
Share of credit risk exposure	90.6%	6.5%	0.6%	2.4%	100.0%
Total exposure as of 31 Dec 2014	823 411	55 325	10 283	21 126	910 145
Share of credit risk exposure	90.5%	6.1%	1.1%	2.3%	100.0%
Change in credit risk exposure in 2015	(4 136)	3 464	(5 186)	290	(5 569)
Change	(0.5%)	6.3%	(50.4%)	1.4%	(0.6%)

Credit risk exposure by industry and risk category

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

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	10,030	1,289	121	269	11,709
Mining	1,795	36	–	6	1,837
Manufacturing	54,053	8,186	953	3,552	66,744
Energy and water supply	25,993	3,575	484	314	30,366
Construction	13,549	2,897	512	2,036	18,994
Trade	31,314	5,317	390	2,665	39,686
Transport and communication	27,392	1,569	414	178	29,553
Hotels and restaurants	1,339	719	154	847	3,059
Financial and insurance services	108,462	2,799	309	319	111,889
Real estate and housing	53,199	14,357	674	2,189	70,419
Services	9,573	4,261	289	311	14,434
Public administration	228,474	1,207	35	–	229,716
Education, health and art	5,390	1,508	14	124	7,036
Private households	248,711	11,069	748	8,606	269,134
Other	–	–	–	–	–
Total	819,274	58,789	5,097	21,416	904,576

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	10,027	1,397	170	243	11,837
Mining	2,029	14	–	7	2,050
Manufacturing	43,765	7,007	1,945	2,795	55,512
Energy and water supply	18,449	3,360	977	334	23,120
Construction	10,538	3,234	1,118	1,635	16,525
Trade	29,749	6,213	1,277	1,547	38,786
Transport and communication	16,494	877	550	338	18,259
Hotels and restaurants	1,347	873	511	565	3,296
Financial and insurance services	132,319	3,873	177	213	136,582
Real estate and housing	55,771	9,320	1,876	2,276	69,243
Services	9,694	2,407	130	692	12,923
Public administration	245,308	2,461	39	7	247,815
Education, health and art	7,066	1,594	97	127	8,884
Private households	239,078	12,695	1,416	10,347	263,536
Other	1,777	–	–	–	1,777
Total	823,411	55,325	10,283	21,126	910,145

d) Financial Assets Past Their Due Dates

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

As at 31 December 2015 in CZK million	Credit risk exposure				
	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
General governments	4	–	–	–	–
Credit institutions	134	–	–	–	–
Other financial corporations	31	98	1	–	–
Non-financial corporations	4,054	134	63	–	–
Households	1,752	581	283	–	–
Total	5,975	813	347	–	–

As at 31 December 2014 in CZK million	Credit risk exposure				
	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
General governments	18	7	–	2	–
Credit institutions	6	–	–	–	–
Other financial corporations	1	1	–	–	–
Non-financial corporations	1,282	158	79	1	6
Households	3,718	846	381	14	6
Total	5,025	1,012	460	17	12

e) Analysis of Individually Impaired Financial Assets

in CZK million	2015	2014
General governments	6	4
Credit institutions	135	222
Other financial corporations	158	268
Non-financial corporations	10,582	11,736
Households	8,448	11,219
Total	19,329	23,449

f) Exposures with forbearance measures – quantitative information

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

Analysis of performing and non-performing forbearance exposures

2015

in CZK million	Forborne exposures	Performing forbearance exposure	Non-performing forbearance exposure	of which: Defaulted
General governments	5	5	–	–
Non-financial corporations	2,951	308	2,643	2,164
Households	3,444	789	2,655	2,548
Total	6,400	1,102	5,298	4,712

2014

in CZK million	Forborne exposures	Performing forbearance exposure	Non-performing forbearance exposure	of which: Defaulted
Non-financial corporations	2,318	443	1,875	1,043
Households	3,685	1,117	2,568	2,461
Total	6,003	1,560	4,443	3,504

All forbearance measures are reported as a modification of the previous terms and conditions.

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				Provisions	Collateral
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forbearance		
General governments	5	–	–	5	–	–
Households	799	96	2,549	3,444	1,163	1,392
Non-financial corporations	717	71	2,163	2,951	970	1,328
Total	1,521	167	4,712	6,400	2,133	2,720

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				Provisions	Collateral
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forbore		
General governments	–	–	–	–	–	–
Households	1,085	85	2,515	3,685	1,002	1,609
Non-financial corporations	438	12	1,868	2,318	726	458
Total	1,523	97	4,383	6,003	1,728	2,067

The carrying amount of forbore 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	34,120	–	0.0%	37,233	–	0.0%
Other financial corporations	24,963	–	0.0%	30,309	–	0.0%
Non-financial corporations	184,305	1,981	1.1%	167,685	1,592	0.9%
Households	265,715	2,281	0.9%	247,118	2,683	1.1%
Total	529,035	4,267	0.8%	502,758	4,275	0.9%

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

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

in CZK million	2015			2014		
	Specific allowances	Collective allowances	Total	Specific allowances	Collective allowances	Total
Households	1,074	89	1,163	936	66	1,002
Non-financial corporations	860	110	970	665	61	726
Total	1,934	199	2,133	1,601	127	1,728

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

2015

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2015)	–	2,318	3 685	6,003
Inflow (+)	5	1,956	1 484	3,445
Outflow (-)	–	(1,188)	(1 585)	(2,773)
Changes in outstanding (+/-)	–	(135)	(140)	(275)
Closing balance (31 December 2015)	5	2,951	3,444	6,400

2014

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2014)	38	4,702	3,413	8,153
Inflow (+)	–	569	2,320	2,889
Outflow (-)	(38)	(3,205)	(2,004)	(5,247)
Changes in outstanding (+/-)	–	252	(44)	208
Closing balance (31 December 2014)	–	2,318	3,685	6,003

Loss from the forborne exposures

2015

in CZK million	Loss	Direct write-offs
General governments	–	–
Non-financial corporations	92	–
Households	159	–
Total	251	–

2014

in CZK million	Loss	Direct write-offs
General governments	–	–
Non-financial corporations	77	–
Households	199	–
Total	276	–

Interest income from the forborne exposures

in CZK million	2015*)
General governments	1
Non-financial corporations	113
Households	238
Total	352

*) Data for 2014 are not available.

38.3 Market Risk

The Bank 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 Bank 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 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 Bank 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 Bank trades the following instruments:

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

The Bank 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 Bank's Trading book are transferred to the Erste Group Bank portfolio through back-to-back transactions. As such, the market risk arising from the Bank's OTC transactions is managed within the Erste Group Bank portfolio. The Bank 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 Bank's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Bank uses the value at risk (VaR) methodology 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 Bank'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%.

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 Bank 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 Bank is analysed on quarterly basis. The Bank 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 Bank manages the interest rate risk of the Banking book by monitoring the repricing dates of the Bank's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Bank's net interest income.

For monitoring and measuring the Banking book interest rate exposures, the Bank 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 Bank's statement of financial position.

In order to measure the interest rate risk exposure within the trading portfolio, the Bank uses the present value of a basis point ('PVB') 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 Bank 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 Bank 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.

in CZK million	2016		2015	
	Interest rate increase	Interest rate decrease	Interest rate increase	Interest rate decrease
CZK				
Income statement	1,693	(420)	1,264	(321)
Other comprehensive income	(1,580)	879	(1,900)	1,072
EUR				
Income statement	97	(29)	(52)	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 Bank manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition, the Bank 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 Bank uses the VaR concept for measuring the risk arising from open positions in all currency instruments.

Equity Risk

To monitor and manage the equity risk inherent in the trading and Banking books, the Bank 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 are secured on a 'back-to-back' basis with a third party.

38.4 Liquidity Risk

Definition and overview

The liquidity risk is defined in the Bank in line with the principles set out by the Basel Committee on Banking Supervision and Czech National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank 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 the Bank 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 Bank 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 Bank'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). Internally, the ratios are monitored on entity level, and from 2012 on internal targets are set for them. At the end of 2015, both LCR and NSFR for the Bank were above 100%. Since September 2015 the Bank monitors also LCR according to Delegated Act.

In 2013 the Bank introduced Intraday Liquidity Buffer for intraday liquidity risk management. The Buffer consists of highly liquid assets, 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.

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 ALCO. 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

in CZK million	< 1 month		1 -12 months		1-5 years		> 5 years	
	2015	2014	2015	2014	2015	2014	2015	2014
Liquidity GAP	193,858	177,915	(67,314)	(51,679)	(14,931)	(23,398)	(30,054)	(18,721)

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 Bank has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Bank 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 Bank'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	1 week – 1 month	1 – 3 months	3 – 6 months	6 – 12 months
Cash, excess reserve	85,231	–	–	–	–
Liquid assets	177,200	–	–	–	–
Other central bank eligible assets	–	–	–	–	–
Counterbalancing capacity	262,431	–	–	–	–

As at 31 December 2014 in CZK million	< 1 week	1 week – 1 month	1 – 3 months	3 – 6 months	6 – 12 months
Cash, excess reserve	35,304	–	–	–	–
Liquid assets	184,751	–	–	–	–
Other central bank eligible assets	1,556	–	–	–	–
Counterbalancing capacity	221,611	–	–	–	–

The figures above show the total amount of potential liquidity available for the Bank 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	763,476	766,658	675,794	28,742	40,205	21,917
Deposits by banks	92,313	92,188	37,572	13,328	27,033	14,255
Customer deposits	640,725	643,069	636,103	5,706	1,260	–
Debt securities in issue	28,319	29,281	–	9,708	11,912	7,662
Subordinated liabilities	–	–	–	–	–	–
Other financial liabilities	2,119	2,119	2,119	–	–	–
Derivative liabilities	15,503	15,593	88	1,448	6,512	7,545
Contingent liabilities	114,079	114,079	1,678	69,194	29,102	14,105
Financial guarantees	27,778	27,778	1,668	11,281	11,424	3,405
Irrevocable commitments	86,301	86,301	10	57,913	17,678	10,700
Total	893,058	899,789	677,560	99,960	78,256	44,012

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	714,257	718,277	618,837	27,379	49,024	23,037
Deposits by banks	73,597	73,623	22,534	11,832	24,194	15,063
Customer deposits	598,357	601,020	591,731	5,904	3,385	–
Debt securities in issue	39,238	40,528	1,769	9,639	21,418	7,702
Subordinated liabilities	262	303	–	4	27	272
Other financial liabilities	2,803	2,803	2,803	–	–	–
Derivative liabilities	20,833	14,501	3,161	11,340	–	–
Contingent liabilities	98,396	98,396	1,448	62,414	32,402	2,132
Financial guarantees	27,108	27,108	1,355	10,416	13,208	2,129
Irrevocable commitments	71,288	71,288	93	51,998	19,194	3
Total	833,486	831,174	623,446	101,133	81,426	25,169

38.5 Operational Risk

In accordance with regulatory requirements, the Bank 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 Bank put in place a standardised categorisation of operational risks. This classification became the basis of the ‘Book of Risks of The Bank’, 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 Bank 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 Bank also pays attention to how the operational risk is perceived by management. In this respect, the Bank 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 Bank 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 Bank 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 1 July 2009.

An important tool in mitigating losses arising from operational risks is the Bank’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 Bank 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 Bank'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 Bank Interest Rate Risk Strategy that is approved by the Bank 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

Erste Bank's statement of financial position. In general, the Erste Bank's 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, swap-tions, caps, floors and other types of derivative instruments.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize net interest income. The most common such hedge in the Bank 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 income statement; while CZK 105 million (2014: CZK 186 million) was recognised directly in other comprehensive income.

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:

in CZK million	2015		2014	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument – fair value hedge	342	5	670	166
Hedging instrument – cash flow hedge	321	490	208	3
Total	663	495	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	Nominal hedged
	In CZK million	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

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 of the fair value hierarchy).

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

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 Bank 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 Bank, 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 Banks'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 Bank values derivatives at mid-market levels. Moreover the bank 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 Bank'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 Bank'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 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.

in CZK million	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	
	2015	2014	2015	2014	2015	2014	2015	2014
ASSETS								
Financial assets – held for trading	89	2,345	13,627	19,838	1,198	1,129	14,914	23,312
Derivatives	–	–	12,986	17,692	1,198	1,129	14,184	18,821
Other trading assets	89	2,345	641	2,146	–	–	730	4,491
Financial assets designated at fair value through profit or loss	–	–	316	629	38	50	354	679
Financial assets – available for sale	65,843	62,772	10,272	35,887	1,681	374	77,796	99,033
Debt securities	65,341	62,772	10,272	35,499	–	–	75,613	98,271
Equity instruments	502	–	–	388	1,681	374	2,183	762
Derivatives Hedge Accounting	–	–	663	878	–	–	663	878
Total assets	65,932	65,117	24,878	57,232	2,917	1,553	93,727	123,902
LIABILITIES								
Financial liabilities held for trading	(1)	328	14,991	23,113	30	–	15,020	23,441
Derivatives	–	–	14,978	20,664	30	–	15,008	20,664
Other trading liabilities	(1)	328	13	2,449	–	–	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	–	–	495	169	–	–	495	169
Total liabilities	(1)	328	19,505	32,946	30	–	19,534	33,274

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

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.

In CZK million	2015		2014	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	(1,612)	(1,058)	(900)	(345)
Net transfer from Level 2	1,058	1,612	345	900
Purchases/sales/expiries	1,369	(27,987)	25,990	(13,683)
Changes in derivatives	–	(4,921)	(88)	(3,552)
Total year-to-date change	815	(32,354)	25,347	(16,680)

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 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 comprehensive income	Purchases	Sales/ Settlements	Additions to the group	Disposal of group	Transfer into Level 3	Transfers out of 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	50	(11)	–	–	–	–	–	–	–	(1)	38
Financial assets – available for sale	374	–	1,343	22	(58)	–	–	–	–	–	1,681
Total assets	1,553	161	1,343	140	(58)	–	–	168	(389)	(1)	2,917

in CZK million	Dec 2013	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales/ Settlements	Additions to the group	Disposal of group	Transfer into Level 3	Transfers out of 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	43	7	–	–	–	–	–	–	–	–	50
Financial assets – available for sale	294	–	93	48	(61)	–	–	–	–	–	374
Total assets	337	7	93	48	(61)	–	–	1,129	–	–	1,553

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 as 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	2014
	Unrealized gain/ loss in profit or loss	Unrealized gain/ loss in profit or loss
ASSETS		
Financial assets – held for trading	172	–
Financial assets designated at fair value through profit or loss	(11)	7
Total	161	7

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:

in CZK million	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
	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 bank 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 instruments 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	100,895	100,895	–	–	–
Financial assets – held to maturity	151,682	172,076	157,009	15,068	–
Loans and receivables to credit institutions	34,120	34,585	–	–	34,585
Loans and receivables to customers	494,915	515,097	–	576	514,521
LIABILITIES					
Financial liabilities measured at amortised costs	759,445	759,417	–	29,086	730,331
Deposits from banks	92,313	91,519	–	–	91,519
Deposits from customers	636,694	636,694	–	–	636,694
Debt securities issued	28,319	29,086	–	29,086	–
Other financial liabilities	2,119	2,118	–	–	2,118
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	27,778	27,778	–	–	27,778
Irrevocable commitments	86,301	86,301	–	–	86,301
2014					
in CZK million					
ASSETS					
Cash and cash balances	50,157	50,157	–	–	–
Financial assets – held to maturity	141,326	163,599	148,887	14,712	–
Loans and receivables to credit institutions	37,233	36,524	–	–	36,524
Loans and receivables to customers	465,525	456,251	–	371	455,880
LIABILITIES					
Financial liabilities measured at amortised costs	701,816	703,384	–	39,831	663,553
Deposits from banks	73,397	73,324	–	–	73,324
Deposits from customers	587,234	586,647	–	–	586,647
Debt securities issued	38,710	40,938	–	39,831	1,107
Other financial liabilities	2,475	2,475	–	–	2,475
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	27,108	27,108	–	–	27,108
Irrevocable commitments	71,288	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.

41. Financial instruments per category according to IAS 39

The Bank 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 activity of banks, savings and lending associates and securities

traders (henceforth 'Regulation 163/2014'). The Bank 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 Bank according to IFRS 7 requirements.

in CZK million								As of 31 December 2015	
	Category of financial instruments						Other financial assets	Derivatives designated as hedging instruments	Total
	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost			
ASSETS									
Cash and balances with central banks	100,895	–	–	–	–	–	–	–	100,895
Loans and advances to credit institutions	34,120	–	–	–	–	–	–	–	34,120
Loans and advances to customers	494,915	–	–	–	–	–	–	–	494,915
Derivative financial instruments	–	–	14,184	–	–	–	–	663	14,847
Trading assets	–	–	730	–	–	–	–	–	730
Financial assets – at fair value through profit or loss	–	–	–	354	–	–	–	–	354
Financial assets – available for sale	–	–	–	–	77,796	–	–	–	77,796
Financial assets – held to maturity	–	151,682	–	–	–	–	–	–	151,682
Total financial assets	629,931	151,682	14,914	354	77,796	–	–	663	875,341
LIABILITIES									
Deposits by banks	–	–	–	–	–	92,313	–	–	92,313
Customer deposits	–	–	–	4,019	–	636,694	–	–	640,713
Debt securities in issue	–	–	–	–	–	28,319	–	–	28,319
Other financial liabilities	–	–	–	–	–	2,119	–	–	2,119
Derivative financial instruments	–	–	15,008	–	–	–	–	495	15,503
Trading liabilities	–	–	12	–	–	–	–	–	12
Subordinated liabilities	–	–	–	–	–	–	–	–	–
Total financial liabilities	–	–	15,020	4,019	–	759,445	–	495	778,979

in CZK million								As of 31 December 2014	
	Category of financial instruments						Other financial assets	Derivatives designated as hedging instruments	Total
	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost			
ASSETS									
Cash and balances with central banks	50,157	–	–	–	–	–	–	–	50,157
Loans and advances to credit institutions	37,233	–	–	–	–	–	–	–	37,233
Loans and advances to customers	465,525	–	–	–	–	–	–	–	465,525
Derivative financial instruments	–	–	18,821	–	–	–	–	878	19,699
Trading assets	–	–	4,491	–	–	–	–	–	4,491
Financial assets – at fair value through profit or loss	–	–	–	679	–	–	–	–	679
Financial assets – available for sale	–	–	–	–	99,033	–	–	–	99,033
Financial assets – held to maturity	–	141,326	–	–	–	–	–	–	141,326
Total financial assets	552,915	141,326	23,312	679	99,033	–	–	878	818,143
LIABILITIES									
Deposits by banks	–	–	–	–	–	73,397	–	–	73,397
Customer deposits	–	–	–	8,874	–	587,234	–	–	596,108
Debt securities in issue	–	–	–	790	–	38,448	–	–	39,238
Other financial liabilities	–	–	–	–	–	2,475–	–	–	2,475
Derivative financial instruments	–	–	20,664	–	–	–	–	169	20,833
Trading liabilities	–	–	2,777	–	–	–	–	–	2,777
Subordinated liabilities	–	–	–	–	–	262	–	–	262
Total financial liabilities	–	–	23,441	9,664	–	701,816	–	169	735,090

42. Audit fees and other consultancy fees

The following table contains fundamental audit fees and other fees charged by the auditors (of the Bank; the auditors primarily being Ernst & Young) in the financial years 2015 and 2014:

in CZK million	2015	2014
Audit fees	28	23
Other consultancy fees	2	3
Total	30	26

43. Contingent assets and liabilities

In the ordinary course of business, the Bank 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 table below presents 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 Bank 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 Bank is named are resolved.

The Bank is involved in various claims and legal proceedings of a special nature. The Bank also acts as a defendant in a number of legal disputes filed with the arbitration court. The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Bank 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 Bank 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 Bank 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 Bank 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized 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 Bank. The Bank estimates the potential loss on the basis of historical developments of CCFs, PDs and LGDs. CCFs indicate the likelihood of the Bank 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 Bank believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments is minimal.

In 2015, the Bank 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 402 million (2014: CZK 245 million). Refer to Note 30.

in CZK million	2015	2014
Amounts owed under guarantees and letters of credit	27,778	27,108
Undrawn loan commitments	86,301	71,288

44. Analysis of remaining maturities

The breakdown of the Banks'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 at central banks	100,895	–	50,157	–
Financial assets held for trading	14,559	355	23,312	–
Financial assets designated at fair value through profit or loss	–	354	8	671
Available-for-sale financial assets	2,618	75,178	30,177	68,856
Loans and receivables	125,018	404,017	132,989	369,769
Held-to-maturity investments	6,210	145,472	17,266	124,060
Derivatives – Hedge accounting	663	–	878	–
Tangible assets	–	11,947	–	13,019
Intangible assets	–	3,675	–	3,289
Investments in subsidiaries, joint ventures and associates	–	8,432	–	8,029
Tax assets	689	–	499	–
Other assets	1,196	–	1,859	–
TOTAL ASSETS	251,848	649,430	257,145	587,693
Financial liabilities held for trading	15,020	–	23,441	–
Financial liabilities designated at fair value through profit or loss	3,610	409	6,263	3,401
Financial liabilities measured at amortised cost	299,419	460,026	208,967	492,849
Derivatives – Hedge accounting	495	–	169	–
Provisions	–	1,776	–	1,751
Commitments and guarantees given	–	402	–	245
Other provisions	–	304	–	327
Tax liabilities	–	509	–	312
Other liabilities	3,972	–	3,802	–
TOTAL LIABILITIES	322,516	463,426	242,642	498,885

45. Events after the balance sheet date

In July 2015 Erste Group Bank AG (Erste Group) the majority shareholder of the Bank 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 would 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.



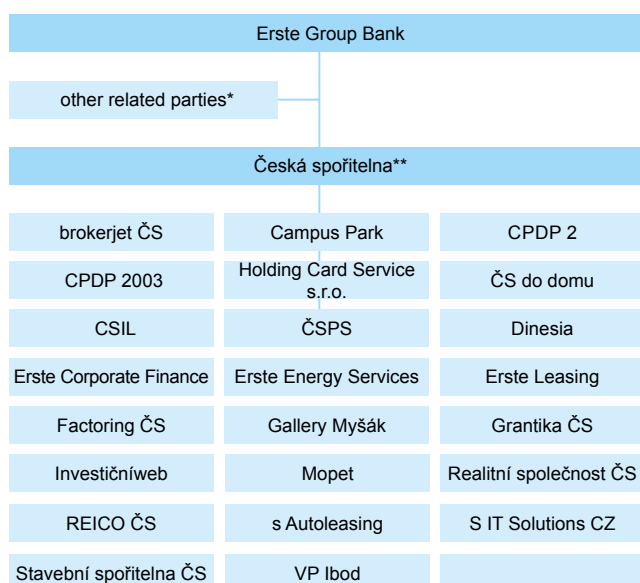
Report on Relations between Related Parties

Pursuant to Section 82 of Act No. 90/2012 Coll., on Business Corporations
For the Year Ended 31 December 2015

Česká spořitelna, a.s., a corporation with its registered seat in Prague 4, Olbrachtova 1929/62, post code 140 00, ID No.: 45244782, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry 1171 (hereinafter referred to as “Česká spořitelna” or the “Author”), is a member of a business group in which the following relationships exist between Česká spořitelna and controlling parties, and between Česká spořitelna and parties controlled by the same controlling parties (hereinafter referred to as “Related Parties”).

This Report on Relations between the parties listed below has been prepared in compliance with the provisions of Section 82 of Act No. 90/2012 Coll., on Business Corporations, as amended for the year ended 31 December 2015 (hereinafter the “Reporting Period”). The valid agreements set out below were made by and between Česká spořitelna and the parties stated below, and the following legal acts and other factual measures were taken in that period. The Report on Relations features a financial expression of relationships with related parties for the reporting period from 1 January 2015 to 31 December 2015.

A. Chart of Parties Whose Relationships Are Described



** Enterprises listed in Part C, Other related parties, Ceska sporitelna Group

* Enterprises listed in Part C, Other related parties, Erste Group Bank

B. Controlling Parties

- Erste Group Bank AG, Am Graben 21, Vienna, Austria (“Erste Group Bank”)

C. Other Related Parties Whose Relationships are Described

OTHER RELATED PARTIES, Erste Group Bank

- Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft Promenade 11 – 13, Linz, Austria
- Banca Comerciala Romana s.a., Regina Elisabeta Blvd 5, Bucharest, Romania
- Bausparkasse der österreichischen Sparkassen AG, Beatrixgasse 27, Vienna, Austria
- Erste Asset Management GmbH Belvederegasse 1, 1040 Vienna, Austria
- Erste Asset Management GmbH Czech Republic branch, Evropská 2690/17, Prague 6 Czech Republic
- Erste Bank der oesterreichischen Sparkassen AG, Am Graben 21, Vienna, Austria
- Erste Bank Hungary Zrt, Népfürdő u.24-26, Budapest, Hungary
- Erste Group Card Processor d.o.o., Radnička cesta 45, Zagreb, Croatia
- Erste Group Immorent ČR, s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
- Erste Group IT International, spol. s r.o., Tomášikova 48, Bratislava, Slovakia
- Erste Group IT SK, spol. s r.o., Tomášikova 48, Bratislava, Slovakia

- Erste Group Shared Services (EGSS), s.r.o., Národní třída 44, Hodonín, Czech Republic
 - Erste-Sparinvest Kapitalanlagegesellschaft m.b.H., Am Belvedere 1, Vienna, Austria
 - Erste & Steiermärkische bank d.d., Jadranski trg 3, Rijeka, Croatia
 - Grand Hotel Marienbad s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Immorent Cheb s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Immorent Inprox Budweis s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Immorent Jilská s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Immorent Orion, s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Immorent Plzeň s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Immorent PTC, s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Immorent TMIS s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Imobilia KIK s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Lambda Immorent s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - LogCap ČR s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - ŮCI – Unternehmensbeteiligungs-gesellschaft. m.b.H., Am Graben 21, Vienna, Austria
 - Omega Immorent s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - Procurement Services CZ, s.r.o., Budějovická 1912/64b, Prague 4, Czech Republic
 - Proxima Immorent, s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
 - s IT Solutions AT Spardat GmbH, Geiselbergstrasse 21-25, Vienna, Austria
 - s IT Solutions HR d.o.o., Preradoviceva b.b., Bjelovar, Croatia
 - s IT Solutions SK, s.r.o., Tomášikova 48, Bratislava, Slovakia
 - Slovenská sporiteľňa, a.s., Tomášikova 48, Bratislava, Slovakia
 - Waldviertler Sparkasse Bank AG, Sparkassenplatz 3, Zwettl, Austria
 - Zeta Immorent s.r.o., Budějovická 1518/13a, Prague 4, Czech Republic
- OTHER RELATED PARTIES, Česká spořitelna Group**
- BECON s.r.o. Olbrachtova 1929/62, Prague 4 Czech Republic
 - BGA Czech, s.r.o. Vodičkova 710/31, Prague 1, Czech Republic
 - Brokerjet České spořitelny, a.s., Evropská 2690/17, Prague 6, Czech Republic (“Brokerjet ČS”)
 - Campus Park a.s., Vodičkova 710/31, Prague 1, Czech Republic (“Campus Park”)
 - CEE Property Development B.V. Naritaweg 165, Amsterdam, Netherlands
 - CEE Property Development Portfolio 2 a.s., Olbrachtova 1929/62, Prague 4, Czech Republic (“CPDP 2”)
 - CPP Lux S.A.R.L. Avenue Charles de Gaulle 2-8, Luxembourg, Luxembourg
 - CP Praha s.r.o., Pitterova 2855/13, Prague 3, Czech Republic
 - CPDP Logistics Park Kladno I a.s., Vodičkova 710/31, Prague 1, Czech Republic
 - CPDP Logistics Park Kladno II a.s., Vodičkova 710/31, Prague 1, Czech Republic
 - CPDP Prievozská a.s., Prievozská 74, Bratislava, Slovakia
 - CS Property Investment Limited, Diomidous street 10, Nicosia, Cyprus

- CPDP 2003 s.r.o., Vodičkova 710/31, Prague 1, Czech Republic (“CPDP 2003”)
- CS Investment Limited, Ogier House, St Julian’s Avenue, St Peter Port, Guernsey (“CSIL”)
- Czech and Slovak Property Fund B.V., Prins Bernhardplein 200, Amsterdam, Netherlands
- Czech TOP Venture Fund B.V., Postweg 11, Groesbeek, Netherlands
- ČS do domu, a.s., Poláčkova 1976/2, Prague 4, Czech Republic (“ČS do domu”)
- Česká spořitelna-penzijní společnost, a.s., Poláčkova 1976/2, Prague 4, Czech Republic (“ČSPS”)
- Dinesia a.s., Střelničná 8, Prague 8, Czech Republic (“Dinesia”)
- Erste Corporate Finance, a.s., Evropská 2690/17, Prague 6, Czech Republic (“Erste Corporate Finance”)
- Erste Energy Services, a.s., Evropská 2690/17, Prague 6, Czech Republic (“Erste Energy Services”)
- Erste Grantika Advisory, a.s., Jánská 448/10, Brno, Czech Republic (“Erste Grantika”)
- Erste Leasing, a.s., Horní náměstí 264/18, Znojmo, Czech Republic (“Erste Leasing”)
- Euro Dotácie a.s., Na Šefranici 1280/8, Žilina, Slovakia
- Factoring České spořitelny, a.s., Budějovická 1518/13B, Prague 4, Czech Republic (“Factoring ČS”)
- Gallery Myšák a.s., Vodičkova 710/31, Prague 1, Czech Republic (“Gallery Myšák”)
- Holding Card Service s.r.o. Olbrachtova 1929/62, Prague 4, Czech Republic
- Investičníweb s.r.o., Evropská 2690/17, Prague 6, Czech Republic (“Investičníweb”)
- Mopet CZ a.s., Vinohradská 180/1632, Prague 3, Czech Republic (“Mopet”)
- Nové Butovice Development s.r.o., Olbrachtova 1929/62, Prague 4, Czech Republic
- Realitní společnost České spořitelny, a.s., Vinohradská 180/1632, Prague 3, Czech Republic (“Realitní společnost ČS”)
- Reico investiční společnost České spořitelny, a.s., Antala Staška 2027/79, Prague 4, Czech Republic (“Reico ČS”)
- RVG Czech s.r.o., Vodičkova 710/31, Prague 1, Czech Republic
- s Autoleasing, a.s., Budějovická 1518/13a, Prague 4, Czech Republic (“s Autoleasing”)
- s Autoleasing SK, s.r.o. Tomášikova 48, Bratislava, Slovakia
- s IT Solutions CZ, s.r.o., Antala Staška 32/1292, Prague 4, Czech Republic (“S IT Solutions CZ”)
- S SERVIS, s.r.o. , Horní náměstí 3561/14, Znojmo, Czech Republic
- Stavební spořitelna České spořitelny, a.s., Vinohradská 180/1632, Prague 3, Czech Republic (“Stavební spořitelna ČS”)
- Trenčín Retail Park 1 a.s., Einsteinova 9, Bratislava, Slovakia
- Trenčín Retail Park 2 a.s., Einsteinova 9, Bratislava, Slovakia
- Věrnostní program Ibod, a.s., Olbrachtova 1929/62, Prague 4, Czech Republic (“VP Ibod”)

D. Structure Of Relations Between Related Parties, Role Of The Controlled Party, Method And Means Of Control

Česká spořitelna is a member of the Erste Group, with the group parent being Erste Group Bank AG. The Česká spořitelna Financial Group (CSFG) is a business grouping of legal entities in which Česká spořitelna is the managing party, within the meaning of the applicable provisions of Act No. 90/2012 Coll., on business corporations and cooperatives (the Corporations Act, and other members of CSFG are the managed parties. The CSFG is the group formed for the purpose of attaining long-term prosperity and stability. The structure of relations in the Erste Group and in the Česká spořitelna Financial Group is graphically depicted in Sections A to C.

CSFG members apply a uniform group management system, whose goal is to ensure the influence of the managing party in advancing individual group policies and in the policy management of major components or activities in the group’s business. The uniform group management system is embodied primarily in the Group standards. In addition to CSFG members, also entities that are not CSFG

members can adopt the uniform group management system. Criteria for including a company into the CSFG are as follows:

- a comprehensive offer of financial services for target client segments,
- a high level of cooperation and synergies
- shared distribution and communication channels,
- use of business name and logo with a uniform group design,
- co-responsibility for CSFG's consolidated results
- shared services.

CSFG members form the foundation of the consolidated group unit that is characterized by group strategic goals, consolidated results and reports, consolidated risk management rules, regulatory restrictions, and consolidated supervision.

Relations with the related parties bring benefits for Česká spořitelna in terms of the use of available resources (human, technical, material) in the field of sales and supporting activities, knowledge of background and the systems used, etc. Unified systems and processes then enable broad synergies across the related parties. Centralization of business support activities of CSFG members could involve a certain level of risk in exceptional situations; to that end, Česká spořitelna has drawn up and tests Business Continuity Plans.

E. Transactions With Related Parties

Česká spořitelna identified relationships with the related parties listed in Sections B and C and grouped them into the following categories.

Related Party Transactions Recorded on the Asset Side of Česká spořitelna's Statement of Financial Position

Loans and Receivables to Credit Institutions

Within approved general limits, Česká spořitelna provided funds to related parties that are credit institutions, on the basis of contracts for, inter alia, the provision of loans, term deposits, current account administration and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 28,133 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Loans and Receivables to Customers

Within approved general limits, Česká spořitelna provided funds to related parties that are not credit institutions, on the basis of contracts for, inter alia, the provision of loans and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 16,962 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Financial Assets - Held for Trading

Česká spořitelna holds held-for-trading bonds and similar securities issued by related parties, which were purchased under standard market conditions in an aggregate amount of CZK 499 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Positive Fair Value of Derivative Transactions

Česká spořitelna entered into contracts for trading or hedging derivatives with related parties under standard market conditions, the positive fair value of which at the end of the accounting period was CZK 4,075 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Assets

Other assets and other financial assets include other trade receivables of Česká spořitelna from related parties recorded on the asset side of Česká spořitelna's statement of financial position in an aggregate amount of CZK 163 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Related Party Transactions Recorded on the Liability Side of Česká spořitelna's Statement of Financial Position

Deposits from Banks

During the reporting period, Česká spořitelna provided related parties that are credit institutions with monetary services associated, inter alia, with the administration of current and term accounts, received loans and loro accounts based on contracts for the opening and administration of accounts under standard market conditions with an aggregate volume of balances at the end of the accounting period of CZK 56,131 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Deposits from Customers

During the reporting period, Česká spořitelna provided related parties that are not credit institutions with monetary services associated, inter alia, with the administration of current and term accounts, loans received, and credit balances on overdraft facilities, based on contracts for the opening and administration of accounts under standard market conditions with an aggregate volume of balances at the end of the accounting period of CZK 2,156 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Debt Securities Issued

Related parties hold bonds and similar securities issued by Česká spořitelna, which were purchased under standard market conditions in an aggregate amount of CZK 12,826 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Negative Fair Value of Derivative Transactions

Česká spořitelna entered into contracts for trading or hedging financial derivatives under standard market conditions with related parties, the negative fair value of which at the end of the accounting period was CZK 4,107 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Liabilities

Other liabilities includes other trade payables of Česká spořitelna from related parties recorded on the liability side of Česká spořitelna's statement of financial position in an aggregate amount of CZK 304 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Related Party Transactions Impacting Česká spořitelna's Income Statement

Interest Income

During the reporting period, Česká spořitelna generated total interest income of CZK 760 million from transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Interest Expense

During the reporting period, Česká spořitelna incurred a total interest expense of CZK 354 million from transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fee and Commission Income

During the reporting period, Česká spořitelna received fee and commission income, primarily comprising fees and commissions for asset management, depository services, and the sale of subsidiaries' products, in an aggregate amount of CZK 1,081 million, as a part of transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fee and Commission Expense

During the reporting period, Česká spořitelna incurred fee and commission expenses, primarily comprising transaction fees and payments for the loyalty programme, in an aggregate amount of CZK 463 million, as a part of transactions with related parties enacted under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Dividend Income

Česká spořitelna received dividends in an aggregate amount of CZK 379 million from related parties of which Česká spořitelna is a shareholder. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Net Trading and Fair Value Result

During the reporting period, Česká spořitelna incurred a net profit of CZK 600 million from securities transactions, foreign currency transactions and similar transactions with related parties, enacted under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Rental Income from Investment Properties & Other Operating Leases

During the reporting period, Česká spořitelna received income amounting to CZK 35 million from related parties from leasing executed under standard market conditions. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

General Administrative Expenses

During the reporting period, Česká spořitelna incurred CZK 1,512 million in general administrative expenses in respect of related parties, in particular for the purchase of goods, materials, insurance and advisory, professional, consulting or maintenance services under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Income / Expenses

During the reporting period, Česká spořitelna reported a positive balance of other income and expenses in an aggregate amount of CZK 90 million as part of other transactions with related parties, in particular the provision of outsourcing services and client center services, etc., all executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Banking and Trading Relationships with Related Parties

General Limits

Česká spořitelna has instituted approved general limits for related party transactions; these apply to current and term deposits, loans, repurchase transactions, own securities, letters of credit and guarantees provided and received in an aggregate amount of CZK 123,374 million. Under these limits, the total exposure to related parties was CZK 64,433 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Guarantees Provided and Received

Česká spořitelna provided related parties with guarantees based on guarantee contracts entered into under ordinary market terms. Guarantees provided totalled CZK 5,366 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fixed-term Contracts

During the reporting period, Česká spořitelna entered into fixed-term contracts with related parties under ordinary market

terms. The nominal value of fixed-term contracts was 239,416 million at the end of 2015. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Equity Transactions with Related Parties

During the reporting period, Česká spořitelna, as a market maker, purchased and sold shares of related parties under standard market conditions with an aggregate turnover of CZK 3,550 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Dividends Paid

Based on a 24 April 2015 General Meeting decision, Česká spořitelna paid dividends totalling CZK 11,267 million to related parties in the reporting period. Česká spořitelna incurred no detriment as a result of the execution of this decision

F. Non-Banking Contractual Relationships

In prior years, Česká spořitelna entered into contracts with related parties listed in Sections B and C pertaining to non-banking relations, the financial details of which are presented in Section E for the reporting period. A list of valid contracts and agreements with the related parties discussed in Sections B and C of a non-banking nature is presented below. Contracts of a similar nature entered into with a particular related party are grouped.

Name	Contractual party	Description	Date	Detriment
2013-8690-035 BJ, IPT	brokerjet České spořitelny, a.s.	Agreement for the provision of IPT services to Brokerjet	2013	None incurred
SLA - Agreement for the use of the ISIR_CS application	brokerjet České spořitelny, a.s.	Agreement for the use of the ISIR_CS application	2009	None incurred
Agreement for cooperation in connection with the provision of Client Center services	brokerjet České spořitelny, a.s.	Agreement for cooperation in connection with the provision of services	2009	None incurred
Agreement for data transfer to DWH	brokerjet České spořitelny, a.s.	Agreement for the provision of data to data storage	2011	None incurred
Agreement for data transfer and processing	brokerjet České spořitelny, a.s.	Agreement for data transfer and processing	2013	None incurred
Agreement for the lease of non-residential premises	brokerjet České spořitelny, a.s.	Agreement for the lease of a real property, including two rent modifications	2008 - 2013	None incurred
Outsourcing agreement	brokerjet České spořitelny, a.s.	Provision of selected outsourcing services	2015	None incurred
Contract for transfer of ownership interest	brokerjet České spořitelny	Acquisition of Investičníweb s.r.o.	2015	None incurred
Agreement for provision of IT services	brokerjet České spořitelny, a.s.	Provision of IT services	2015	None incurred
Outsourcing agreement	CEE Property Development Portfolio 2 a.s.	Provision of selected outsourcing services	2015	None incurred
Agreement for the lease of non-residential premises	CEE Property Development Portfolio 2 a.s.	Agreement on the lease of non-residential premises including one amendment to agreement	2015	None incurred
2014-8670-003 CPDP, IPT	CEE Property Development Portfolio B.V.	Agreement for the provision of telephony and data services to CPDP	2014	None incurred
Agreement for the lease of non-residential premises	Česká spořitelna - penzijní společnost, a.s.	Agreement for the lease of non-residential premises including 1 amendment to agreement and 3 rent modifications	2013	None incurred
Outsourcing agreement	Česká spořitelna - penzijní společnost, a.s.	Provision of selected outsourcing services	2014	None incurred
Agreement for the provision of services	ČS do domu, a.s.	Agreement for the provision of IT and telephony services to ČSdD including amendments to agreement	2015	None incurred
Agreement for exchange of information through special access to software application	ČS do domu, a.s.	Agreement for exchange of information	2009	None incurred
Agreement for the assignment of a right	ČS do domu, a.s.	Agreement for the assignment of a right to use the CS logo	2009	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement for the right to use a logo	ČS do domu, a.s.	Agreement for the right to use the CS logo	2009	None incurred
Agreement for the sub-lease of non-residential premises	ČS do domu, a.s.	Agreement for the lease of non-residential premises, including three rent modifications	2013	None incurred
Outsourcing agreement	ČS do domu, a.s.	Provision of selected outsourcing services	2015	None incurred
Contract for outsourcing services	ČS do domu, a.s.	Providing outsourcing services for the processing and payment of commissions to external partners and ensuring activity in managing external partners	2009	None incurred
Contact for document storage	Erste Asset Management GmbH	Storage of documents	2015	None incurred
Outsourcing agreement	Erste Corporate Finance, a.s.	Provision of selected outsourcing services	2015	None incurred
3x Agreement for the assignment of rights and take-over of obligations from a lease agreement	Erste Corporate Finance, a.s.	Agreements for the assignment of rights and take-over of obligations from a car lease agreement with s Autoleasing, a.s. by Erste Corporate Finance	2012	None incurred
Outsourcing agreement	Erste Energy Services, a.s.	Provision of selected outsourcing services	2015	None incurred
Agreement for the sub-lease of premises used for business	Erste Energy Services, a.s.	Agreement for the sub-lease	2015	None incurred
Agreement No. 2012/2310/1409	Erste Grantika Advisory, a.s.	Agreement for the lease of non-residential premises, including two rent modifications and hand-over protocol	2012 – 2013	None incurred
Outsourcing agreement	Erste Grantika Advisory, a.s.	Provision of selected outsourcing services	2015	None incurred
Agreement for an internal audit	Erste Grantika Advisory, a.s.	Agreement for an audit of information systems	2014	None incurred
Master agreement	Erste Grantika Advisory, a.s.	Master agreement for the provision of electronic auction operator services	2013	None incurred
Order agreement	Erste Grantika Advisory, a.s.	Agreement for cooperation in the field of tender documents	2014	None incurred
3x Agreement for work	Erste Group Bank AG	Agreements for work in software development	2014	None incurred
Agreement for the use of the Calypso system	Erste Group Bank AG	Agreement for services related to the use of the Calypso system	2010	None incurred
Service Level Agreement	Erste Group Bank AG	Sales support in the large corporate segment	2014	None incurred
3x Cost cooperation agreement	Erste Group Bank AG	Cost sharing agreements for centralized services	2014	None incurred
Master Agreement for the Provision of Services	Erste Group Bank AG	Master agreement for the provision of Erste Group Bank services to Česká spořitelna	2014	None incurred
2x Group Capital Markets Web Portal	Erste Group Bank AG	Agreement for the operation of a web portal, including two amendments to agreements	2014	None incurred
ARIS SLA	Erste Group Bank AG	Process documentation and process performance management, including appendices to the agreement	2015	None incurred
Trademark License Agreement	Erste Group Bank AG	Trademark use agreement	2002	None incurred
Cost sharing agreement	Erste Group Bank AG	Agreement for cost sharing in the sector of IT applications	2015	None incurred
10x Agreement for project cooperation in IT sector	Erste Group Bank AG	Project cooperation in IT sector	2015	None incurred
Master agreement for cooperation in the sphere of services	Erste Group Bank AG	Agreement for advisory services for various projects	2003	None incurred
Project cooperation agreement	Erste Group Immorent ČR, s.r.o.	Project cooperation agreement	2014	None incurred
Outsourcing agreement	Erste Group Immorent ČR, s.r.o.	Provision of selected outsourcing services	2015	None incurred

Name	Contractual party	Description	Date	Detriment
2014-8670-013 EG Immorent, IPT	Erste Group Immorent ČR, s.r.o.	Agreement for the provision of IPT services	2014	None incurred
Agreement No. 2012/2310/1436	Erste Group Immorent ČR, s.r.o.	Agreement for the sub-lease of non-residential premises	2012	None incurred
Agreement No. 2012/2310/760	Erste Group Immorent ČR, s.r.o.	Agreement for renting advertisement space	2012	None incurred
Agreement for the sub-lease of non-residential premises	Erste Group Immorent ČR, s.r.o.	Agreement for the lease of non-residential premises	2013	None incurred
3x Agreement for work	Erste Group IT International, spol. s r.o.	Agreements for work for the supply of software, including three appendices to the agreements	2014	None incurred
Lease agreement	Erste Group IT International, spol. s r.o.	Agreement for the lease of a vehicle	2015	None incurred
SunGard	Erste Group IT SK, spol. s r.o.	Agreement for work in IT	2014	None incurred
2x Agreement for IT services	Erste Group IT SK, spol. s r.o.	Agreement for IT services	2015	None incurred
Master agreement with appendices	Erste Group IT SK, spol. s r.o.	Agreement for IT services provided for Česká spořitelna employees in Bratislava	2014	None incurred
Agreement for the lease of non-residential premises	Erste Group Shared Services, s.r.o.	Agreement for the lease of a real property, including one rent modification and one amendment to the agreement	2010 – 2013	None incurred
Outsourcing agreement	Erste Group Shared Services, s.r.o.	Provision of selected outsourcing services	2015	None incurred
Service Level Agreement (data line)	Erste Group Shared Services, s.r.o.	Agreement for the provision of services	2010	None incurred
Service agreement for the processing of foreign payments	Erste Group Shared Services, s.r.o.	Agreement for services in the processing of foreign payments	2010	None incurred
Service agreement for the processing of domestic payments	Erste Group Shared Services, s.r.o.	Agreement for services in the processing of domestic payments	2014	None incurred
2013-8690-020 EGSS, IT	Erste Group Shared Services, s.r.o.	Agreement for the provision of IT services to EGSS	2013	None incurred
2013-8690-018 Erste leasing, CRM	Erste Leasing, a.s.	Agreement for the provision of software to Erste leasing	2013	None incurred
Lease Agreement – Znojmo	Erste Leasing, a.s.	Agreement for the lease of non-residential premises and furnishings, including two rent modifications and hand-over protocol	2013	None incurred
Agreement for the lease of non-residential premises and lease of chattel properties	Erste Leasing, a.s.	Agreement for the lease of non-residential premises and furnishings	2013	None incurred
Outsourcing agreement	Erste Leasing, a.s.	Provision of selected outsourcing services	2014	None incurred
Agreement to provide an extra payment in excess of registered capital	Erste Leasing, a.s.	Provision of an extra payment in excess of registered capital	2014	None incurred
Cooperation agreement	Erste Leasing, a.s.	Agreement for cooperation on business agreements and participation in the risks arising therefrom	2014	None incurred
2014-8670-007 Factoring, IPT	Factoring České spořitelny, a.s.	Agreement for the provision of IT services to Factoring	2014	None incurred
Agreement for the lease of non-residential premises	Factoring České spořitelny, a.s.	Agreement for the lease of a real property	2014	None incurred
Agreement for the sub-lease of non-residential premises	Factoring České spořitelny, a.s.	Agreement for the lease of non-residential premises	2014	None incurred
Outsourcing agreement	Factoring České spořitelny, a.s.	Provision of selected outsourcing services	2015	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Cooperation on pledged invoice verification	2015	None incurred
Agreement to provide an extra payment in excess of registered capital	Factoring České spořitelny, a.s.	Provision of an extra payment in excess of registered capital	2014	None incurred

Name	Contractual party	Description	Date	Detriment
2013-8690-036 ISČS, IT	Management GmbH, pobočka ČR	Agreement for the provision of IT services to ISČS, including two amendments to the agreement	2013 – 2014	None incurred
Agreement for payment for the use of a logo and trade name	Management GmbH, pobočka ČR.	Use of Sporitelna's name in commercial and other activities	2001	None incurred
Agreement for the assignment of the right to use a logo	Management GmbH, pobočka ČR.	Right to use the ISČS logo, which qualifies as an original copyrighted work	2001	None incurred
Implementation agreement for basic cooperation agreement	Management GmbH, pobočka ČR.	Use of the CS Client Center for the provision of information to clients	2001	None incurred
Agreement for the provision of back-office activities	Management GmbH, pobočka ČR	Provision of back-office activities	2009	None incurred
Agreement for the administration of employee benefits in the Benefit Plus system	Management GmbH, pobočka ČR.	Agreement for the administration of employee benefits	2013	None incurred
Agreement for the lease of non-residential premises	Management GmbH, pobočka ČR.	Agreement for the lease of non-residential premises including amendments	2008 – 2015	None incurred
Outsourcing agreement	Management GmbH, pobočka ČR	Provision of selected outsourcing services including 1 amendment to agreement	2015	None incurred
Risk management agreement	Management GmbH, pobočka ČR	Agreement for risk management valid through to 03/2014, including five amendments to the agreement	2006 – 2013	None incurred
Risk management agreement	Management GmbH, pobočka ČR, a.s.	Risk management agreement	2014	None incurred
Agreement for the sub-lease of non-residential premises	Investičníweb s.r.o.	Agreement for the sub-lease of non-residential premises	2015	None incurred
Share subscription agreement	Mopet CZ, a.s.	Subscription of shares in the increase of the registered capital of Mopet CZ a.s.	2015	None incurred
Agreement for the protection of confidential information	Mopet CZ, a.s.	Agreement for the protection of confidential information, including one amendment	2011	None incurred
Agreement for the provision of services	Mopet CZ, a.s.	Agreement for IT service arrangement for Mopet CZ	2015	None incurred
2014-8670-16 MOPET ULA	Mopet CZ, a.s.	Agreement for the arrangements of software user licenses for Mopet CZ	2014	None incurred
Outsourcing agreement	Mopet CZ, a.s.	Provision of selected outsourcing services including 1 amendment to agreement	2015	None incurred
2013-8690-029 EGP, IT	Procurement Services CZ, s.r.o.	Agreement for IT services for Procurement Services	2013	None incurred
Agreement for the lease	Procurement Services CZ, s.r.o.	Agreement for the lease of non-residential premises	2015	None incurred
Outsourcing agreement	Procurement Services CZ, s.r.o.	Provision of selected outsourcing services	2015	None incurred
Agreement for the provision of services	Procurement Services CZ, s.r.o.	Agreement for the provision of services	2013	None incurred
Agreement for the provisions of services in purchasing	Procurement Services CZ, s.r.o.	Services in the field of purchasing	2012	None incurred
Master sales representation agreement	Realitní společnost České spořitelny, a.s.	Agreement for cooperation in the sale of products	2013	None incurred
Agreement for the assignment of the right to use a logo	Realitní společnost České spořitelny, a.s.	Agreement for the assignment of the right to use a logo	2004	None incurred
Outsourcing agreement	Realitní společnost České spořitelny, a.s.	Provision of selected outsourcing services	2015	None incurred
2x Agreement for provision of IT services	Realitní společnost České spořitelny, a.s.	Provision of IT services	2015	None incurred
Lease agreement	Reico investiční společnost České spořitelny, a.s.	Agreement for the lease of non-residential premises	2015	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement for risk management activities	Reico investiční společnost České spořitelny, a.s.	Agreement for the management of risks arising from financial instruments, including amendments to the agreement	2014	None incurred
Agreement for the distribution of unit certificates and related activities	Reico investiční společnost České spořitelny, a.s.	Agreement for the distribution of unit certificates and related activities, including one amendment	2007 – 2009	None incurred
3x Outsourcing agreement	Reico investiční společnost České spořitelny, a.s.	Provision of selected outsourcing services	2014 – 2015	None incurred
Agreement for IT services	Reico investiční společnost České spořitelny, a.s.	Provision of services in IT sector	2015	None incurred
Agreement for the provision of IT services	s Autoleasing, a.s.	Agreements for the provision of licenses and IT services	2013 – 2014	None incurred
Agreement No. 2012/2310/1033	s Autoleasing, a.s.	Agreement for the lease of a real property, including three rent modifications and hand-over protocol	2012 – 2013	None incurred
2x Agreement for the sub-lease of non-residential premises	s Autoleasing, a.s.	Agreement for the lease of a real property, including one rent modification	2013	None incurred
2x Agreement on sales cooperation	s Autoleasing, a.s.	Agreements for cooperation (in risk management)	2014	None incurred
General mandate agreement pertaining to the portfolio of receivables	s Autoleasing, a.s.	Agreement for the administration of receivable portfolio	2014	None incurred
General mandate agreement pertaining to the receivable portfolio	s Autoleasing, a.s.	Agreement for the administration of receivable portfolio	2014	None incurred
Agreement for the lease of premises used for business	s Autoleasing, a.s.	Agreement for the lease of a real property for business	2015	None incurred
Agreement to provide an extra payment in excess of registered capital	s Autoleasing, a.s.	Provision of an extra payment in excess of registered capital	2014	None incurred
Master fleet management agreement	s Autoleasing, a.s.	Master fleet management agreement – administrative, servicing, and assistance services	2008	None incurred
Service agreement	s Autoleasing, a.s.	Service agreement to the Master fleet management agreement – administrative, servicing, and assistance services	2008	None incurred
Master operating lease agreement	s Autoleasing, a.s.	Master car lease agreement	2012	None incurred
Outsourcing agreement	s Autoleasing, a.s.	Provision of selected outsourcing services, including two amendments to the agreement	2015	None incurred
29x Agreement for work	s IT Solutions AT Spardat GmbH	Agreements for work in IT, including two amendments	2014	None incurred
13x Service agreement	s IT Solutions AT Spardat GmbH	Agreements for IT services, including 1 amendment	2013 – 2014	None incurred
5x Agreement for application operation and maintenance	s IT Solutions AT Spardat GmbH	Administration and maintenance of applications (software).	2015	None incurred
RRC Agreement	s IT Solutions AT Spardat GmbH	Agreement for risk management services	2014	None incurred
Master Agreement for the provision of IT services for ČS	s IT Solutions CZ, s.r.o.	Master Agreement for the provision of IT services to Česká spořitelna, including one amendment to agreement	2011 – 2013	None incurred
Agreement for the lease of non-residential premises	s IT Solutions CZ, s.r.o.	Master Agreement for the lease of non-residential premises	2015	None incurred
2x Contract of sale	s IT Solutions CZ, s.r.o.	Kupní smlouva prodej hmotného majetku	2015	None incurred
3x Outsourcing agreement	s IT Solutions CZ, s.r.o.	Provision of selected outsourcing services	2015	None incurred
PDS – Performance and Development System	s IT Solutions HR d.o.o.	Agreement for IT services	2014	None incurred
2012-8690-043 Master Agreement	s IT Solutions SK, s.r.o.	Master cooperation agreement	2012	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement for the lease of non-residential premises	Slovenská sporiteľňa, a. s.	General agreement on non-residential premises	2015	None incurred
Agreement for the cooperation in the management of secured loans to private individuals and to manage the mortgage business regions and external sales after the running out of credit	Slovenská sporiteľňa, a. s.	Agreement for cooperation in the field of credit management	2014	None incurred
Agreement for the assignment of the right to use a logo	Stavební spořitelna České spořitelny, a.s.	Assignment of the right to use a logo and trade name	2001	None incurred
2x Agreement for IT services	Slovenská sporiteľňa, a. s.	Service agreement for the operation of selected IT applications and other IT services	2015	None incurred
7x Agreement for cooperation	Stavební spořitelna České spořitelny, a.s.	Agreement for cooperation in the fields of services and software applications	2010 - 2013	None incurred
Outsourcing agreement	Stavební spořitelna České spořitelny, a.s.	Provision of selected outsourcing services including 2 addenda to the Agreement	2015	None incurred
Agreement for the provision of services	Stavební spořitelna České spořitelny, a.s.	Agreement for methodical support in internal audit	2014	None incurred
Agreement for liaison in terminating construction savings contracts	Stavební spořitelna České spořitelny, a.s.	Agreement for liaison between Česká spořitelna and Stavební spořitelna České spořitelny in terminating construction savings contracts including 1 addendum	2013	None incurred
Agreement for cooperation in service operation	Stavební spořitelna České spořitelny, a.s.	Agreement for cooperation in direct banking service operation	2010	None incurred
Contract for an internal audit	Stavební spořitelna České spořitelny, a.s.	Contract for an audit of credit risk management system	2014	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Agreement for services of client center	2010	None incurred
Agreement for data processing	Stavební spořitelna České spořitelny, a.s.	Agreement for data and printed forms processing	2005	None incurred
Sales representation agreement	Stavební spořitelna České spořitelny, a.s.	Agreement for liaison in entering into construction savings contracts	2007	None incurred
Cooperation agreement – client checks	Stavební spořitelna České spořitelny, a.s.	Agreement for checks of clients in the client database – sanctioned persons	2007	None incurred
Agreement for the provision of services for product documentation file and shredding service	Stavební spořitelna České spořitelny, a.s.	Agreement for the provision of services for product documentation file and shredding service	2008	None incurred
Agreement for the protection of confidential information	Stavební spořitelna České spořitelny, a.s.	Contact for protection of confidential information	2003	None incurred
Agreement for a uniform risk management system	Stavební spořitelna České spořitelny, a.s.	Agreement for a uniform risk management system	2003	None incurred
Agreement governing conditions for using the Klient application service	Stavební spořitelna České spořitelny, a.s.	Contract for setting of conditions for using the software application service	2008	None incurred
Service Level Agreement	Stavební spořitelna České spořitelny, a.s.	Agreement for certification services	2009	None incurred
Agreement for transfer of data to DWH	Stavební spořitelna České spořitelny, a.s.	Agreement for transfer of data to data warehouse	2015	None incurred
Power of attorney	Stavební spořitelna České spořitelny, a.s.	Power of attorney to enter into an "Agreement for the processing of tasks related to building savings through SERVIS 24 direct banking services"	2006	None incurred
Agreement for access to the Intranet	Stavební spořitelna České spořitelny, a.s.	Employees' access to the Česká spořitelna Intranet	2006	None incurred
Agreement on conditions of access	Stavební spořitelna České spořitelny, a.s.	Regulation of the conditions of granting access to customer files	2003	None incurred
Donation agreement	Stavební spořitelna České spořitelny, a.s.	Donation agreement for providing services and operating of advisory center for people in financial distress	2014	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement for an internal audit	Stavební spořitelna České spořitelny, a.s.	Periodical assessment of quality of internal audit at Stavební spořitelna České spořitelny, a.s.	2015	None incurred
Agreement for the provision of IP telephony services	Stavební spořitelna České spořitelny, a.s.	Provision of IP telephony services	2015	None incurred
Secondment agreement	Stavební spořitelna České spořitelny, a.s.	Temporary secondment of an employee	2015	None incurred
Master agreement on the development of the IBOD programme	IBOD, a.s. loyalty program	Master agreement on the development of the IBOD programme – development of SW IBOD	2013	None incurred
Lease agreement	IBOD, a.s. loyalty program	Agreement for cost settlement	2015	None incurred
Agreement for participation in the IBOD loyalty programme	IBOD, a.s. loyalty program	Implementation agreement for participation in the IBOD loyalty programme	2013	None incurred
2x Agreement for IT services	IBOD, a.s. loyalty program	Provision of IT services	2015	None incurred

G. Overview Of Actions Performed At The Initiative Of The Controlling Party

During the reporting period, the author of this report did not engage in any act at the direct initiative of its controlling party pertaining to assets in excess of 10% of its registered capital, within the meaning of Section 82 (2) (d) of Act No. 90/2012 Coll., the Corporations Act. The dividend payment referred to in Section E may be considered to constitute an action undertaken at the direct initiative of the controlling party (by means of exercising its shareholder's rights at the general meeting). The ratio of the dividend paid and total equity of Česká spořitelna as at 31 December 2015 is 9.77%.

H. Other Legal Acts

During the accounting period, the author of this report neither adopted nor enacted any other legal acts to the benefit or at the initiative of related parties.

I. Other De Facto Measures

Within Erste Group Bank, Česká spořitelna takes part in group projects whose common aim is to fully exploit the business potential of Central European markets in all segments as well as economies of scale and cost synergies, the concentration of support activities within the group and performance measurement transparency and comparability. These projects cover, for example, information technology, risk management, and service activity. Česká spořitelna incurred no detriment as a result of its involvement in the foregoing group projects.

J. Conclusion

It is clear from our review of the legal relationships between Česká spořitelna and its related parties, including the controlling party, that Česká spořitelna incurred no detriment as a result of contracts, other legal acts or other measures executed, effected or adopted by Česká spořitelna during the year ended 31 December 2015 to the benefit or at the initiative of individual related parties, including the controlling party.

Prague, 1 March 2016



Tomáš Salomon
Chairman of the Management Board



Wolfgang Schopf
Vice-Chairman of the Management Board



Česká spořitelna Financial Group

Overview of key members of the Česká spořitelna Financial Group, figures are unaudited and in accordance with International Financial Reporting Standards (“IFRS”), unless otherwise indicated

Stavební spořitelna České spořitelny, a. s.

Stavební spořitelna České spořitelny, a. s., with its registered office at Vinohradská 180, Prague 3, was incorporated on 22 June 1994. Its principal business is the provision of financial services pursuant to Act No. 96/1993 Coll. Stavební spořitelna ČS offers its clients construction savings with state support and a statutory entitlement to construction savings loans. Česká spořitelna has been its sole shareholder since the end of 2014.

Stavební spořitelna České Spořitelny recorded more than 139 thousand loan accounts at the 2015 year-end, having lent its clients nearly CZK 35.2 billion for better housing and having administered more than 683 thousand construction savings accounts with a target amount of nearly CZK 172.0 billion and a savings amount of approximately CZK 73.7 billion.

In 2015, the Company significantly performed its long-term role – to finance better housing – to an even greater degree than in previous years. The volume of provided loans increased 36% year

on year. Moreover, collaboration with housing cooperatives and apartment owners’ associations successfully continued in the form of financing the capital investments associated with housing their members. Stavební spořitelna České spořitelny devoted special attention to improving services for clients through an expanded offering of electronic communications. Clients may now execute construction savings contracts and find their 2015 account statements online. Many clients took advantage of this in 2015; the number of agreements concluded online surged at the year-end.

In 2015, Stavební spořitelna ČS continued its longstanding cooperation with the civil association Portus Praha, whose activity in the area of social responsibility is in line with the Company’s mission, as Portus helps improve housing for the mentally handicapped. Like Česká spořitelna, Stavební spořitelna České spořitelny is a long-standing partner in the Poradna při finanční tísni [Financial Distress Advice Bureau], which helps find solutions to difficult situations for those unable to pay their debts.

Stavební spořitelna České spořitelny, a. s.	2015	2014	2013	2012	2011
Share capital (CZK million)	750	750	750	750	750
Total assets (CZK billion)	79.7	87.3	99.3	103.5	103.7
Loans and advances to clients (CZK billion, gross)	35.4	36.4	37.6	39.5	41.7
Client deposits (CZK billion)	74.6	81.4	94.8	97.9	98.0
Net profit (CZK million)	669	622	535	649	1,028
Number of client accounts (million)	0.8	0.9	1.1	1.2	1.1
Average headcount	191	208	210	205	200

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Česká spořitelna – penzijní společnost, a. s.

Česká spořitelna – penzijní společnost, a. s. was created through the transformation of Penzijní fond České spořitelny, a. s. (“PFČS”) on 1 January 2013. PFČS was founded as a joint stock company in 1994. The Company’s registered office is located at Poláčkova 1976/2, 140 21 Prague 4. Česká spořitelna is its sole shareholder.

The Company’s principal business until 31 December 2012 was the provision of supplementary pension insurance schemes pursuant to Act No. 42/1994 Coll. on supplementary state-contributory pension insurance, as amended by Act No. 170/1999 Coll. and Act No. 36/2004 Coll. Since 1 January 2013, Česká spořitelna – penzijní

společnost has offered supplementary pension savings pursuant to Act No. 427/2011 Coll. as amended by Act No. 377/2015 Coll. The Company also offered retirement savings pursuant to Act No. 426/2011 Coll., though this law was repealed by Act No. 376/2015 Coll. on the termination of retirement savings effective 28 December 2015.

Česká spořitelna – penzijní společnost placed first in the pension company category of the 2015 Fincentrum Bank of the Year competition. The Company's supplementary pension savings product once again placed 3rd in the prestigious Zlatá koruna competition.

In 2015, the Company undertook intensive preparations to implement changes in the Act on Pension Savings and Supplementary Pension Savings including the preparation of a change in the statutes of the Transformed Fund, the Balanced Fund and the Dynamic Participation Fund. The most significant new product offering in 2016 will be the possibility of executing supplementary pension savings for children.

Česká spořitelna – penzijní společnost maintained its position as a leader on the supplementary pension savings market. For Q1-Q3 2015, the ČSPS participation fund market share was 30%, the highest on the market. In 2015, more than 50 thousand participants opted for supplementary pension savings with ČSPS. In total, 950 thousand unique participants had pension savings agreements with the Company totalling CZK 64.4 billion. ČSPS manages the largest conservative participation fund on the market with assets of CZK 2.6 billion.

Česká spořitelna - penzijní společnost supports the Život 90 seniors' association and in 2015 helped organize the Seniors' Miles race. ČSPS donated its old technological equipment to the not-for-profit Kašperské hory Children's Home. The purpose of the public role of ČSPS is to provide supplemental income for the retired. In everything it does, the Company emphasizes sustainability, stability and social responsibility.

Česká spořitelna – penzijní společnost, a.s.	2015	2014	2013	2012	2011
Share capital (CZK million)	350	350	350	350	350
Total assets (CZK billion)	1.6	1.6	1.6	45.4	40.1
Assets in individual funds (CZK million)					
Transformed Fund	60,354	55,757	50,152	42,482	38,083
Conservative Participation Fund	2,699	1,314	414	–	–
Balanced Participation Fund	545	231	18	–	–
Dynamic Participation Fund	274	142	8	–	–
Conservative Retirement Fund	196	106	21	–	–
Balanced Retirement Fund	248	136	27	–	–
Dynamic Retirement Fund	106	58	12	–	–
Government Bond Retirement Fund	9	5	1	–	–
Net profit/loss (CZK million)	52	49	(40)	757	874
Number of unique participants (thousand)	950	982	1,023	1 059	938
Average headcount	62	65	63	58	54

Data for years 2011 to 2012 are for Penzijní fond České spořitelny, a.s.

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s Autoleasing, a.s.

Leasing company s Autoleasing, a.s., founded on 6 October 2003, is a wholly-owned subsidiary of Česká spořitelna. Its registered office is located at Budějovická 1518/13B in Prague 4 and its share capital totals CZK 500 million. Its principal business is providing finance leases for a wide range of passenger and utility vehicles and providing consumer loans to individuals-non-entrepreneurs, individuals-entrepreneurs and corporate entities to purchase vehicles of up to 3.5 tons.

S Autoleasing reported profit of CZK 119 million for 2015. In the course of the year, the Company completed financing transactions at

an aggregate initial debt value of CZK 3,951 million. S Autoleasing uses provisioning to cover all known risks arising from its lease and loan contract portfolio. Material facts and circumstances that may have a favourable impact on s Autoleasing meeting its future business targets include its deepening of cooperation with the parent bank. In 2015, s Autoleasing focused on strengthening its market position while continuing to support its subsidiary s Autoleasing SK, s.r.o., which launched operations in Slovakia in 2013 and provides loans for new and used vehicles up to 3.5 tons to individuals-non-entrepreneurs, individuals-entrepreneurs and corporate entities and is gradually strengthening its Slovak market position.

s Autoleasing, a.s.	2015	2014	2013	2012	2011
Share capital (CZK million)	500	500	500	500	500
Total assets (CZK billion)	8.9	8.2	8.0	8.1	8.0
New transactions volume (CZK billion)	4.0	3.5	3.4	3.4	2.9
Net profit (CZK million)	119	104	97	74	50
Number of new contracts	12,487	12,553	12,398	12,765	13,067
Number of own points of sale	1	1	1	1	1
Average headcount	113	112	109	106	109

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Erste Leasing, a.s.

Since 1991, Erste Leasing has been a major provider in the Czech Republic of financing for small and medium-sized enterprises. In 2011, Erste Leasing became a wholly-owned subsidiary of Česká spořitelna. Thanks to the Company's extensive network of sales points and close cooperation with Česká spořitelna's regional corporate centres, its operations span the entire country. Erste Leasing offers clients leasing and loan financing to purchase machinery and technology, primarily for agriculture, private sector services and other industrial sectors with an emphasis on machine engineering.

In 2015, Erste Leasing reported record profit of CZK 69 million. In the course of the year, the Company financed transactions at an

aggregate amount of CZK 3.3 billion, representing a 22% increase year on year. The Company executed a total of 1,930 new leasing and loan contracts. The drop in the number of contracts compared to 2014 and increase in financed amounts means an increase in average per-contract financing to CZK 1.7 million. Agriculture is the primary financed sector with a volume of CZK 2.05 billion for machinery, equipment and agricultural land purchases. Agricultural financing thus comprises 61% of total new transactions in 2015. The Company saw a substantial increase in the financing of machinery and equipment for industry in 2015 to a total of CZK 919 million, a 77% year-on-year increase in volume.

Erste Leasing, a.s.	2015	2014	2013	2012	2011
Share capital (CZK million)	200	200	200	200	200
Total assets (CZK billion)	6.4	5.7	5.4	4.9	4.8
Volume of new transactions (CZK billion)	3.3	2.7	2.7	2.2	2.1
Number of new contracts	1,930	1,968	2,137	1,868	1,768
Net profit (CZK million)	69	46	35	18	15
Number of own points of sale	13	13	13	13	13
Average headcount	64	62	62	59	59

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Factoring České spořitelny, a.s.

Factoring České spořitelny, a.s., established in 1995, has been a wholly-owned subsidiary of Česká spořitelna since 2001. The Company's registered office is located at Budějovická 1518/13B, Prague 4. The Company increased its share capital to more than CZK 1.1 billion in 2014.

The Company's focus is on domestic, export and import factoring, comprehensive management and debt management for a broad range of corporate clientele operating in industry, trade and services.

Factoring ČS has been the leading factoring company on the Czech market since 2004. In 2015, it maintained its number one position with a market share of nearly 30%, despite the loss of one of its key clients, and reported total business turnover of CZK 41.3 billion from assigned and managed receivables. Termination of cooperation with an important client and strong ongoing pressure to reduce the price of funding on the Czech market were expressed in lower Company profit. Net profit for the year totalled CZK 7.9 million.

Factoring České spořitelny received the prestigious Business Superbrands 2015 award in 2015.

In 2015, the Company continued to implement a proactive business policy while strictly adhering to risk management rules and other measures designed to ensure effective management of the receivable portfolio of factoring clients.

Factoring České spořitelny, a.s.	2015	2014	2013	2012	2011
Share capital (CZK million)	114	114	114	114	114
Equity (CZK million)	1,120	1 142	289	248	189
Total assets (CZK billion)	4.6	5.9	5.8	5.3	3.7
Net profit/loss (CZK million)	8	64	62	58	34
Contracted amounts (CZK billion)	41.4	63.9	53.5	49.2	41.7
Average headcount	43	43	43	40	39

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brokerjet České spořitelny, a.s.

Brokerjet České spořitelny, a.s. was established on 17 September 2003. In 2014, Česká spořitelna became the sole Company shareholder by acquiring the share of Brokerjet Bank AG. The Company registered office is located at Evropská 2690/17, Prague 6.

Due to the decision to cease operation of the online trading platform WebTrader, which has served clients since 2003 to execute financial instruments transactions online, the year 2015 represented a turning point for Brokerjet ČS. Client contracts were rescinded at 30 November 2015 and clients were given the option of trading on financial markets via the Česká spořitelna Investment Broker service and the SAXO Bank trading platform. All Company activities

in 2015 were subordinated to successful client migration, which had a considerable impact on the financial results for the year.

The Company reported a loss of CZK 25 million for 2015, which was decisively influenced by the above described termination of Company trading activity and was reflected primarily in a year-to-year drop of 25% in operating income. Brokerjet České spořitelny continued in 2015 to carry out its policy of strict cost management, enabling it to reduce overall administrative costs by 9% year on year despite incurring one-off costs related to the termination of its trading activity, the rescission of client contracts and client migration.

Brokerjet České spořitelny, a.s.	2015	2014	2013	2012	2011
Share capital (CZK million)	120	120	160	160	160
Total assets (CZK billion)	0.2	3.0	2.6	2.4	2.2
Volume of managed assets (CZK million)	989	9,573	8,950	6,692	7,734
Net profit/loss (CZK million)	(25)	1	(11)	(2)	10
Average headcount	20	24	24	23	20

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REICO investiční společnost České spořitelny, a.s.

Reico investiční společnost České spořitelny, a.s., established on 13 June 2006, has for its entire existence been a wholly-owned subsidiary of Česká spořitelna. Its registered office is located at Antala Staška 2027/79, Prague 4.

In 2015, Reico investiční společnost České spořitelny managed the ČS Real Estate Fund's special real estate investment fund and the Reico investiční společnosti České spořitelny, a.s. open-end mutual

fund. In 2015, ČS Real Estate Fund equity increased by CZK 4.3 billion year on year to CZK 8.2 billion at the year-end. The significant increase in equity resulted from the fact that the persistent low interest rate environment gave rise to increased investor interest in real estate acquisition.

The Czech real estate market remained stable in 2015 and also saw continued growth in investor demand, primarily for retail

properties. Most investment came from offshore, primarily the United States. The share of domestic investment increased 4% year on year to a total of 21%.

In 2015, there was a change in the ČS Real Estate Fund portfolio. In April, the Fund sold the A. Macka building in Ostrava and then in December it purchased the multiuse Forum Business Center I in Bratislava, Slovakia. This December acquisition was the Fund's second foreign real estate acquisition. The total number of the Fund's real estate holdings did not change in 2015; it continues to own 9 commercial buildings, 7 of them in the Czech Republic and 2 in Slovakia. Thanks to the new acquisition, however, the Fund's portfolio gained in geographic diversification, as more than 42% of its real estate investments came to comprise regional or foreign assets.

ČS Real Estate Fund performance was 2.3% in 2015. The main reasons for this lower return year on year were the considerable growth in Fund liquidity, postponement of the purchase date of the Forum Business Center I until December and settlement of the costs associated with renovating the Trnávka building in Bratislava. From a financial perspective, the ČS Real Estate Fund portfolio is healthy; most rental properties are at 90% or more occupancy, assuring stable rental income. The current values of buildings in the portfolio are stable with significant potential for long-term growth.

The financial indicators of Reico investiční společnost for 2015 reflect continuing favourable real estate market developments and growing investor interest in the ČS Real Estate Fund. Consequently, the Company managed a higher volume of funds than in previous years and reported profit of CZK 41 million for 2015.

REICO investiční společnost České spořitelny, a.s.	2015	2014	2013	2012	2011
Share capital (CZK million)	25	25	25	90	90
Equity (CZK million)	112	72	46	19	24
Total assets (CZK million)	127	80	59	29	38
Net profit/loss (CZK million)	41	26	27	(5)	(11)
Volume of managed assets (CZK billion)	8.2	6.5	6.0	4.9	3.0
Average headcount	7	7	10	9	9

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Erste Grantika Advisory, a.s.

Erste Grantika Advisory, a.s. (EGA) was founded in 2000. Česká spořitelna became its majority owner in 2007 and sole owner in 2008. The Company underwent restructuring culminating in a name change to Grantika České spořitelny in 2009. In 2014, the Company was renamed Erste Grantika Advisory, a.s.

EGA offers a comprehensive service pertaining to European Union subsidy policy, in particular advice on grants and tenders. To mitigate non-payment risk, the Company offers the service Subsidy Management to oversee clients' subsidy projects. EGA also offers M&A advisory covering the purchase, sale and valuation of enterprises. Finally, EGA offers financial and investment analysis.

The Company has built a network of branches with locations in Prague, Zlín, Pilsen, Hradec Králové and Ostrava and offers its services in Slovakia through the subsidiary EuroDotácie, a.s. Grantika operates pursuant to ISO 9001:2001 and ISO 10006:2004 standards.

The year 2015 meant the new grant period 2014–2020, which should have been launched no later than March 2015 based on information provided by State Administration agencies. Notwithstanding, there

were problems that meant the State Administration failed to launch the new grant application registration process until September 2015 with the full application submission process following in December. As EGA contracts are based on payments being effected after actual filing of a factually accurate full application, the vast majority of income was deferred until 2016.

In light of the foregoing, Erste Grantika Advisory reported a loss of CZK 5 million for 2015. However, the fact that 120 projects had been submitted by the 2015 year-end helped mitigate this loss due to the billing of a portion of administrative expenses. Additional income was generated by the Subsidy Management and Public Contract services, which as complementary services have long served to mitigate income volatility. Owing to reduced invoicing, the accounts receivable balance reached an all-time low, which obviated the need for provisioning.

In 2015, the Company defused any problems that arose and successfully carried out a total of 250 engagements for 150 clients in the preparation of EU Structural Fund grants, public contracts and grant management.

Erste Grantika Advisory, a.s.	2015	2014	2013	2012	2011
Share capital (CZK million)	7	7	7	7	7
Net profit/loss (CZK million)	(5)	4	5	(1)	(1)
Income from principal activities (CZK million)	27	44	43	37	42
Added value (CZK million)	19	34	33	26	29
Average headcount	41	38	37	38	38

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ČS do domu, a.s.

ČS do domu, a.s. has its registered office at Poláčkova 1976/2, Prague 4. The Company commenced operations in 2009 and is a wholly-owned subsidiary of Česká spořitelna. ČS do domu primarily engages in the management of external sales of Česká spořitelna Financial Group products and services via a network of exclusive external financial advisors.

ČS do domu bolsters the number of Česká spořitelna distribution channels, thus contributing to the greater overall comfort of client services. It also attracts new clients to the ČS Financial Group and reaches out to inactive clients through marketing campaigns.

The dynamic environment for external sales of financial products helped ČS do domu continue to evolve in 2015 and to remain a unique platform on the financial advisory market for its external partners, offering them services unavailable at any of the Company's competitors. This includes the unique offering of energy sales or close cooperation with the parent group, which provides business tips and the possibility of earnings in excess of usual commissions for selling financial products. The Company's primary goals are to ensure future business growth and significantly increase business performance while fulfilling the business plans of the ČS Financial Group.

To help achieve these goals, the Company has devised a long-term strategy oriented toward working with the best external financial advisors, supporting and developing parent company synergies and working under a new model for mutual cooperation with Česká spořitelna and its subsidiaries to acquire new active clients and recapture the interest of inactive clients.

In mid 2015, the Company launched the pilot sale of non-financial products at selected branches of Česká spořitelna via ČS do domu employees as part of the My Healthy Finances service. The increase in employee numbers corresponds to the introduction of this new business line.

Commercially speaking, 2015 was characterized by the absence of new legislation or commercial stimulus, which would have resulted in the extraordinary sale of any financial product, as was the case, for example, with pension reform products in 2012 or construction savings contributions in 2013. This fact meant a drop in gross commission volumes. On the other hand, the Company achieved operating and personnel cost savings together with a lower rate of investment compared to the previous transformative years, which kept ČS do domu in the black.

ČS do domu, a.s.	2015	2014	2013	2012	2011
Share capital (CZK million)	4	4	4	4	4
Total assets (CZK million)	32	31	26	27	32
Net profit/loss (CZK million)	4	9	(9)	1	1
Sales (CZK million)	88	96	116	92	90
Average headcount	32	20	20	18	12

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Erste Energy Services, a.s.

Erste Energy Services a.s., with its registered office at Evropská 2690/17, Prague 6, commenced its activity in August 2012. The Company is a wholly-owned subsidiary of Česká spořitelna. Its principal business is electricity and gas trading.

After the Company's founding in 2012, its first years of existence were characterized by increased purchase volumes of electricity from renewable sources, and then by the start-up of electricity and gas sales to end users in the corporate customer segment. In 2015, business activity was focused on active entry into the retail customer segment, thanks in large part to participation in the successful launch of the pilot sale of the service My Healthy Finances by Česká spořitelna.

The Company executed 126 contracts for the purchase of 800 GWh of electricity from renewable sources, which represents year-on-year growth of 11%. With a roster of more than 100 clients and a nearly 40% market share in the purchase of electricity from biogas

stations, ErES enjoys a close second place position among all traders. In 2015, the Company once again proved to be a reliable and solid partner for producers of electricity from renewable sources.

Growth in business activity is even more in evidence in supplies of electricity and gas to end users. In 2014, corporate customers were supplied with 250 GWh of electricity and in 2015 with 518 GWh of electricity and gas, and ErES has executed contracts for the supply of more than 600 GWh for 2016. In the households market segment, the Company has executed contracts for nearly 4 thousand offtake points for 2016. With its attractive prices and reliable services, ErES helps its clients save hundreds or even thousands of crowns annually on their electricity and gas bill.

In 2016, the Company will carry on with its growth strategy, in particular in the household segment, which is key for the entire ČS Financial Group.

Erste Energy Services, a.s.	2015	2014	2013	2012
Share capital (CZK million)	2	2	2	2
Total assets (CZK million)	495	271	110	40
Electricity and gas sales (CZK million)	1,440	869	298	2
Net profit/loss (CZK million)	(155)	(22)	(42)	16
Number of offtake points	3,075	1,348	163	26
Total supply (GWh)	557	172	2	–
Average headcount	14	14	7	6

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Věrnostní program iBod, a.s.

Věrnostní program iBod, a.s. was entered in the Commercial Register on 24 June 2013 with basic capital of CZK 2 million. Česká spořitelna, a.s. is the sole shareholder and owner. The Company is headquartered at Olbrachtova 1929/62, Prague 4. Its main business line is operation and strategic management of the iBod coalition loyalty programme. While the Company handles the program's strategic management, the actual running of the program is outsourced.

After its launch in 2013, Věrnostní program iBod focused on attaining the critical number of clients required for effective program operation in the partner network. This goal was met in 2014; by year end, nearly 1 million clients had signed up for the program. In 2015, customers became able to pay for online purchases from selected partners using ipoints and to choose some partner rewards in their e-shops.

Věrnostní program iBod, a.s.	2015	2014	2013
Share capital (CZK million)	2	2	2
Total assets (CZK million)	202	154	100
Net profit/loss (CZK million)	(85)	(40)	(50)
Average headcount	5	3	–

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MOPET CZ, a.s.

MOPET CZ was established 3 October 2010 and operates as an electronic money institution under license by the Czech National Bank. The shareholder structure underwent a major change in autumn 2013 when Česká spořitelna became the Company's majority shareholder; subsequently, it became the sole shareholder at 31 December 2015. The Company issues electronic money, provides payment services pertaining to electronic money and operates a payment system (excluding a payment system with settlement finality). In 2015, Mopet CZ moved to the building used by Stavební spořitelna České spořitelny on Vinohradská Street in Prague.

The Company offers the service of a universal prepaid debit card called Blesk peněženka [Lightning Wallet] in partnership with

the media company Czech News Center, Sazka and MasterCard. In 2015, the Company worked with Česká spořitelna to launch the service Biip, a prepaid debit card for kids and teenagers. Biip serves as a way to pay pocket money and helps financially educate children and teenagers. Both prepaid cards are rechargeable, among other ways, in cash at Sazka terminals and may be used worldwide anywhere MasterCard is accepted. The Company also provides technical support for some transaction services of the Česká spořitelna Financial Group and is working on a concept for prepaid cards on the Czech market. Another role of Mopet CZ is the prototyping of innovative concepts in electronic payment systems and electronic cash for the Česká spořitelna Financial Group.

Mopet CZ, a.s.	2015	2014
Share capital (CZK million)	102	77
Total assets (CZK million)	68	66
Net profit/loss (CZK million)	(35)	(38)
Average headcount	16	18

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