Separate Financial Statements

for the year ended 31 December 2014

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

and Independent Auditor's Report

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Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
ey.com

Independent Auditor's Report

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

We have audited the accompanying separate financial statements of Československá obchodná banka, a.s. ('the Bank'), which comprise the separate statement of financial position as at 31 December 2014 and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

18 March 2015
Bratislava, Slovak Republic

Ernst & Young

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Ing. Marek Mikolaj
UDVA Licence No. 1038

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Separate Statement of Financial Position at 31 December 2014

(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR '000)	Note	31 Dec 2014	31 Dec 2013 Reclassified
Assets			
Cash and balances with central bank	3	176,777	121,866
Financial assets at fair value through profit or loss	4	226,546	198,603
Available-for-sale financial assets	5	472,966	421,847
Loans and advances to financial institutions	6	59,135	46,481
Loans and advances to customers	7	3,774,391	3,518,973
Held-to-maturity investments	8	1,107,879	1,061,360
Investments in subsidiaries	9	77,591	80,351
Current income tax asset		5,170	-
Deferred income tax asset	31	10,182	15,920
Property and equipment	10	48,583	52,299
Intangible assets	11	11,244	12,859
Assets held for sale	12	-	11,988
Other assets	13	16,125	12,452
Total assets		**5,986,589**	**5,554,999**
Liabilities and equity			
Financial liabilities at fair value through profit or loss	15	205,223	253,483
Amounts owed to financial institutions	16	295,331	144,962
Amounts owed to customers	17	4,344,870	4,092,779
Debt securities issued	18	444,544	376,504
Provisions	14, 19	9,304	8,821
Other liabilities	20	38,324	33,716
Current income tax liability		-	8,339
Total liabilities		**5,337,596**	**4,918,604**
Share capital		248,004	248,004
Share premium		484,726	484,726
Reserve funds		44,169	37,990
Revaluation surplus		(192,191)	(199,930)
Retained earnings		3,818	3,818
Net profit for year		60,467	61,787
Total equity	22	**648,993**	**636,395**
Total liabilities and equity		**5,986,589**	**5,554,999**

Daniel Kollár
Chief Executive Officer

Stefan Delaet
Chief Officer for Finance, Credits and ALM

The Notes on pages 8 to 85 form an integral part of these Separate Financial Statements.

Separate Statement of Profit or Loss and Other Comprehensive Income for year ended 31 December 2014

(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR ’000)	Note	31 Dec 2014	31 Dec 2013 Reclassified
Interest income		208,219	206,733
Interest expense		(40,574)	(47,003)
Net interest income	25	**167,645**	**159,730**
Fee and commission income		59,086	55,188
Fee and commission expense		(11,984)	(10,248)
Net fee and commission income	26	**47,102**	**44,940**
Net trading result	27	19,067	21,938
Dividend income		12,590	20,330
Other operating result	28	(1,382)	6,091
Total income		**245,022**	**253,029**
Personnel expenses	29	(61,299)	(57,491)
Depreciation and amortization		(9,584)	(9,662)
Other operating expenses	30	(80,477)	(78,965)
Operating expenses		**(151,360)**	**(146,118)**
Profit for year before impairment losses, financial guarantees and tax		**93,662**	**106,911**
Impairment losses and financial guarantees	14	(16,741)	(28,304)
Profit for year before tax		**76,921**	**78,607**
Income tax expense	31	(16,454)	(16,820)
Net profit for year		**60,467**	**61,787**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets		7,739	(4,392)
thereof: income tax relating to available-for-sale financial assets		(2,183)	1,647
Other comprehensive income for year, net of tax		**7,739**	**(4,392)**
Total comprehensive income for year		**68,206**	**57,395**
Basic and diluted earnings per share in EUR	23	8,095	8,271

The Notes on pages 8 to 85 form an integral part of these Separate Financial Statements.

Separate Statement of Changes in Equity for year ended 31 December 2014

(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR ’000)	Share capital	Share premium	Reserve funds	Revaluation surplus on available-for-sale financial assets	Other revaluation surplus	Retained earnings	Total
Equity as at 1 January 2013	**248,004**	**484,726**	**32,750**	**20,624**	**(216,162)**	**52,402**	**622,344**
Total comprehensive income/(loss) for year	-	-	-	(4,392)	-	61,787	**57,395**
Transfer on merger	-	-	-	-	-	3,818	**3,818**
Profit distribution – reserve funds	-	-	5,240	-	-	(5,240)	**-**
Dividends paid	-	-	-	-	-	(47,162)	**(47,162)**
Equity as at 31 December 2013	**248,004**	**484,726**	**37,990**	**16,232**	**(216,162)**	**65,605**	**636,395**
Equity as at 1 January 2014	**248,004**	**484,726**	**37,990**	**16,232**	**(216,162)**	**65,605**	**636,395**
Total comprehensive income for year	-	-	-	7,739	-	60,467	**68,206**
Profit distribution – reserve funds	-	-	6,179	-	-	(6,179)	**-**
Dividends paid	-	-	-	-	-	(55,608)	**(55,608)**
Equity as at 31 December 2014	**248,004**	**484,726**	**44,169**	**23,971**	**(216,162)**	**64,285**	**648,993**

The Notes on pages 8 to 85 form an integral part of these Separate Financial Statements.

Separate Statement of Cash Flows for year ended 31 December 2014

(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR ’000)	Note	31 Dec 2014	31 Dec 2013 Reclassified
Profit before taxes		**76,921**	**78,607**
Adjustments for:			
Depreciation and amortization		9,584	9,662
Unrealized gains from financial instruments		(28,169)	(5,803)
Dividend income		(12,590)	(20,330)
Interest income		(208,219)	(206,733)
Interest expense		40,574	47,003
Impairment losses and provisions		17,719	28,656
Loss on disposal of property and equipment, intangible assets and assets held for sale		459	243
Operating loss before working capital changes		*(103,721)*	*(68,695)*
Cash flow from operating activities			
Loans and advances to financial institutions		3,861	1,738
Financial assets at fair value through profit or loss		6,852	181,970
Available-for-sale financial assets		(44,761)	(136,975)
Loans and advances to customers		(265,082)	(51,722)
Other assets		4,750	(7,015)
Amounts owed to financial institutions		150,384	(78,015)
Financial liabilities at fair value through profit or loss		(21,823)	59,622
Amounts owed to customers		252,780	134,682
Provisions		(514)	(1,028)
Other liabilities		(2,326)	10,613
Interest received		211,557	207,602
Interest paid		(38,156)	(49,436)
Income taxes paid		(26,408)	(12,363)
Net cash flow from operating activities		**127,393**	**190,978**
Cash flow from investing activities			
Acquisition of held-to-maturity investments		(74,068)	(325,869)
Repayment of held-to-maturity investments		27,777	101,776
Dividends received		12,590	20,330
Purchase of property and equipment, intangible assets		(8,029)	(9,986)
Proceeds from sale of property and equipment, intangible assets and assets held for sale		9,962	291
Net cash flows from investments in subsidiaries		(505)	-
Net cash flow on investing activities		**(32,273)**	**(213,458)**
Cash flow from financing activities			
Proceeds from issue of debt securities		68,406	128,015
Repayment of debt securities		(2,401)	(71,767)
Dividends paid		(55,608)	(47,162)
Net cash flow from financing activities		**10,397**	**9,086**
Transfer on merger		-	(416)
Net change in cash and cash equivalents		**105,517**	**(13,810)**
Cash and cash equivalents at beginning of year	39	153,231	167,041
Cash and cash equivalents at end of year	39	258,748	153,231
Net change		105,517	(13,810)

The Notes on pages 8 to 85 form an integral part of these Separate Financial Statements.

1. INTRODUCTION

Československá obchodná banka, a.s., ('ČSOB SR' or 'the Bank'), is a universal commercial bank conducting its operations in the Slovak Republic. As at 31 December 2014, the Bank had 137 branches.

On 1 January 2008, Československá obchodná banka, a.s., pobočka zahraničnej banky v SR became a separate legal entity from Československá obchodní banka, a.s., Praha ('ČSOB Praha') and became a universal commercial bank with its business name Československá obchodná banka, a.s., and registered office at Michalská ulica 18, 815 63 Bratislava, identification number 36 854 140.

ČSOB SR is a part of the group of KBC Bank N.V, with its registered office at Havenlaan 2, 1080 Brussels, Belgium ('KBC'). The consolidated financial statements of this immediate parent company are deposited at Nationale Bank van België NV, Balanscentrale, de Berlaimontlaan 14, 1000 Brussels, Belgium.

The ultimate parent company of ČSOB SR is KBC GROUP N.V, with its registered seat at Havenlaan 2, 1080 Brussels, Belgium. The consolidated financial statements of the ultimate parent company are deposited at the same place, Nationale Bank van België NV, Balanscentrale, de Berlaimontlaan 14, 1000 Brussels, Belgium.

The main aim of KBC is to ensure that ČSOB SR is a strong independent economic subject with equal rights, position and liability to other entities within the KBC group in Europe. ČSOB SR is a universal commercial bank providing a wide range of financial and banking services for retail, small and medium-sized entrepreneurs, corporate and private banking domestic and foreign customers in both local and foreign currencies.

ČSOB SR has the following subsidiaries within its group ('ČSOB Group SR'):

- ČSOB Stavebná sporiteľňa, a.s.
- ČSOB Leasing, a.s.
- ČSOB Factoring, a.s.
- Nadácia ČSOB
- ČSOB Centrála, s.r.o.

The Chief Executive Officer and Chairman of the ČSOB SR Board of Directors as at 31 December 2014 is Daniel Kollár. Other members of the Board of Directors are: Branislav Straka, Ľuboš Ondrejko, Juraj Ebringer, Stefan Delaet and Marcela Výbohová.

The Chairman of the Supervisory Board as at 31 December 2014 is Luc Gijsens. The members of the Supervisory Board are: Marko Voljč, Henrieta Dunčková, Jan Gysels, Martin Jarolím and Peter Leška.

2. SIGNIFICANT ACCOUNTING PRINCIPLES AND METHODS

2.1. Basic accounting principles

The Bank's Separate Financial Statements for the year ended 31 December 2014 ('separate financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and Act N° 431/2002 Coll. on Accounting. The Bank also prepares Consolidated Financial Statements for the ČSOB Group SR in accordance with the International Financial Reporting Standards as adopted by the EU and Act N° 431/2002 Coll. on Accounting.

The Bank prepared and issued Separate and Consolidated Financial Statements for the year ended 31 December 2014 on 18 March 2015.

Separate and Consolidated Financial Statements for the preceding accounting period (as at 31 December 2013) were approved and authorized for issue on 19 March 2014.

These separate financial statements have been prepared under the going-concern assumption that the Bank will continue in operation for the foreseeable future, using the historical cost method and modified by revaluations of available-for-sale financial assets and financial assets and financial liabilities revalued at fair value through profit or loss.

Balances in brackets represent negative amounts. The reporting currency in the separate financial statements is the Euro ('EUR') and the amounts are disclosed in thousands of EUR unless stated otherwise.

2.2. Significant accounting judgments and estimates

The preparation of the separate financial statements in conformity with IFRS requires the use of certain significant accounting estimates. While applying the Bank's accounting methods, management has also made other judgments in addition to those involving estimates which have a significant impact on the amounts recognized in the separate financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

Where financial instruments are not traded in active public markets, their fair values are estimated using valuation models. Where possible, the input for these models is taken from market data. In circumstances where no market data is available, the Bank's management has to use a significant number of estimates. These estimates largely entail the determination of anticipated cash flows and discount rates. The greater part of fair value is determined based on models arising from observable market data.

Impairment losses on loans

The Bank reviews its loan portfolio at each reporting date and assesses whether an allowance for impairment should be recorded in the separate statement of profit or loss and other comprehensive income. In particular, judgment is required on the part of the management to estimate the amount and timing of future cash flows and to determine the level of allowance required. Such estimates are based on assumptions using a number of factors. The actual results may differ from these estimates.

The Bank creates individual impairment for individually significant loans and portfolio impairment for those loans which are not individually significant or where no impairment was identified on the basis of an individual assessment. The Bank monitors and evaluates loan portfolios in terms of concentration in sectors, industries, their distribution to individual ratings, the existence of collateral and territorial exposure.

Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences between the carrying and tax value of assets and liabilities, to the extent that it is probable that a taxable profit will be available against which the losses may be utilized in the future. Judgment is required on the part of management to determine the amount of deferred tax assets that may be recognized, based on the probable timing and levels of future taxable profits together with future tax planning strategies.

Provisions

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

The amount recognized as a provision for the liability is the best estimate of the consideration required to settle the current obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision for a liability is measured using the cash flows estimated to settle the current obligation, its carrying amount is the current value of those cash flows.

2.3. Foreign currencies

The EUR is the currency of the primary economic environment in which the Bank operates (functional currency).

Foreign currency transactions are translated into the functional currency at the exchange rates of the European Central Bank ('ECB') prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are recognized in the separate statement of profit or loss and other comprehensive income under 'Net trading result'.

2.4. Financial instruments – accounting of recognition and derecognition

Financial assets and liabilities are recognized in the separate statement of financial position when the Bank becomes a party to the contractual provisions of the financial instrument, except for 'regular way' purchases and sales of financial assets. A financial asset is derecognized from the separate statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred by the Bank to another party. A financial liability is derecognized from the separate statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

A 'regular way' purchase or sale of a financial asset is one in which delivery of the asset is made within the time-frame generally established by regulation or within the convention of the particular market. For all categories of financial asset, the Bank recognizes 'regular way' purchases and sales using settlement date accounting. In settlement date accounting, a financial asset is recognized or derecognized in the separate statement of financial position on the date it is physically transferred to or from the Bank ('settlement date'). For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between 'trade date' and 'settlement date' in connection with purchases and sales are recognized in the separate statement of profit or loss and other comprehensive income.

2.5. Financial instruments – classification, initial and subsequent measurement

All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, these are increased by transaction costs.

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. The Bank classifies financial assets in the following categories:

- Financial assets and liabilities at fair value through profit or loss
- Loans and advances to financial institutions and Loans and advances to customers
- Held-to-maturity investments
- Available-for-sale financial assets
- Financial liabilities at amortized cost

Financial assets and liabilities at fair value through profit or loss

The category has two sub-categories:

- Financial assets and liabilities held for trading. This category also includes all derivatives agreed by the Bank.
- Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition. Financial assets and liabilities may be classified in this sub-category when at least one of the following criteria is met:

    - The classification eliminates or significantly reduces inconsistencies in treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.
    - The assets and liabilities are a part of a group of financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
    - The financial instruments contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flow, or it is obvious, with little or no analysis, that it could not be recorded separately.

Financial assets and liabilities designated at fair value through profit or loss are recorded in the separate statement of financial position at fair value. Gains and losses resulting from changes in fair value are recorded in the separate statement of profit or loss and other comprehensive income as 'Net trading result' as incurred. Interest income or expense is recorded in the separate statement of profit or loss and other comprehensive income as 'Net interest income'.

Where the transaction price in a non-active market differs from the fair value of other observable current market transactions in the same instrument or the fair value based on a valuation technique, the Bank immediately recognizes the difference between the transaction price and the fair value (a Day 1 profit) in the separate statement of profit or loss and other comprehensive income as 'Net trading result'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the separate statement of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognized.

Loans and advances to financial institutions and Loans and advances to customers

Loans and advances to financial institutions and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and where the Bank has no intention of trading the financial asset.

Loans and advances to financial institutions and loans and advances to customers are recorded in the separate statement of financial position at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium and fees that are an integral part of the effective interest rate. The amortization is included in the separate statement of profit or loss and other comprehensive income as 'Interest income'. Losses arising from the impairment of these investments are recognized in the separate statement of profit or loss and other comprehensive income as 'Impairment losses and financial guarantees'.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Where the Bank plans to sell more than an insignificant amount of held-to-maturity assets, the entire category would be impaired and reclassified as available-for-sale financial assets.

Held-to-maturity investments are recognized in the separate statement of financial position at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium and fees that are an integral part of the effective interest rate. The amortization is included in the separate statement of profit or loss and other comprehensive income under 'Interest income'. Any losses arising from the impairment of these investments are recognized in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

Available-for-sale financial assets

Available-for-sale financial assets are assets which are classified under this category on acquisition, or which do not qualify for classification at fair value through profit or loss, held-to-maturity investments or loans and advances to financial institutions and loans and advances to customers.

Available-for-sale financial assets are recognized in the separate statement of financial position at fair value. Unrealized gains and losses arising from changes in fair value of these financial assets are recognized in other comprehensive income. When an asset is derecognized from the other comprehensive income, the unrealized gain or loss is derecognized against 'Net trading result' in the separate statement of profit or loss and other comprehensive income. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded in the separate statement of profit or loss and other comprehensive income as 'Interest income'. For impairment of available-for-sale financial assets, see Note 2.10.

Financial liabilities at amortized cost

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

These liabilities are measured in the separate statement of financial position at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium and fees that are an integral part of the effective interest rate. The amortization is included in the separate statement of profit or loss and other comprehensive income as 'Interest expense'.

2.6. Embedded derivatives

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried separately at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified at fair value through profit or loss.

If a separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. When the Bank cannot reliably separate the embedded derivative, the entire hybrid instrument is classified at fair value through profit or loss.

2.7. Hedging derivative financial instruments

Within the Bank's strategy hedging derivatives are determined for hedging some risks and meet all criteria for the classification of hedging derivatives in compliance with IFRS. The Bank's criteria for the application of hedge accounting include:

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

The Bank designates hedging derivatives as hedges of the fair value of recognized assets or liabilities. Changes in the fair value of hedging instruments are recognised in the separate statement of profit or loss and other comprehensive income in 'Net trading result' together with any changes in the fair value of the hedged items (assets or liabilities) that are attributable to the hedge risk. Interest income/Interest expense of hedging instrument is presented in the separate statement of profit or loss and other comprehensive income together with Interest income/Interest expense of hedged item. The positive fair value of hedging instruments and the revaluation of asset hedged items is presented in the separate statement of financial position as 'Other assets'. Negative value of hedging instruments and revaluation of liability hedged items is presented as 'Other liabilities'. For an overview of hedging derivatives, see Note 33.

Hedge accounting is discontinued, when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

2.8. Securities funded under repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') remain in the separate statement of financial position as assets. The corresponding cash received is recognized in the separate statement of financial position in 'Financial liabilities at fair value through profit or loss', 'Amounts owed to financial institutions' or 'Amounts owed to customers', depending on the counterparty and reflecting the economic substance of the loan. The difference between the sale and repurchase prices is treated as 'Interest expense' and is accrued using the effective interest rate method in the separate statement of profit or loss and other comprehensive income over the life of the agreement.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the separate statement of financial position. The corresponding cash paid is recognized in the separate statement of financial position in 'Financial assets at fair value through profit or loss', 'Loans and advances to financial institutions' or 'Loans and advances to customers', depending on the counterparty and the economic substance of the loan. The difference between the purchase and resale prices is treated as 'Interest income' and is accrued using the effective interest rate method in the separate statement of profit or loss and other comprehensive income over the life of the agreement.

2.9. Fair value of financial instruments

The fair value of the financial instrument 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fairly valued using the quoted market prices if a price is quoted in an active public market. For financial instruments that are not traded in an active public market, their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. These fair value estimation techniques are significantly affected by assumptions made by the Bank, including the discount rate and estimates of future cash flows.

2.10. Impairment of financial assets

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

Objective evidence that a financial asset or a group of assets is impaired includes observable data that is available to the Bank on the following loss events:

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

Held-to-maturity investments, Loans and advances to financial institutions and Loans and advances to customers

The Bank assesses impairment of this category of financial assets separately for financial assets that are individually significant, and collectively for financial assets that are not individually significant. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and assesses them for impairment collectively. Assets that are assessed for impairment individually and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

An impairment loss is measured as the difference between the asset’s carrying value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (in the case of assets with a fixed interest rate), or actual market interest rate (in the case of assets with a variable interest rate). The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that will result from foreclosure, less the costs of obtaining and selling the collateral.

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

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

Where possible, the Bank seeks to restructure loans rather than to assume possession of collateral. This may involve the agreement of new contractual conditions and the need for a loan maturity extension. The Bank's management continually reviews renegotiated loans to ensure that all criteria concerning the recovery of such assets and the minimisation of credit risk are met.

Impairment losses as well as changes to the amount of the loss are recorded in the form of allowances with a counter-entry in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

When a loan is uncollectable, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

Available-for-sale financial assets

In the case of equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is taken into consideration in determining whether the assets are impaired. The Bank treats 'significant' generally as 20% and 'prolonged' as greater than 1 year. In the case of debt financial instruments classified as available-for-sale financial assets, impairment is determined based on expected cash flows.

The amount of loss is determined as the difference between the acquisition cost and the current fair value. Impairment losses are recognized as allowances and in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the separate statement of profit or loss and other comprehensive income. Any loss from equity instruments classified as available-for-sale may not be reduced through profit or loss.

2.11. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the separate statement of financial position if, and only if, there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability at the same time.

2.12. Investments in subsidiaries and associates

A subsidiary is a subject wholly controlled by the Bank (parent company). The Bank controls an entity if, and only if, the Bank has all the following:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity;
- the ability to use its power over the entity to affect the amount of the entity´s return.

Associates are subjects in which the Bank has significant influence. Significant influence is classified as a shareholding of 20% or more (direct or indirect).

Investments in subsidiaries and associates are presented at cost less impairment losses. Impairment losses are recognized as differences between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. Impairment losses on investments in subsidiaries and associates are recognized in the separate statement of profit or loss and other comprehensive income as 'Impairment losses and financial guarantees'. Dividends from subsidiaries and associates are recorded as 'Dividend income'.

2.13. Leasing

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

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to the separate statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

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

2.14. Recognition of income and expenses

Revenue is recognized in the separate statement of profit or loss and other comprehensive income to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest received and interest paid

Interest income and interest expense are recognized in the separate statement of profit or loss and other comprehensive income on an accrual basis, using the effective interest rate method.

The effective interest rate method is a method for calculating the amortized cost of a financial asset or financial liability and for allocating the interest income or interest expense over the respective period. The effective interest rate is the rate that precisely discounts estimated future cash payments or receipts over the expected life of the financial instrument precisely to the net carrying value of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows taking into consideration all the contractual terms of the financial instrument but excluding any future credit losses. The calculation includes all fees and amounts paid or received between the contractual parties which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and commissions paid and received

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan origination fees for loans which may be drawn down are deferred and recognized as part of the loan's effective interest rate. Commissions and fees arising from transactions for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognized based on the valid service contracts. Custodial and fiduciary services fees relating to investment funds are accrued over the period for which the service is provided.

Dividend income

Revenue is recognized when the Bank's right to dividends is established.

2.15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and bank account balances payable upon request, deposits and loans to banks with an agreed maturity of up to three months, government treasury bills and treasury bills of the National Bank of Slovakia ('NBS') with an agreed maturity of up to three months.

2.16. Property, equipment and intangible assets

Land, buildings, equipment and intangible assets include real estate used by the Bank, software, IT and communications and other machines and equipment.

Property and equipment are carried at cost less accumulated depreciation and impairment losses. The cost includes the acquisition price and other related ancillary costs, e.g. transportation costs, customs duties or commissions. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life for the following periods:

Buildings	30 years
Equipment	3 - 12 years
Other tangible assets	4 - 20 years

Intangible assets are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over the estimated useful life of assets. Amortization periods are determined on an individual basis (3 - 8 years).

Assets' residual values and useful lives are reviewed and adjusted, where appropriate, as at the balance sheet date.

Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Investment property

Investment properties are properties, land or building, held to earn rentals or for capital appreciation. Investment property is stated at historical cost less impairment provisions and accumulated depreciation using depreciation on a straight-line basis over the estimated useful lives. The depreciation of investment property is presented in the separate statement of profit or loss and other comprehensive income under 'Other operating result'. The estimated useful life of buildings classified as investment property is 30 years. The carrying amount of investment property, its depreciation, and rental revenues are disclosed in Note 10.

Internally generated intangible assets

Internally generated intangible assets are outputs of internal projects created through a development phase.

Expenditures on internal generated intangible assets comprise all directly attributable necessary expenditures to create, produce, and prepare the assets to be capable of operating in the manner intended by management. Intangible assets are reported at cost (internal and external expenditures) less any accumulated amortization. The amortization is used for straight-line amortization during the estimated useful life of the assets. Periods of the amortization are set individually.

Assets that are subject to amortization are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying value is reduced immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

2.17. Financial guarantees

In the normal course of business, the Bank provides financial guarantees consisting of letters of credit and letters of guarantee. Financial guarantees are recognized in the separate financial statements at whichever is the higher of the accrued guarantee fee and the best estimates of the expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in 'Provisions'. The fees accepted for guarantee issues are recognized in the separate statement of profit or loss and other comprehensive income under 'Fee and commission income'. Any increase and any decrease in the liability relating to financial guarantees is included in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

2.18. Employee benefits

Pensions to the Bank's former employees are paid through the pensions system valid in the Slovak Republic. This system is funded from gross salary-derived social insurance contributions from employees and employers.

In addition to these contributions, the Bank contributes to the employees' additional pension insurance above the framework of legal social security. Contributions are charged to the separate statement of profit or loss and other comprehensive income as they are made.

The Bank operates unfunded defined long-term benefit programs comprising one-off retirement benefits, long service and jubilee benefits. In accordance with IAS 19 'Employee benefits', the employee benefits costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the separate statement of profit or loss and other comprehensive income so as to spread the regular cost over the service lives of employees. The liabilities related to the benefits are measured at the present value of the estimated future cash outflows discounted by interest rates derived from a forward curve according to the maturity periods of benefits. All actuarial gains and losses are recognized immediately in the separate statement of profit or loss and other comprehensive income. Past service cost is recognized when incurred to the extent of the benefits already paid and the remaining amount is amortized on a straight-line basis over the average period until the benefits become vested. Key assumptions used in the actuarial valuation are presented in Note 20.

2.19. Provisions

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

2.20. Income tax

There are two components of income tax expense: current and deferred. Current income tax expense entails the amounts to be paid or refunded within income taxes for the respective period. The tax base for income tax purposes is determined from profit/loss for the current accounting period, adding tax non-deductible expenses and deducting revenues which are not subject to income tax.

Deferred tax assets and liabilities are recognized due to the different valuation of assets and liabilities in accordance with the Income Tax Act and their carrying values in the separate financial statements.

Deferred tax is calculated using the balance sheet method. All deferred tax assets are recognized to the extent that it is probable that a future taxable profit will be available against which the deferred tax assets can be utilized. Deferred tax liabilities represent income taxes to be paid in future periods due to taxable temporary differences. Deferred taxes are disclosed in the separate financial statements at their net values.

The Bank also pays various indirect operating taxes which are a part of 'Other operating expenses'.

2.21. Fiduciary activities

The Bank commonly acts in fiduciary activities that result in the holding or placing of assets on the accounts of individuals and institutions. Assets under administration are not recognized as assets or liabilities in the separate statement of financial position but are accounted for as off-balance sheet items, since the Bank does not bear the risks and rewards of ownership associated with such items. See also Note 21.

The income arising thereon is recognized in the separate statement of profit or loss and other comprehensive income under 'Fee and commission income'.

2.22. Changes in accounting policies

Effective from 1 January 2014

The accounting policies adopted are consistent with those used in the previous financial period except that the Bank has adopted the following standards, amendments and interpretations. The adoption of these did not have any effect on the financial performance or position of the Bank. However, in some cases, they give rise to additional disclosures.

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

IFRS 11 Joint Arrangements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. The standard has an impact on the consolidated financial statements of the Bank, because the proportionate method of consolidation is no longer permitted.

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

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

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

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

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

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

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

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

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

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

Effective after 1 January 2014

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

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

Classification and measurement of financial instruments

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

Hedge accounting

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

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

The hedge accounting model extends the eligibility of risk components to include non-financial items, provided the component is separately identifiable and can be reliably measured.
The new general hedge accounting will have only marginal, if any, effect on the existing hedging constructions.

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

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

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

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

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

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

1. to identify the contract with the customer (a contract exists only when it is 'probable' that the entity will collect the consideration);
2. to identify separate Performance Obligations in the contract (a promise to transfer good or service);
3. to determine the transaction price (only an amount not subject to subsequent future reversals);
4. to allocate the transaction price to each Performance Obligation;
5. to recognize revenue when or as each Performance Obligation is satisfied.

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

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

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

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

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

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

2.23. Integration of ČSOB Asset management, a.s.

Since 1 June 2013, ČSOB Asset management a.s., the subsidiary of ČSOB SR, was integrated into ČSOB SR. The assets and liabilities of ČSOB Asset management, a.s., were transferred to ČSOB SR at the carrying values as presented in the separate financial statements of ČSOB Asset management, a.s. as at 31 May 2013. The share capital of ČSOB SR remained unchanged. Reserve funds and retained earnings of ČSOB Asset management, a.s., were transferred to the retained earnings of ČSOB SR. The net profit of ČSOB Asset management a.s. for the period ended 31 May 2013 was transferred into net profit for year of ČSOB SR.

The transfer of assets, liabilities and equity of ČSOB Asset management, a.s., was performed in the following amounts:

Separate Statement of Financial Position at 1 June 2013

(EUR '000)	**1 June 2013**
Assets	
Loans and advances to financial institutions	2,380
Other assets	3,880
Total assets	**6,260**
Liabilities and equity	
Current income tax liability	34
Total liabilities	***34***
Share capital	1,992
Reserve funds	398
Retained earnings	3,420
Net profit for year	416
Total equity	***6,226***
Total liabilities and equity	**6,260**

2.24. Reclassification of the separate statement of financial position at 31 December 2013 and the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2013

In 2014, the Bank performed a review of the presentation of the financial statements. As a result, the Bank changed the presentation of income from written off and ceded receivables and reclassified them in the separate statement of profit or loss and other comprehensive income from 'Other operating result' to 'Impairment losses and financial guarantees'. The Bank also reclassified the suspense accounts from 'Other assets'/'Other liabilities' to 'Loans and advances to customers'/'Amount owed to customers' in the separate statement of financial position.

The changed presentation is in compliance with the International Financial Reporting Standards and provides reliable and more relevant information to the users of the financial statements. Due to the amended presentation of the financial statements, comparative amounts in the separate statement of financial position at 31 December 2013 and the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2013 were reclassified.

The comparison of the reclassified items in the separate statement of financial position at 31 December 2013 prior to reclassification and after reclassification is as follows:

(EUR '000)	**Note**	**31 Dec 2013 Before reclass.**	**Changes in presentation**	**31 Dec 2013 After reclass.**
Assets				
Loans and advances to customers	7	3,517,012	1,961	3,518,973
Other assets	13	14,413	(1,961)	12,452
Liabilities				
Amounts owed to customers	17	4,042,972	49,807	4,092,779
Other liabilities	20	83,523	(49,807)	33,716

The comparison of the reclassified items in the separate statement of profit or loss and other comprehensive income for the year ended 31 December 2013 prior to reclassification and after reclassification is as follows:

(EUR '000)	**Note**	**31 Dec 2013 Before reclass.**	**Changes in presentation**	**31 Dec 2013 After reclass.**
Other operating result	28	8,047	(1,956)	6,091
Impairment losses and financial guarantees	14	(30,260)	1,956	(28,304)
Net profit for year		**61,787**	**-**	**61,787**

3. CASH AND BALANCES WITH CENTRAL BANK

(EUR '000)	31 Dec 2014	31 Dec 2013
Cash balances	168,705	114,681
Mandatory minimum reserves	8,072	7,185
	176,777	**121,866**

Mandatory minimum reserves ('MMR') are maintained in the amount required by the regulations of the NBS and are not designed for daily use. They are accounted for as interest-bearing deposits in accordance with the regulations of the NBS. The NBS paid interest on the mandatory minimum reserve balances at 0.05% p.a. as at 31 December 2014. The amount of the reserves depends on the volume of deposits received.

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(EUR '000)	31 Dec 2014	31 Dec 2013
Financial assets held for trading:		
Loans and deposits to banks	34,133	-
Financial trading derivatives (Note 33)	53,061	55,207
Government debt securities	59,823	57,044
Bank bonds	56,275	63,004
Other bonds	23,254	23,348
	226,546	**198,603**

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(EUR '000)	31 Dec 2014	31 Dec 2013
Government debt securities	413,793	407,196
Bank bonds	23,289	2,606
Other bonds	35,623	11,784
Shares	888	888
	473,593	**422,474**
Impairment losses (Note 14)	(627)	(627)
	472,966	**421,847**

As at 31 December 2014, the Bank holds in its portfolio of securities available-for-sale, other bonds with a market value of EUR 15,554 thousand (2013: nil), placed as collateral for a loan received from banks.

(EUR '000)	31 Dec 2014	31 Dec 2013
Shares		
Kerametal, a.s.	511	511
RVS, a.s.	212	212
Drevoúnia, a.s. in bankruptcy	17	17
BCPB, a.s.	24	24
CHIRANA EXPORT-IMPORT, a.s.	100	100
SWIFT London	11	11
Spoločnosť pre rozvoj bývania v Bratislave	13	13
	888	**888**
Impairment losses (Note 14)	(627)	(627)
	261	**261**

6. LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS

(EUR '000)	31 Dec 2014	31 Dec 2013
Current accounts	47,217	30,866
Loans and advances to banks	7,060	10,781
Subordinated financial assets	4,980	4,981
	59,257	**46,628**
Impairment losses (Note 14)	(122)	(147)
	59,135	**46,481**

As at 11 June 2014, the ECB introduced a negative deposit facility interest rate in excess of the MMR at the end of period. It is derived from the deposit facility interest rate, at 31 December 2014 (0.20%) p.a.

Subordinated financial assets

In 2006, ČSOB SR granted a subordinated loan of SKK 150,000 thousand (EUR 4,979 thousand) to ČSOB Stavebná sporiteľňa, a.s. at an interest rate of 3M BRIBOR plus 1.10% p.a. The contractual parties agreed that after five years from drawing the loan, the interest rate margin will increase by 1.50% p.a. to a level of 2.60% p.a.

The contractual parties agreed that, in the event of the borrower's bankruptcy or winding up, the subordinated debt was to be paid on the full settlement of all the borrower's liabilities against their depositors and other creditors, except for liabilities to other creditors which were bound by the same or a similar subordination clause. The borrower's liabilities resulting from other subordinated debt incurred at the time of concluding the contract or subsequently would be met by the borrower in proportion to the subordinated debt incurred on the basis of the respective contract.

The above may only entail the borrower's liabilities against those creditors whose receivables, classified as creditors' receivables, were duly and promptly registered with the bankruptcy proceedings and approved by the respective bankruptcy court.

The contractual parties agreed that offsetting receivables from the subordinated debt against the creditor's liabilities to the borrower was not acceptable. The creditor's receivables resulting from the contract were not secured in any way, nor would they be so secured. This is also applicable to other amounts due and to payables resulting from the creditor's receivables. Subordinated debt is not available to be claimed or taken over. The creditors will not accept as collateral any receivable resulting from subordinated debt and any related amounts due, or any amounts encumbered with debtors' liabilities. The creditor agreed not to require any early settlement of the subordinated debt or any part of it on the part of the borrower.

7. LOANS AND ADVANCES TO CUSTOMERS

As at 31 December 2014, loans and advances to customers, according to risk categories based on individual assessment, are as follows:

(EUR '000)	Exposure	Impairment losses (Note 14)	Net carrying amount
Unimpaired loans and advances to customers	3,684,803	(7,017)	3,677,786
Impaired loans and advances to customers	188,778	(92,173)	96,605
Total	**3,873,581**	**(99,190)**	**3,774,391**

As at 31 December 2013, loans and advances to customers, according to risk categories based on individual assessment, reclassified, are as follows:

(EUR '000)	Exposure	Impairment losses (Note 14)	Net carrying amount
Unimpaired loans and advances to customers	3,422,754	(7,235)	3,415,519
Impaired loans and advances to customers	192,560	(89,106)	103,454
Total	**3,615,314**	**(96,341)**	**3,518,973**

8. HELD-TO-MATURITY INVESTMENTS

(EUR '000)	31 Dec 2014	31 Dec 2013
Government debt securities	1,065,911	1,023,202
Bank bonds	41,968	30,089
Other bonds	-	8,069
	1,107,879	**1,061,360**

As at 31 December 2014, the Bank holds in its portfolio of held-to-maturity investments government debt securities in the carrying amount of:

- EUR 42,105 thousand (2013: EUR 35,257 thousand) placed as collateral for the part of mortgage bonds issued,
- EUR 77,933 thousand (2013: nil) placed as collateral for a loan received from banks.

9. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2014, investments in subsidiaries are as follows:

(EUR '000)	**Share in %**	**Acquisition price**	**Impairment losses (Note 14)**	**Carrying value**
ČSOB Stavebná sporiteľňa, a.s.	100%	23,899	-	23,899
ČSOB Leasing, a.s.	100%	49,791	-	49,791
ČSOB Factoring, a.s.	100%	10,954	(7,565)	3,389
Nadácia ČSOB	100%	7	-	7
ČSOB Centrála, s.r.o.	100%	505	-	505
		85,156	**(7,565)**	**77,591**

As at 31 December 2013, investments in subsidiaries are as follows:

(EUR '000)	**Share in %**	**Acquisition price**	**Impairment Losses (Note 14)**	**Carrying value**
ČSOB Stavebná sporiteľňa, a.s.	100%	23,899	-	23,899
ČSOB Leasing, a.s.	100%	49,791	-	49,791
ČSOB Factoring, a.s.	100%	10,954	(4,300)	6,654
Nadácia ČSOB	100%	7	-	7
		84,651	**(4,300)**	**80,351**

The percentage-share in subsidiaries equates to the percentage of voting rights.

In 2014, ČSOB SR incorporated a new subsidiary, ČSOB Centrála, s.r.o., with 100% voting power. The company was registered on 1 April 2014 in the Commercial Register. As at 31 December 2014, the value of cash deposits of the founder´s share capital was in the amount of EUR 505 thousand.

The purpose of ČSOB Centrála, s.r.o., is the acquisition, management and operation of a new headquarters building of ČSOB Financial Group in Slovakia.

In 2015, ČSOB Factoring, a.s., is planned to be integrated into ČSOB SR. The Bank will continue in the business activities of its subsidiary.

Impairment of investments in subsidiaries

The Management of the companies which are subject to the impairment test provide a projection of business development of their companies for a period of 3 years. For the subsequent 7 years, an estimated growth rate determined by KBC is used to assess the business development. The model calculates the present value of these cash flows discounting them at the interest rate resulting from the CAPM model based principles (Capital Asset Pricing Model). Cash flows after the projection period are determinated by a present value of the perpetuity with the particular estimated growth rate, determined at KBC (2%). The discount rate used is derived from the long term risk-free rate adjusted by business risk and country risk (8.73% - 9.30%). The model is most sensitive on changes of discount rate and earnings growth rate.

As at 31 December 2014, the Bank created impairment losses for investments in subsidiaries in the amount of EUR 3,265 thousand (2013: EUR 4,300 thousand).

10. PROPERTY AND EQUIPMENT

(EUR '000)	Investment property	Land and buildings	ICT equipment	Office equipment	Other	Total
Cost at 1 January 2014	**2,272**	**92,665**	**12,854**	**8,775**	**19,090**	**135,656**
Additions	-	1,599	767	51	2,096	4,513
Disposals	(2,060)	(4,749)	(3,099)	(739)	(2,097)	(12,744)
Cost at 31 December 2014	**212**	**89,515**	**10,522**	**8,087**	**19,089**	**127,425**
Accumulated depreciation at 1 January 2014	**(311)**	**(45,417)**	**(12,209)**	**(8,114)**	**(16,444)**	**(82,495)**
Additions	(37)	(3,161)	(559)	(196)	(787)	(4,740)
Disposals	180	1,506	3,100	726	2,088	7,600
Accumulated depreciation at 31 December 2014	**(168)**	**(47,072)**	**(9,668)**	**(7,584)**	**(15,143)**	**(79,635)**
Impairment loss at 1 January 2014	**(16)**	**(2,763)**	**-**	**-**	**(275)**	**(3,054)**
Creation (Note 14)	-	(52)	-	-	-	(52)
Release/Use (Note 14)	-	1,533	-	-	-	1,533
Impairment loss at 31 December 2014	**(16)**	**(1,282)**	**-**	**-**	**(275)**	**(1,573)**
Net book value at 31 December 2014	**28**	**41,161**	**854**	**503**	**3,671**	**46,217**
Acquisition of property and equipment						2,366
Net book value at 31 December 2014	**28**	**41,161**	**854**	**503**	**3,671**	**48,583**

(EUR '000)	Investment property	Land and buildings	ICT equipment	Office equipment	Other	Total
Cost at 1 January 2013	**2,272**	**97,464**	**19,297**	**10,010**	**21,995**	**151,038**
Additions	-	1,456	444	222	1,455	3,577
Disposals	-	(824)	(6,887)	(1,457)	(2,933)	(12,101)
Transfer to Assets held for sale (Note 12)	-	(6,498)	-	-	(1,422)	(7,920)
Transfer from Assets held for sale (Note 12)	-	1,062	-	-	-	1,062
Other transfers	-	5	-	-	(5)	-
Cost at 31 December 2013	**2,272**	**92,665**	**12,854**	**8,775**	**19,090**	**135,656**
Accumulated depreciation at 1 January 2013	**(239)**	**(43,365)**	**(18,383)**	**(9,310)**	**(19,314)**	**(90,611)**
Additions	(72)	(4,328)	(713)	(246)	(777)	(6,136)
Disposals	-	517	6,887	1,442	2,917	11,763
Transfer to Assets held for sale (Note 12)	-	2,123	-	-	725	2,848
Transfer from Assets held for sale (Note 12)	-	(359)	-	-	-	(359)
Other transfers	-	(5)	-	-	5	-
Accumulated depreciation at 31 December 2013	**(311)**	**(45,417)**	**(12,209)**	**(8,114)**	**(16,444)**	**(82,495)**
Impairment loss at 1 January 2013	**(16)**	**(1,572)**	**-**	**-**	**(275)**	**(1,863)**
Creation (Note 14)	-	(1,684)	-	-	-	(1,684)
Release/Use (Note 14)	-	210	-	-	-	210
Transfer to Assets held for sale (Note 12)	-	618	-	-	-	618
Transfer from Assets held for sale (Note 12)	-	(335)	-	-	-	(335)
Impairment loss at 31 December 2013	**(16)**	**(2,763)**	**-**	**-**	**(275)**	**(3,054)**
Net book value at 31 December 2013	**1,945**	**44,485**	**645**	**661**	**2,371**	**50,107**
Acquisition of property and equipment						2,192
Net book value at 31 December 2013	**1,945**	**44,485**	**645**	**661**	**2,371**	**52,299**

The original cost of fully depreciated property and equipment, still in use by the Bank amounts to EUR 50,966 thousand as at 31 December 2014 (2013: EUR 50,989 thousand).

Investment property

As at 31 December 2014, the Bank owns land and buildings rented to other parties with a total net book value of EUR 28 thousand (2013: EUR 1,945 thousand). Total rental income earned from investment property amounted to EUR 114 thousand (2013: EUR 322 thousand) and is presented under 'Other operating result' in the separate statement of profit or loss and other comprehensive income. The depreciation of investment property is presented under 'Other operating result' and amounted to EUR 37 thousand (2013: EUR 72 thousand).

11. INTANGIBLE ASSETS

(EUR '000)	Software	Internally generated software	Total
Cost at 1 January 2014	**18,429**	**3,970**	**22,399**
Additions	2,393	2,159	4,552
Disposals	(1,261)	(112)	(1,373)
Cost at 31 December 2014	**19,561**	**6,017**	**25,578**
Accumulated amortization at 1 January 2014	**(10,398)**	**(1,092)**	**(11,490)**
Additions	(3,652)	(1,229)	(4,881)
Disposals	1,261	-	1,261
Accumulated amortization at 31 December 2014	**(12,789)**	**(2,321)**	**(15,110)**
Net book value at 31 December 2014	**6,772**	**3,696**	**10,468**
Acquisition of intangible assets			776
Net book value at 31 December 2014	**6,772**	**3,696**	**11,244**

(EUR '000)	Software	Internally generated software	Total
Cost at 1 January 2013	**16,507**	**-**	**16,507**
Transfer to Internally generated software	(2,059)	2,059	-
Additions	3,981	1,911	5,892
Cost at 31 December 2013	**18,429**	**3,970**	**22,399**
Accumulated amortization at 1 January 2013	**(7,892)**	**-**	**(7,892)**
Transfer to Internally generated software	302	(302)	-
Additions	(2,808)	(790)	(3,598)
Accumulated amortization at 31 December 2013	**(10,398)**	**(1,092)**	**(11,490)**
Net book value at 31 December 2013	**8,031**	**2,878**	**10,909**
Acquisition of intangible assets			1,950
Net book value at 31 December 2013	**8,031**	**2,878**	**12,859**

The original costs of fully amortized intangible assets, still in use by the Bank, represent EUR 2,628 thousand as at 31 December 2014 (2013: EUR 3,419 thousand).

Insurance cover

The Bank's insurance covers all standard risks to tangible and intangible assets. Tangible and intangible assets of the Bank are insured against the following risks:
- natural disasters
- theft, robbery
- insurance of machines and electronic equipment
- insurance of transport of electronic equipment
- insurance against fire causing an interruption of operations

Tangible and intangible assets are insured up to the amount of their cost, which is recalculated by the index determined by the insurance company.

12. ASSETS HELD FOR SALE

As at 31 December 2014, the Bank does not hold assets classified as held for sale. Cumulative expenses recognised in the separate statement of profit or loss and other comprehensive income relating to disposal assets classified as held for sale represents EUR (64) thousand, presented under 'Other operating result'.

As at 31 December 2013, the Bank reclassified assets which met the held for sale criteria from 'Property and equipment' to 'Assets held for sale'. Assets which no longer met the criteria for classification as assets held for sale were reclassified from 'Assets held for sale' to 'Property and equipment'.

The movement table for the assets held for sale is presented below.

(EUR '000)	**Assets held for sale**
Cost at 1 January 2014	**27,675**
Disposals	(27,675)
Cost at 31 December 2014	**-**
Accumulated depreciation at 1 January 2014	**(9,323)**
Disposals	9,323
Accumulated depreciation at 31 December 2014	**-**
Impairment loss at 1 January 2014	**(6,364)**
Use (Note 14)	6,364
Impairment loss at 31 December 2014	**-**
Net book value at 31 December 2014	**-**

(EUR '000)	Assets held for sale
Cost at 1 January 2013	**22,232**
Additions	23
Disposals	(1,438)
Transfer to Property and equipment (Note 10)	(1,062)
Transfer from Property and equipment (Note 10)	7,920
Cost at 31 December 2013	**27,675**
Accumulated depreciation at 1 January 2013	**(7,402)**
Disposals	568
Transfer to Property and equipment (Note 10)	359
Transfer from Property and equipment (Note 10)	(2,848)
Accumulated depreciation at 31 December 2013	**(9,323)**
Impairment loss at 1 January 2013	**(5,277)**
Creation (Note 14)	(864)
Release/Use (Note 14)	60
Transfer to Property and equipment (Note 10)	335
Transfer from Property and equipment (Note 10)	(618)
Impairment loss at 31 December 2013	**(6,364)**
Net book value at 31 December 2013	**11,988**

The net book value of Bank´s assets held for sale represents its fair value. The discounted cash flow method, based on observable market data, was performed based on its highest and best use from a market participant´s perspective. Therefore in the fair value hierarchy it is considered as a Level 2 categorisation.

13. OTHER ASSETS

(EUR '000)	31 Dec 2014	31 Dec 2013 Reclassified
Prepaid charges	3,261	5,348
Accrued non interest income	1,028	1,115
Advances	4,257	4,671
Fair value changes of hedged item	7,740	1,318
Hedging derivatives (Note 33)	48	283
Other assets	-	17
	16,334	**12,752**
Impairment losses (Note 14)	(209)	(300)
	16,125	**12,452**

14. IMPAIRMENT LOSSES AND FINANCIAL GUARANTEES

(EUR '000)	1 Jan 2014	Use (mainly receiv. written off/ceded)	Creation/ (Release)	FX diff. and other adjustments	31 Dec 2014
Impairment losses and financial guarantees to:					
Loans and advances to financial institutions (Note 6)	147	-	(25)	-	122
Loans and advances to customers (Note 7)	96,341	(11,591)	13,505	935	99,190
Investments in subsidiaries (Note 9)	4,300	-	3,265	-	7,565
Available-for-sale financial assets (Note 5)	627	-	-	-	627
Assets held for sale (Note 12)	6,364	(6,364)	-	-	-
Property and equipment (Note 10)	3,054	(1,511)	30	-	1,573
Other assets (Note 13)	300	(38)	(53)	-	209
Provisions for off-balance sheet risks	1,520	-	19	-	1,539
	112,653	**(19,504)**	**16,741**	**935**	**110,825**

(EUR '000)	1 Jan 2013	Use (mainly receiv. written off/ceded)	Creation/ (Release)	Transfer to Assets held for sale	FX diff. and other adjustments	31 Dec 2013
Impairment losses and financial guarantees to, reclassified:						
Loans and advances to financial institutions (Note 6)	143	-	4	-	-	147
Loans and advances to customers (Note 7)	95,006	(21,638)	21,972	-	1,001	96,341
Investments in subsidiaries (Note 9)	-	-	4,300	-	-	4,300
Available-for-sale financial assets (Note 5)	627	-	-	-	-	627
Assets held for sale (Note 12)	5,277	(22)	826	283	-	6,364
Property and equipment (Note 10)	1,863	-	1,474	(283)	-	3,054
Other assets (Note 13)	113	(26)	213	-	-	300
Provisions for off-balance sheet risks	2,005	-	(485)	-	-	1,520
	105,034	**(21,686)**	**28,304**	**-**	**1,001**	**112,653**

In 2014, receivables written off/ceded amounted to EUR 11,629 thousand (2013: EUR 21,664 thousand).

Liabilities for off-balance sheet risks

The liabilities for credit risk of off-balance sheet items have been created to cover the estimated losses present in the balances of unused loan commitments, guarantees, and letters of credits accounted for on the off-balance sheet.

15. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(EUR '000)	31 Dec 2014	31 Dec 2013
Term deposits – banks	11,023	40,913
Term deposits – non-bank customers	150,413	139,141
Debt securities issued	3,378	5,915
Financial trading derivatives (Note 33)	40,409	67,514
	205,223	**253,483**

16. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

(EUR '000)	31 Dec 2014	31 Dec 2013
Current accounts of banks	21,185	11,717
Term deposits and loans received from banks and multilateral banks	274,146	133,245
	295,331	**144,962**

As at 31 December 2014 and 31 December 2013, the Bank has:

- four loans received from European Investment bank in the carrying amount of EUR 110,045 thousand (2013: EUR 90,108 thousand) - maximum maturity until 2017, interest rate 3M EURIBOR + range 0.32% - 1.04%. This credit line is intended to fund the industrial sector and the sector of services of the small and medium-sized enterprises predominantly, as well as the investment projects of the selected large enterprises and the public sector;
- a loan received from European Bank for Reconstruction and Development amounting to EUR 8,617 thousand (2013: EUR 12,927 thousand) - maximum maturity until 2016, interest rate 6M EURIBOR + 1.20%. Sources were as the matter of priority used for the sub-project of thermal insulation of residential buildings;
- two loans received from Council of Europe Development Bank in the carrying amount of EUR 46,424 thousand (2013: EUR 25,038 thousand) – maximum maturity until 2018, interest rate 3M EURIBOR + range 0.43% - 1.38%. This credit line is intended for the financing of municipal projects aimed at the improvement of living conditions in urban and rural areas and social housing.

As at 31 December 2014, loans received from banks in the amount of EUR 100,031 thousand were secured by other bonds (available for sale portfolio) with a market value of EUR 15,554 thousand and by government debt securities (held-to-maturity portfolio) with a carrying amount of EUR 77,933 thousand and with a market value of EUR 90,891 thousand. As at 31 December 2013, the Bank did not hold any loans received from banks that were secured by bonds.

17. AMOUNTS OWED TO CUSTOMERS

(EUR '000)	31 Dec 2014	31 Dec 2013 Reclassified
Current accounts – customers	1,978,489	1,690,517
Current accounts – government bodies and funds	51,838	52,840
Term deposits – customers	2,241,980	2,291,995
Term deposits – government bodies	3,171	7,620
Other financial liabilities	69,392	49,807
	4,344,870	**4,092,779**

18. DEBT SECURITIES ISSUED

(EUR '000)	31 Dec 2014	31 Dec 2013
Bills of exchange	14,183	16,215
Mortgage bonds	430,361	360,289
	444,544	**376,504**

The table below shows the structure of mortgage bonds in book-entry form as at 31 December 2014:

Issue name	Issue date	Curr.	Interest rate fix/float	Nominal value 1 item (original currency)	No. of items	Total value of issue (EUR '000)	Net book value at 31 Dec 2014 (EUR '000)	Maturity
ČSOB XI.	March 10	EUR	3.80%	10,000.00	3,000	30,000	30,894	March 15
ČSOB XII.	November 10	EUR	6M EURIBOR + 1.00%	10,000.00	3,798	37,980	38,011	November 15
ČSOB XIII.	November 11	EUR	5.50%	10,000.00	2,500	25,000	25,207	November 31
ČSOB XIV.	November 11	EUR	6M EURIBOR + 1.40%	10,000.00	2,000	20,000	19,946	November 16
ČSOB XV.	April 12	EUR	3.80%	10,000.00	4,000	40,000	40,904	April 17
ČSOB XVI.	April 12	CZK	ZERO	100,000.00	4,500	16,225	15,821	October 15
ČSOB XVII.	April 12	CZK	ZERO	100,000.00	4,000	14,422	13,948	January 16
ČSOB XVIII.	April 12	CZK	ZERO	100,000.00	4,000	14,422	13,835	April 16
ČSOB XIX.	July 12	EUR	4.70%	10,000.00	2,500	25,000	24,942	July 36
ČSOB XX.	March 13	EUR	1.60%	10,000.00	6,000	60,000	60,755	March 17
ČSOB XXI.	August 13	EUR	1.10%	10,000.00	6,000	60,000	60,030	August 16
ČSOB XXII.	May 14	EUR	1.20%	10,000.00	5,500	55,000	55,482	May 18
ČSOB XXIII.	November 14	EUR	1.65%	1,000.00	13,406	13,406	13,426	November 18
ISTRO 5	March 05	EUR	4.20%	33,193.92	500	16,597	17,160	March 15
							430,361	

The table below shows the structure of mortgage bonds in book-entry form as at 31 December 2013:

Issue name	Issue date	Curr.	Interest rate fix/float	Nominal value 1 item (original currency)	No. of items	Total value of issue (EUR '000)	Net book value at 31 Dec 2013 (EUR '000)	Maturity
ČSOB XI.	March 10	EUR	3.80%	10,000.00	3,000	30,000	30,926	March 15
ČSOB XII.	November 10	EUR	6M EURIBOR + 1.00%	10,000.00	3,798	37,980	37,986	November 15
ČSOB XIII.	November 11	EUR	5.50%	10,000.00	2,500	25,000	25,207	November 31
ČSOB XIV.	November 11	EUR	6M EURIBOR + 1.40%	10,000.00	2,000	20,000	19,895	November 16
ČSOB XV.	April 12	EUR	3.80%	10,000.00	4,000	40,000	40,805	April 17
ČSOB XVI.	April 12	CZK	ZERO	100,000.00	4,500	16,407	15,488	October 15
ČSOB XVII.	April 12	CZK	ZERO	100,000.00	4,000	14,584	13,650	January 16
ČSOB XVIII.	April 12	CZK	ZERO	100,000.00	4,000	14,584	13,534	April 16
ČSOB XIX.	July 12	EUR	4.70%	10,000.00	2,500	25,000	24,913	July 36
ČSOB XX.	March 13	EUR	1.60%	10,000.00	6,000	60,000	60,755	March 17
ČSOB XXI.	August 13	EUR	1.10%	10,000.00	6,000	60,000	59,913	August 16
ISTRO5	March 05	EUR	4.20%	33,193.92	500	16,597	17,217	March 15
							360,289	

As at 31 December 2014, part of mortgage bonds issued is collateralised by government debt securities included in the portfolio of held-to-maturity investments in the carrying value of EUR 42,105 thousand (2013: EUR 35,257 thousand).

19. PROVISIONS

(EUR '000)	1 Jan 2014	Creation/ (Release)	Use	31 Dec 2014*
Provision for litigation	6,672	978	(5)	7,645
Provision for restructuring	629	-	(509)	120
	7,301	**978**	**(514)**	**7,765**

(EUR '000)	1 Jan 2013	Transfer on merger	Creation/ (Release)	Use	31 Dec 2013*
Provision for litigation	6,306	-	374	(8)	6,672
Provision for restructuring	1,643	53	22	(1,089)	629
Other provisions	6	-	-	(6)	-
	7,955	**53**	**396**	**(1,103)**	**7,301**

**Provisions total does not include provision for off-balance sheet risks which is presented in Note 14.*

Provision for litigation

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2014. These matters have arisen from normal banking activities. With reference to the update on the status of these matters in terms of the risk of losses and the amounts claimed, the Bank has increased the provision for these legal cases by a net amount of EUR 973 thousand (2013: increase of EUR 366 thousand). As at 31 December 2014, this provision amounts to EUR 7,645 thousand (2013: EUR 6,672 thousand). The loss from the increase in the provision for legal cases is presented in the separate statement of profit or loss and other comprehensive income under 'Other operating result'.

The particular requirements pursuant to IAS 37.85 are not disclosed in accordance with IAS 37.92 in order not to compromise the Bank's position in the ongoing legal proceedings and disputes.

Provision for restructuring

In 2012, the Bank decided to update its overall strategy. As a part of a change process a restructuring program began with the aim of reducing the number of management levels and in the context of market development to decrease also the total number of employees. Based on this decision, a restructuring provision amounting to EUR 1,643 thousand was created as at 31 December 2012 to cover the related costs, presented under 'Personnel expenses'. As at 31 December 2014, the unused provision amounts to EUR 120 thousand (2013: EUR 629 thousand).

20. OTHER LIABILITIES

(EUR '000)	31 Dec 2014	31 Dec 2013 Reclassified
Employee benefits and other employee funds	2,932	1,328
Wages and social security charges	11,932	12,097
Accrued non interest charges	8,659	7,221
Income received in advance	666	1,014
Other liabilities	5,383	10,238
Hedging derivatives (Note 33)	8,752	1,818
	38,324	**33,716**

Employee benefits

The Bank has a defined benefit programme, under which employees are entitled to a lump-sum payment upon taking retirement or a working or life jubilee. As at 31 December 2014, the programme was applicable to 2,078 employees of the Bank (2013: 1,982 employees).

In the year ended 31 December 2014, an actuarial calculation based on the projected unit credit method was performed, resulting in a final employee benefit obligation of EUR 1,222 thousand (2013: EUR 1,051 thousand).

(EUR '000)	31 Dec 2014	31 Dec 2013
Present value of benefits paid on retirement	672	558
Present value of length of service benefits	365	338
Present value of anniversary benefits	185	155
Total	**1,222**	**1,051**

Key assumptions used in the actuarial valuation:

(EUR '000)	31 Dec 2014	31 Dec 2013
Discount rate – long-term forward rate (p.a.)	4.12%	2.96%
Annual future real rate of salary increases (p.a.)	2.00%	2.50%
Annual employee turnover (p.a.)	9.10%	9.30%
Retirement age	62	62

Social fund

Social fund liabilities, presented within 'Employee benefits and other employee funds', are as follows:

(EUR '000)	31 Dec 2014	31 Dec 2013
Opening balance at 1 January	(55)	27
Transfer on merger	-	32
Creation	984	865
Drawing	(925)	(979)
Closing balance at 31 December	**4**	**(55)**

21. OVERVIEW OF CONTINGENT LIABILITIES

a) Contingent liabilities

(EUR '000)	31 Dec 2014	31 Dec 2013
Credit facilities issued but not drawn	892,677	796,682
Guarantees issued	211,922	191,317
	1,104,599	**987,999**

Bank guarantees and letters of credit cover liabilities to clients (payment and non-payment liabilities) against beneficiaries (third parties). Bank guarantees represent an irrevocable liability on the part of the Bank to pay a certain amount as stated in the Bank guarantee in the event that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

A letter of credit represents a written obligation on the part of the Bank performed according to the instruction of the buyer to pay a specified amount to the seller against the documents that meet the letter of credit requirements. The Bank deals with the letters of credit subject to 'Unified Rules and Customs for Documentary Letter-of-credit', in the version published by the International Chamber of Commerce.

The primary purpose of these instruments is to ensure that funds are available as required. 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 authorizing 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 the goods to which they relate and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the probable amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Operating leases

The following table summarizes future minimum lease payments under non-cancellable operating leases:

(EUR ’000)	31 Dec 2014	31 Dec 2013
Less than 1 year	2,234	1,809
From 1 year to 5 years	1,106	1,229
Total	**3,340**	**3,038**
Minimum lease payments recognized as an expense for the year	1,256	1,375

The operating leases related to information technologies to KBC Group, N.V, are included in ‘Less than 1 year’ in the amount of EUR 1,089 thousand (2013: EUR 677 thousand). They represent expected half-year lease payments according to the committed notice period.

Sale and lease-back arrangements

The Bank is a lessee in an operating lease-back agreement, an operating lease, for a 3 year period. The following table summarizes future minimum lease payments under non-cancellable operating leases.

(EUR ’000)	31 Dec 2014
Payable in period:	
Less than 1 year	1,976
From 1 year to 5 years	2,157
Total	**4,133**
Minimum lease payments recognized as an expense for the year	1,942

b) Values in custody

The values received into custody and management by the Bank amounted to EUR 12,770,918 thousand as at 31 December 2014 (2013: EUR 10,706,536 thousand).

c) Lawsuits

In addition to the litigation for which provisions are created (Note 19), ČSOB SR is named in and is defending a number of legal actions arising in the ordinary course of business. The management of ČSOB SR does not believe that these legal actions will result in any material loss. Consequently, no provisions were created for these cases as at 31 December 2014 and 31 December 2013.

d) Taxation

The methodology of Slovak tax legislation and interpretation is still evolving. Consequently, in the current taxation environment, there is uncertainty concerning the interpretations and procedures that the respective tax authorities may apply in a number of areas. Due to this, ČSOB SR is obliged to develop its own interpretation of the tax legislation when setting up its plan and accounting standards. It is not possible to calculate the effect resulting from this uncertainty.

22. EQUITY

The structure of shareholders of the Bank is as follows:

	% of share capital 31 Dec 2014	% of share capital 31 Dec 2013
KBC Bank N.V. Belgium	100.00%	100.00%
Total	**100.00%**	**100.00%**

Share capital

As at 31 December 2014 and 31 December 2013, authorized and fully paid share capital consists of 7,470 ordinary shares in a nominal amount of EUR 33,200. Share capital was registered with the Commercial Register in the full amount of EUR 248,004 thousand.

Share premium

Share premium represents the difference between the nominal amount of own shares and their market value. As at 31 December 2014 and 31 December 2013, the share premium amounted to EUR 484,726 thousand.

Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The legal reserve fund represents accumulated transfers from retained earnings. The Bank is obliged to contribute an amount to the fund each year which is not less than 10% of its annual net profit (calculated in accordance with Slovak accounting regulations) until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The legal reserve fund is not available for distribution to shareholders and may be used only for compensation of losses incurred. As at 31 December 2014, the Bank allocated EUR 6,179 thousand to the legal reserve fund, thus its value increased to EUR 44,169 thousand. As at 31 December 2013, the Bank held a legal reserve fund of EUR 37,990 thousand.

Revaluation surplus

Revaluation surplus from available-for-sale financial assets:

(EUR ’000)	31 Dec 2014	31 Dec 2013
As at 1 January	16,232	20,624
Net gain/(loss) arising on the revaluation of available-for-sale financial assets	10,445	(2,812)
Income tax relating to gain/(loss) arising on the revaluation of available-for-sale financial assets	(2,183)	1,647
Cumulative gain reclassified to separate statement of profit or loss and other comprehensive income on sale of available-for-sale financial assets	(523)	(3,227)
As at 31 December	**23,971**	**16,232**

The revaluation reserve from available-for-sale financial assets represents accumulated gains and losses arising on the revaluation of available-for-sale financial assets that have been recognized in other comprehensive income. This revaluation surplus is presented net of the amounts reclassified to the separate statement of profit or loss and other comprehensive income when those assets have been disposed of or are determined to be impaired. As at 31 December 2014 and 31 December 2013, there was no new impairment recognized for available-for-sale financial assets.

Other revaluation surplus

In 2007, KBC Bank decided to transform Československá obchodná banka, a.s., pobočka zahraničnej banky in SR into a separate legal entity with effect from 1 January 2008. Due to this, a reorganization reserve was created as the difference between the fair value of non-cash deposits to the equity of the new company and their carrying amount. The fair value of non-cash deposits was determined based on an expert opinion as at the date of formation of the new company. The reorganization reserve is presented within the equity of the new legal entity, as at 31 December 2014 and 31 December 2013, in the negative amount of EUR 216,162 thousand.

Profit distribution

The profit distribution of the Bank is as follows:

	Attributable from profit for the year	
(EUR '000)	**2014***	**2013**
Addition to legal reserve fund	5,432	6,179
Dividends	55,035	55,608

* *Based on the proposed profit distribution.*

(EUR '000)	**31 Dec 2014**	**31 Dec 2013**
Dividends per share		
Dividends	55,035	55,608
Number of shares in nominal value of EUR 33,200	7,470	7,470
Dividends per share in EUR	**7,367**	**7,444**

23. EARNINGS PER SHARE

(EUR '000)	**31 Dec 2014**	**31 Dec 2013**
Earnings per share		
Net profit for year	60,467	61,787
Number of shares in nominal value of EUR 33,200	7,470	7,470
Earnings per share in EUR	**8,095**	**8,271**

24. INFORMATION ON SEGMENTS

In 2014, the Bank reassessed the segmentation of customers. Due to the resegmentation described, comparative information on segments for the year ended 31 December 2013 was also adjusted.

The Bank distinguishes between the following segments:

Retail banking/Entrepreneurs and small companies ('MicroSME'): natural persons, entrepreneurs and companies with turnover below EUR 1.5 million.
Loan products: mortgages, consumer loans, credit cards and overdrafts, operating and investment loans, revolving loans.
Deposit products: current accounts and service packages, saving and term deposits, funds and savings programmes.
Retail banking offers electronic banking services and performs a system of payments (domestic, foreign, cash and non-cash transactions), investments of free financial sources of customers to portfolio of financial assets (saving and term deposits, mutual funds, life insurance and bills of exchange).

Private banking: customer with assets under management at ČSOB SR at the minimum level of EUR 200 thousand.
Products offered to private clients: current accounts, term and saving programs, funds, insurance products, bonds, bills of exchange, mortgage bonds, structured products, physical gold and other instruments of financial markets. Private banking clients can also invest into equities via the KBC group company Patria.

Corporate banking: corporations with turnover above EUR 1.5 million and non-banking institutions in the financial sector.
Loan products: overdrafts, revolving loans, purpose loans, credit cards, specialized and trade finance
Deposit products: current accounts and service packages, term deposits, time deposits
Corporate banking offers services of electronic banking and performs a system of payments (domestic, foreign, cash and non-cash transactions). It also provides investments into short-term financial instruments, bonds and mutual funds.

Financial markets and ALM: segment of assets and liabilities management, segment dealing.
This segment performs the custody and management of securities, intermediation of purchase and sale of Slovak and foreign bonds on secondary markets, participation in subscription of shares in primary sale, purchase and sale of foreign currencies. The segment also offers structured products for investments of free financial sources.
ALM is responsible for management of assets, liabilities, interest rates, risk management (currency risk, interest risk, etc.) and also management of the foreign exchange position of the Bank.

Other: headquarters, banking and investment products (administration of bad debts), non-assigned net interest income, eliminations and non-material unallocated items.

Information on segments as at 31 December 2014 is as follows:

(EUR '000)	Retail banking/ MicroSME /Private banking	Corporate banking	Financial markets and ALM	Other	Total
Separate statement of profit or loss and other comprehensive income					
Net interest income	100,085	42,060	18,894	6,606	167,645
Net fee and commission income	34,953	12,623	314	(788)	47,102
Net trading result	6,624	2,421	10,031	(9)	19,067
Dividend income	-	-	-	12,590	12,590
Other operating result	(1,538)	516	44	(404)	(1,382)
Total income	**140,124**	**57,620**	**29,283**	**17,995**	**245,022**
Personnel expenses	(27,995)	(8,892)	(2,241)	(22,171)	(61,299)
Depreciation and amortization	(3,134)	(278)	(42)	(6,130)	(9,584)
Other operating expenses	(26,118)	(4,971)	159	(49,547)	(80,477)
Operating expenses	**(57,247)**	**(14,141)**	**(2,124)**	**(77,848)**	**(151,360)**
Profit/(loss) for year before impairment losses, financial guarantees and tax	**82,877**	**43,479**	**27,159**	**(59,853)**	**93,662**
Impairment losses and financial guarantees	(6,871)	(6,626)	(3,267)	23	(16,741)
Profit/(loss) for year before tax	**76,006**	**36,853**	**23,892**	**(59,830)**	**76,921**
Income tax expense	(14,714)	(6,817)	(5,974)	11,051	(16,454)
Net profit/(loss) for year	**61,292**	**30,036**	**17,918**	**(48,779)**	**60,467**
Total assets	**2,404,604**	**1,438,970**	**1,866,291**	**276,724**	**5,986,589**
Total liabilities and equity	**2,389,816**	**1,986,797**	**954,309**	**655,667**	**5,986,589**

Information on segments as at 31 December 2013, reclassified, is as follows:

(EUR ’000)	**Retail banking/ MicroSME /Private banking**	**Corporate banking**	**Financial markets and ALM**	**Other**	**Total**
Separate statement of profit or loss and other comprehensive income					
Net interest income	94,305	46,443	12,565	6,417	159,730
Net fee and commission income	34,004	11,989	132	(1,185)	44,940
Net trading result	6,590	2,921	11,001	1,426	21,938
Dividend income	-	-	-	20,330	20,330
Other operating result	(209)	509	700	5,091	6,091
Total income	**134,690**	**61,862**	**24,398**	**32,079**	**253,029**
Personnel expenses	(27,160)	(8,175)	(2,337)	(19,819)	(57,491)
Depreciation and amortization	(4,344)	(324)	(52)	(4,942)	(9,662)
Other operating expenses	(27,160)	(4,742)	(493)	(46,570)	(78,965)
Operating expenses	**(58,664)**	**(13,241)**	**(2,882)**	**(71,331)**	**(146,118)**
Profit/(loss) for year before impairment losses, financial guarantees and tax	**76,026**	**48,621**	**21,516**	**(39,252)**	**106,911**
Impairment losses and financial guarantees	(4,278)	(15,968)	(4,298)	(3,760)	(28,304)
Profit/(loss) for year before tax	**71,748**	**32,653**	**17,218**	**(43,012)**	**78,607**
Income tax expense	(14,202)	(5,847)	(3,960)	7,189	(16,820)
Net profit/(loss) for year	**57,546**	**26,806**	**13,258**	**(35,823)**	**61,787**
Total assets	**2,136,433**	**1,458,355**	**1,724,748**	**235,463**	**5,554,999**
Total liabilities and equity	**2,305,905**	**1,775,003**	**855,530**	**618,561**	**5,554,999**

25. NET INTEREST INCOME

(EUR ’000)	31 Dec 2014	31 Dec 2013
Interest income		
From accounts and loans provided to central bank	66	216
From loans and advances to financial institutions	364	318
From deposits and loans provided to customers	152,181	152,190
Held-to-maturity investments	38,252	36,190
Available-for-sale financial assets	14,154	11,883
Financial assets held for trading (excluding derivatives)	3,005	5,368
Financial assets designated at fair value through profit or loss	-	372
ALM derivatives	197	196
	208,219	**206,733**
Interest expense		
From accounts and loans accepted from central bank	-	(126)
From amounts owed to financial institutions and multilateral banks	(1,239)	(1,268)
From deposits and loans received from customers	(21,756)	(27,248)
From debt securities issued	(10,808)	(10,564)
Financial liabilities at fair value through profit or loss	(2,499)	(2,547)
ALM derivatives	(1,519)	(4,171)
Hedge derivatives	(2,753)	(1,079)
	(40,574)	**(47,003)**
	167,645	**159,730**

26. NET FEE AND COMMISSION INCOME

(EUR ’000)	31 Dec 2014	31 Dec 2013
Fee and commission income		
Securities	5,251	4,215
Trust and fiduciary activities	1,977	1,910
Credit commitments and guarantees	14,807	13,410
Payment services and account administration	31,891	30,206
Other	5,160	5,447
	59,086	**55,188**
Fee and commission expense		
Securities	(849)	(863)
Clearing and settlement	(197)	(193)
Credit commitments and guarantees	(1,382)	(1,745)
Payment services	(3,222)	(1,196)
Other	(6,334)	(6,251)
	(11,984)	**(10,248)**
	47,102	**44,940**

27. NET TRADING RESULT

(EUR '000)	31 Dec 2014	31 Dec 2013
Available-for-sale financial assets	523	3,227
Held for trading interest rate instruments	6,330	4,305
Held for trading foreign exchange instruments	35,442	(10,790)
Held for trading commodity instruments	26	86
Net result from financial assets designated at fair value through profit or loss	-	(243)
Net result from financial liabilities at fair value through profit or loss	(87)	112
Net result from hedging derivatives	(6,908)	(1,039)
Net result from hedged items	6,422	1,275
Exchange differences	(22,681)	25,005
	19,067	**21,938**

28. OTHER OPERATING RESULT

(EUR '000)	31 Dec 2014	31 Dec 2013 Reclassified
Loss on disposal of property, plant and equipment	(395)	(260)
Gain/(loss) on disposal of assets held for sale	(64)	17
Income from rental	613	763
Result from claims and legal disputes	(978)	(374)
Other income re provisions claims/losses	-	3,720
Losses from financial operations	(2,657)	(513)
Other operating activities	2,099	2,738
	(1,382)	**6,091**

29. PERSONNEL EXPENSES

(EUR '000)	31 Dec 2014	31 Dec 2013
Wages and salaries	(46,345)	(43,259)
Social security	(13,839)	(13,384)
Pensions and similar expenses	(621)	(402)
Provisions for restructuring charges	-	(22)
Other staff expenses	(494)	(424)
	(61,299)	**(57,491)**

The number of employees of the Bank as at 31 December 2014 was 2,076; thereof 252 managers (2013: 2,013; thereof 267 managers).

Remuneration to management is provided if accruals or other resources were created and the conditions of the Internal Remuneration Policy of ČSOB SR were met, mainly: an annual bonus for the Bank's performance based on the fulfilment of financial goals and the achievement of business goals and an individual bonus for employees based on the individual's performance measured by Key Performance Indicator.

Employees with whom employment was terminated in accordance with the organizational and rationalization steps stated in § 63 section 1 a) and b) of the Labour Code or whose employment was terminated by agreement are entitled to receive compensation payments in accordance with the conditions stated in the Labour Code. The conditions for compensation payments above the legal limit are included in the collective agreement. The Bank also agreed with trade unions the social programme for employees with whom employment was terminated on the basis of the above reasons.

The Bank provides contributions to the supplementary pension scheme on a monthly basis to all of its employees including senior management. Since 1 March 2013, the contribution is calculated on the basis of the monthly salary as follows:

a) employer – 1% of salary base if the employee's contribution is from 1% to 1.99% of salary base,
b) employer – 2% of salary base if the employee's contribution is 2% and more of salary base. The monthly salary base for purposes of the supplementary pension scheme is determined from the basic monthly salary paid for working hours in the calendar month.

30. OTHER OPERATING EXPENSES

(EUR '000)	**31 Dec 2014**	**31 Dec 2013**
Information technology expenses	(21,330)	(18,611)
Rental expenses	(10,125)	(8,444)
Repair and maintenance	(2,966)	(2,608)
Marketing expenses	(7,794)	(7,277)
Professional fees	(3,444)	(3,921)
Including: Statutory Financial Statements audit expenses	*(136)*	*(133)*
Other audit expenses (including group reporting)	*(204)*	*(192)*
Other facilities expenses	(7,768)	(8,192)
Communication expenses	(62)	(128)
Travel expenses	(689)	(580)
Training and recruitment expenses	(329)	(301)
Personnel related expenses	(215)	(345)
Costs charged by other KBC group entities	(5,528)	(7,441)
Contributions to deposit protection funds	(2,854)	(38)
Bank levy*	(15,149)	(19,784)
Other operating expenses	(2,224)	(1,295)
	(80,477)	**(78,965)**

** Commencing 1 January 2012, banks operating in the Slovak Republic are subject to special levy calculated based on the % of their liabilities balances.*

31. TAXATION

The income tax structure is as follows:

(EUR ’000)	31 Dec 2014	31 Dec 2013
Current tax	12,899	18,316
Deferred tax	3,555	(1,496)
	16,454	**16,820**

Below is a reconciliation of income tax and the theoretical amount, applying the effective tax rate:

(EUR ’000)	31 Dec 2014	31 Dec 2013
Profit before tax	76,921	78,607
Tax rate	22%	23%
Tax expense calculated using applicable tax rates	16,923	18,080
Permanent differences between tax and accounting expenses and revenues	(262)	(273)
Additional tax expenses recognized for the prior year	(207)	(987)
	16,454	**16,820**

The deferred tax structure as at 31 December 2014 is as follows:

(EUR ’000)	Temporary differences	Deferred income tax asset
Loans and advances to customers – tax non-deductible provisions to customers	59,627	13,118
Employee benefits and accrual for unpaid bonuses	9,585	2,109
Tangible and intangible assets	7,385	1,625
Other	120	26
Available-for-sale financial assets	30,436	(6,696)
	107,153	**10,182**

The deferred tax structure as at 31 December 2013 is as follows:

(EUR ’000)	Temporary differences	Deferred income tax asset
Loans and advances to customers – tax non-deductible provisions to customers	74,081	16,298
Employee benefits and accrual for unpaid bonuses	8,068	1,775
Tangible and intangible assets	3,736	822
Impairment loss on Assets held for sale	6,364	1,400
Other	627	138
Available-for-sale financial assets	20,745	(4,513)
	113,621	**15,920**

32. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by KBC Bank, which holds 100% of the voting rights of the Bank's total votes. Related parties include subsidiaries of the Bank and other members of the KBC Group.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits.

Significant balances of transactions with related parties were as follows:

	31 Dec 2014		31 Dec 2013	
(EUR '000)	KBC Group	ČSOB Group	KBC Group	ČSOB Group
Loans and advances to financial institutions	8,795	4,980	3,188	4,981
Financial assets at fair value through profit or loss	12,289	3,116	4,461	2,067
Loans and advances to customers	-	18,369	-	39,191
Other assets	516	14	695	635
Amounts owed to financial institutions	118,920	9,162	7,582	5,046
Financial liabilities at fair value through profit or loss	33,905	-	46,174	38
Amounts owed to customers	23,924	24,576	15,637	26,079
Debt securities issued	167,081	7,003	115,397	6,990
Other liabilities	10,179	30	2,456	31

Expenses and incomes from transactions with related parties were as follows:

	31 Dec 2014		31 Dec 2013	
(EUR '000)	KBC Group	ČSOB Group	KBC Group	ČSOB Group
Interest income	32	713	75	1,000
Fee and commission income	4,101	134	3,902	120
Net trading result	4,391	3,395	(27,718)	712
Dividend income	-	12,583	-	20,327
Other operating result	529	790	379	844
Interest expense	(5,560)	(342)	(3,206)	(340)
Fee and commission expense	(102)	-	(310)	-
Other operating expense	(15,281)	(975)	(16,269)	(1,228)

As at 31 December 2014, total guarantees received from related parties represent EUR 13,459 thousand (2013: EUR 37,729 thousand).

As at 31 December 2014, guarantees issued by the Bank towards related parties are in the amount of EUR 4,089 thousand (2013: EUR 5,452 thousand).

In 2014, the Bank received dividends from its subsidiaries in the amount of EUR 12,583 thousand (2013: EUR 20,327 thousand).

As at 31 December 2014 and 31 December 2013, the Bank did not create any provision for doubtful debts towards related parties.

Transactions with key management personnel

As at 31 December 2014, loans granted to members of the Board of Directors and Supervisory Board represent EUR 367 thousand (2013: EUR 229 thousand). Deposits from members of the Board of Directors and Supervisory Board as at 31 December 2014 amounted to EUR 573 thousand (2013: EUR 428 thousand).

Personnel expenses of senior management for the year ended 31 December 2014 were EUR 1,995 thousand (2013: EUR 1,868 thousand). These personnel expenses include the total remuneration and social expenses of members of the Board of Directors and Supervisory Board, which are regulated by the Internal Remuneration Policy of ČSOB SR.

33. DERIVATIVE FINANCIAL INSTRUMENTS

ČSOB SR uses derivative financial instruments for trading purposes and fair value hedging. Financial derivatives include swap, forward and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that confers on the holder the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a particular time or over a period in the future.

Credit risk associated with derivative financial instruments

By utilizing derivative financial instruments, the Bank is exposed to credit risk in the event of non-performance on the part of the counterparties to the derivative instruments. If the counterparty fails to perform, the credit risk is equal to the positive fair value of the derivatives agreed upon with that counterparty. When the fair value of a derivative is positive, the Bank bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Bank minimises credit risk through credit approvals, limits and monitoring procedures. In addition, the Bank obtains collateral where appropriate, and uses bilateral master netting arrangements. There are no significant credit risk exposures in derivatives outside of standard international investment banking which are usually used in trading and managing banking risks.

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

Trading derivative financial instruments

The trading activities of ČSOB SR primarily involve providing its customers with various derivative products and managing trading positions on its own account. Trading derivatives also include those derivatives that are used for asset and liability management (‘ALM’) purposes to manage the interest rate position of the Banking Book and which do not meet the criteria for hedge accounting. For these purposes, ČSOB SR uses single currency interest rate swaps to convert fixed rate assets to floating rates, cross-currency interest rate swaps for the transfer of cash flows in one currency to cash flows in another currency structure in such a way that their maturity meets the respective liabilities, or FX swaps to exchange a particular currency. The Bank minimizes its market risk when option contracts are traded through back-to-back sales.

Trading derivatives are stated at fair value. Unrealized gains and losses are reported in the separate statement of financial position as ‘Financial assets at fair value through profit or loss’ or ’Financial liabilities at fair value through profit or loss’. Changes in the fair value of derivatives are presented in the separate statement of profit or loss and other comprehensive income in ‘Net trading result’. Interest income/expense related to derivative financial instruments is recognized in ‘Net interest income’ for those held in the banking book or in ‘Net trading result’ for those held in the trading book.

Hedging derivative financial instruments

The Bank applies the portfolio hedging of fair value related to interest rate risk. The Bank’s strategy is to hedge net interest income generated from interest-bearing assets and liabilities against unexpected movements in market interest rates. The aim is also a stable development of expenses and income from market revaluation of balance sheet and off-balance sheet transactions.

The hedged item represents a portfolio of fixed interest loans and advances to customers and the hedging instrument is a portfolio of interest rate swaps, in which the Bank pays fixed and receives floating interest rate. As at 31 December 2014, the hedge was effective in hedging the fair value exposure to interest rate movements. The Bank recognized a loss on hedging instruments in the amount of EUR (6,908) thousand (2013: loss of EUR (1,039) thousand) and a gain on hedged item attributable to the hedged risk amounted of EUR 6,422 thousand (2013: gain of EUR 1,275 thousand), which are presented in ‘Net trading result’.

The contract or notional amounts and positive and negative fair values of the Bank’s outstanding derivative trading and hedging positions as at 31 December 2014 and 31 December 2013 are shown below. The contract or nominal amounts represent the volume of outstanding transactions at one particular point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

	Nominal values		Fair values	
(EUR ’000)	**Receivables**	**Liabilities**	**Positive**	**Negative**
Derivative instruments as at 31 Dec 2014				
Hedging derivatives				
Interest rate swaps	1,080,000	1,080,000	48	8,752
Total hedging derivatives	**1,080,000**	**1,080,000**	**48**	**8,752**
Trading derivatives				
FX contracts				
FX forwards	24,513	24,478	397	336
FX swaps and Cross-currency interest rate swaps	758,100	757,561	21,935	21,733
FX options	224,181	224,181	1,361	1,359
Interest rate contracts				
Interest rate swaps	2,173,945	2,173,945	27,761	10,228
Interest rate options	155,386	155,386	752	5,898
Comodity contracts				
Comodity swaps and options	12,818	12,818	855	855
Total trading derivatives	**3,348,943**	**3,348,369**	**53,061**	**40,409**

	Nominal values		Fair values	
(EUR ’000)	**Receivables**	**Liabilities**	**Positive**	**Negative**
Derivative instruments as at 31 Dec 2013				
Hedging derivatives				
Interest rate swaps	770,000	770,000	283	1,818
Total hedging derivatives	**770,000**	**770,000**	**283**	**1,818**
Trading derivatives				
FX contracts				
FX forwards	11,035	10,960	147	70
FX swaps and Cross-currency interest rate swaps	1,086,954	1,090,928	15,575	19,364
FX options	141,353	141,353	410	407
Interest rate contracts				
Interest rate swaps	2,610,530	2,610,530	36,933	42,016
Interest rate options	182,111	182,111	2,142	5,657
Total trading derivatives	**4,031,983**	**4,035,882**	**55,207**	**67,514**

34. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The tables below show the financial assets subject to offsetting, enforceable master netting agreements or similar agreements:

				Related amounts not offset			
(EUR '000)	Gross amounts of financial assets	Gross amounts of financial assets offset	Net amounts of financial assets	Financial instruments	Cash collateral received	Securities collateral received	Net amount
31 Dec 2014							
Derivatives	53,109	-	53,109	13,423	-	-	39,686
Total	**53,109**	**-**	**53,109**	**13,423**	**-**	**-**	**39,686**

				Related amounts not offset			
(EUR '000)	Gross amounts of financial assets	Gross amounts of financial assets offset	Net amounts of financial assets	Financial instruments	Cash collateral received	Securities collateral received	Net amount
31 Dec 2013							
Derivatives	55,490	-	55,490	17,264	-	-	38,226
Total	**55,490**	**-**	**55,490**	**17,264**	**-**	**-**	**38,226**

The tables below show the financial liabilities subject to offsetting, enforceable master netting agreements or similar agreements:

				Related amounts not offset			
(EUR '000)	Gross amounts of financial liabilities	Gross amounts of financial liabilities offset	Net amounts of financial liabilities	Financial instruments	Cash collateral pledged	Securities collateral pledged	Net amount
31 Dec 2014							
Derivatives	49,161	-	49,161	13,423	-	-	35,738
Repurchase agreements	100,031	-	100,031	-	-	100,031	-
Total	**149,192**	**-**	**149,192**	**13,423**	**-**	**100,031**	**35,738**

				Related amounts not offset			
(EUR '000)	Gross amounts of financial liabilities	Gross amounts of financial liabilities offset	Net amounts of financial liabilities	Financial instruments	Cash collateral pledged	Securities collateral pledged	Net amount
31 Dec 2013							
Derivatives	69,332	-	69,332	17,264	-	-	52,068
Total	**69,332**	**-**	**69,332**	**17,264**	**-**	**-**	**52,068**

35. FAIR VALUE OF ASSETS AND LIABILITIES

The 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. Where market prices were available, these were used in measurement; otherwise internal valuation models were applied, especially the discounted cash flow method.

The following methods and assumptions were applied in estimating the fair values of the Bank's financial assets and liabilities:

a) Fair values of financial assets and liabilities measured at amortized cost

In the following table, the fair values of the balance sheet items are compared with the carrying amounts:

(EUR ’000)	Carrying amount 31 Dec 2014	Fair value 31 Dec 2014	Carrying amount 31 Dec 2013 Reclassified	Fair value 31 Dec 2013 Reclassified
Financial assets				
Cash and balances with central bank	176,777	176,777	121,866	121,866
Loans and advances to financial institutions	59,135	59,207	46,481	46,551
Loans and advances to customers	3,774,391	3,902,742	3,518,973	3,627,836
Held-to-maturity investments	1,107,879	1,272,141	1,061,360	1,137,231
Financial liabilities				
Amounts owed to financial institutions	295,331	295,863	144,962	145,256
Amounts owed to customers	4,344,870	4,362,204	4,092,779	4,104,152
Debt securities issued	444,544	466,419	376,504	385,786

The following table shows the hierarchy levels for determining the fair value of financial assets and liabilities measured at amortized cost as at 31 December 2014:

(EUR ’000)	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with central bank	-	176,777	-	176,777
Loans and advances to financial institutions	-	-	59,207	59,207
Loans and advances to customers	-	2,668	3,900,074	3,902,742
Held-to-maturity investments	1,230,491	41,650	-	1,272,141
Total financial assets				**5,410,867**
Financial liabilities				
Amounts owed to financial institutions	-	21,188	274,675	295,863
Amounts owed to customers	-	4,152,253	209,951	4,362,204
Debt securities issued	-	466,419	-	466,419
Total financial liabilities				**5,124,486**

The following table shows the hierarchy levels for determining the fair value of financial assets and liabilities measured at amortized cost as at 31 December 2013, reclassified:

(EUR ’000)	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances with central bank	-	121,866	-	121,866
Loans and advances to financial institutions	-	-	46,551	46,551
Loans and advances to customers	-	1,961	3,625,875	3,627,836
Held-to-maturity investments	783,832	353,399	-	1,137,231
Total financial assets				**4,933,484**
Financial liabilities				
Amounts owed to financial institutions	-	11,719	133,537	145,256
Amounts owed to customers	-	3,860,942	243,210	4,104,152
Debt securities issued	-	385,786	-	385,786
Total financial liabilities				**4,635,194**

Loans and advances to financial institutions

The carrying values of current account balances are, by definition, equal to their fair values. The fair values of term placements with banks are estimated by discounting their future cash flows using the current inter-bank market rates including the respective credit spread. The majority of loans are repaid within a relatively short time periods; it is assumed, therefore, that their carrying values approximate to their fair values. The fair value of subordinated financial assets is determined as the present value of discounted future cash flows using current market rates.

Loans and advances to customers

The fair values of fixed-rate loans to customers that relate to the substantial part of the Bank's loan portfolio are estimated by discounting their future cash flows using the current market rates including a respective credit spread. Fair value incorporates expected future losses, while amortized cost and related impairment include only incurred losses at the end of the accounting period. The rest of loans and advances to customers is concluded for floating rates that are fixed for a relatively short period; it is assumed, therefore, that their carrying values approximate to their fair values.

Held-to-maturity investments

Fair values for held-to-maturity securities are based on the quoted market prices. These are used depending on the availability in the following order: Stock Exchange and Benchmark curve from Reuters, the price from Bloomberg and the price calculated on the basis of price quotations from Bloomberg and the NBS. If no quoted market prices are available, the fair values of securities are determined based on the expert prices. If the security is included in the benchmark bonds' list published by the NBS, the price from Reuters is used for the revaluation. If the security is not included in the benchmark bonds' list published by the NBS, the expert price used for the fair value is calculated based on the yield to maturity. The yield to maturity is obtained by interpolation of income from the securities that are included in the benchmark bonds' list published by the NBS.

If no quoted market price for mortgage bonds is available, an expert price is used. The calculation of the expert price is based on the Slovak government bond curve adjusted by the credit spread derived from trades realized on the Bratislava Stock Exchange (‘BCPB’) and by the credit spread of the company of the issuer. The expert price of other securities is gained based on the method of comparable bonds.

Amounts owed to financial institutions

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts owed to financial institutions with one year or less remaining to maturity, it is assumed that their carrying values approximate to their fair values. The fair values of other amounts owed to financial institutions are estimated by discounting their future cash flows using the current inter-bank market rates.

Amounts owed to customers

The fair values of current accounts and term deposits with a remaining maturity of one year or less approximate to their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using the rates currently on offer for deposits with similar remaining maturities.

Debt securities issued

Mortgage bonds issued are publicly traded and their fair values are based on the quoted market prices. If no quoted market price is available, the expert price is used for determining the fair value. The calculation of the expert price is based on the Slovak government bond curve adjusted by the credit spread derived from trades realized on the BCPB and by the credit spread of the company of the issuer. The carrying values of promissory notes and the certificates of deposit approximate to their fair values.

b) Financial assets and liabilities measured at fair value

The Bank uses the following hierarchy for the determination and presentation of the fair value of financial instruments:

Level 1 – If available, published price quotations in active markets are used to determine the fair value of financial assets and liabilities. Revaluation is obtained using prices of identical asset or liability, which means that no model is involved in the process of revaluation. Fair values of the financial assets and liabilities that are traded in active markets are based on the quoted market prices or based on the prices declared by dealers. For fair value determination of other financial instruments, valuation techniques are used.

Level 2 – Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes financial instruments valued using: quoted market prices in active markets for similar financial instruments; quoted prices for identical or similar financial instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all financial instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument´s valuation. The category includes the financial instruments that are valued based on quoted prices for similar financial instruments where significant unobservable adjustments or assumptions are required to reflect differences between the financial instruments.

The classification of the financial instrument into the fair value hierarchy is not static. Financial instruments can shift between different fair value levels for various reasons:

- Market changes: The market can become inactive (shift from Level 1 to Level 2 or 3). As a result, previously observable parameters can become unobservable (possible shift from Level 2 to Level 3);
- Model changes: The application of a new refined model that takes more observable input factors into account or reduces the fair value impact of unobservable inputs (possible shift from Level 3 to Level 2);
- Change in sensitivity: The sensitivity of a valuation input to the entire fair values may change over time. An unobservable input that used to be significant to the entire fair value measurement may become insignificant (or vice versa). The fair value classification in the hierarchy would consequently change from Level 3 to Level 2 (or vice versa).

As the fair value of the financial instrument is dynamic, the Bank regularly evaluates the changes in observability of significant inputs when measuring the financial instrument.

The best indicator of fair value is the price from an active market. If there are quoted prices on the market, fair values are based upon the quoted market prices. External sources of information (i.e. prices from stock exchange or price bids from brokers) are generally used for fair value determination. If no quoted market prices are available, fair values are estimated based on valuation methods which use observable external inputs.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

If no valuation model is available or a valuation model is available, but it is not validated by an entity, independent from the business unit, third party prices have to be used for determining the fair value of financial instruments. The observability of the parameters used in the third party´s model cannot be judged, in case ČSOB does not have any access to information on that model. From this perspective, instruments for which the fair value is based on prices, provided by a party that is independent from ČSOB SR (a third party), are classified into Level 3.

The Market Risk and Capital Management Section and Financial Reporting, Accounting Governance and Procurement Division have responsibility for the determination of the valuation methods of financial assets and liabilities at fair value through profit or loss. The main task of Financial Reporting, Accounting Governance and Procurement Division is to objectively and independently assess whether the valuation is in accordance with IFRS and is properly used.

The Market Risks and Capital Management Section is also responsible for controlling the process of parameters used in valuation techniques and monitoring the correct implementation of valuation methods on a quarterly basis as the part of the Parameter review process. The results of the Parameter review are afterwards reported to the senior management of ČSOB SR. In addition, based on these results, possible changes are defined and implemented in the valuation methodology. Implementation of valuation methods is performed by the Financial Market Middle Office Section. All responsibilities are organized in such a manner as to guarantee the independence of the entire valuation process. A valuation methodology and the exceptions in the valuation process have to be submitted for approval to the Market risk and Capital Management Section and to the Board of Directors.

Derivatives

Linear derivatives are valued through an internal system of the Bank, which calculates the present value (cash flows discounted using relevant yield curves). The price of exotic derivatives is obtained from professional counterparties.

Debt securities

The Bank classifies debt securities at Level 1, if the Bank has available inputs from Reuters or Bloomberg quotations.

If there is no available quotation from these sources, the Bank uses expert valuations:

- valuation of domestic government securities is based on the yield to maturity of comparable securities issued by the NBS;
- calculation of expert prices of mortgage bonds issued by Slovak banks is based on the Slovak government bond curve adjusted by the credit spread derived from trades realized on the BCPB and by the credit spread of the parent company of the issuer;
- valuation of other securities is based on the swap curve adjusted by the related credit spread of an identical security of the issuer or an identical security of the issuer’s parent company.

Loans and deposits at fair value through profit or loss

Loans and deposits at fair value through profit or loss are valued using an internal system of the Bank, which calculates the present value (cash flows discounted using inter-bank yield curves).

Shares

Shares represent investments with a share of less than 20% of the share capital and voting rights. They are valued at fair value valid for available-for-sale securities. Those investments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are accounted for using the cost method.

The following table represents an analysis of financial assets and liabilities recognized at fair value based on their fair value hierarchy as at 31 December 2014:

(EUR ’000)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading:				
Loans and advances to banks	-	34,133	-	34,133
Bank bonds	3,655	52,620	-	56,275
Government debt securities	59,823	-	-	59,823
Other bonds	23,254	-	-	23,254
Financial trading derivatives	-	52,791	270	53,061
Total				***226,546***
Available-for-sale financial assets				
Bank bonds	-	23,289	-	23,289
Government debt securities	413,793	-	-	413,793
Other bonds	28,456	7,167	-	35,623
Shares	-	-	261	261
Total				***472,966***
Other assets				
Fair value changes of hedged item	-	7,740	-	7,740
Hedging derivatives	-	48	-	48
Total				***7,788***
Total financial assets				**707,300**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Term deposits – banks	-	11,023	-	11,023
Term deposits – non-bank customers	-	150,413	-	150,413
Debt securities issued	-	3,378	-	3,378
Financial trading derivatives	-	39,906	503	40,409
Total				***205,223***
Other liabilities				
Hedging derivatives	-	8,752	-	8,752
Total				***8,752***
Total financial liabilities				**213,975**

The following table represents an analysis of financial assets and liabilities recognized at fair value based on their fair value hierarchy as at 31 December 2013:

(EUR '000)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading:				
Bank bonds	4,708	58,296	-	63,004
Government debt securities	45,624	11,420	-	57,044
Other bonds	23,348	-	-	23,348
Financial trading derivatives	-	53,024	2,183	55,207
Total				***198,603***
Available-for-sale financial assets				
Bank bonds	-	2,606	-	2,606
Government debt securities	298,724	108,472	-	407,196
Other bonds	11,784	-	-	11,784
Shares	-	-	261	261
Total				***421,847***
Other assets				
Fair value changes of hedged item	-	1,318	-	1,318
Hedging derivatives	-	283	-	283
Total				***1,601***
Total financial assets				**622,051**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Term deposits – banks	-	40,913	-	40,913
Term deposits – non-bank customers	-	139,141	-	139,141
Debt securities issued	-	5,915	-	5,915
Financial trading derivatives	-	61,355	6,159	67,514
Total				***253,483***
Other liabilities				
Hedging derivatives	-	1,818	-	1,818
Total				***1,818***
Total financial liabilities				**255,301**

Transfers between Level 1 and 2

The following table shows the significant movements between Level 1 and Level 2 as at 31 December 2014:

(EUR '000)

	Transfers from Level 1 into Level 2	Transfers from Level 2 into Level 1
Financial assets at fair value through profit or loss		
Bank bonds	1,544	-
Government debt securities	-	1,248
Available-for-sale financial assets		
Government debt securities	-	110,953

As at 31 December 2014, the Bank made transfers in the portfolio of financial assets at fair value through profit or loss between Level 1 and Level 2 due to a change in the valuation source used for the financial instruments. Bank bonds of EUR 1,544 thousand were transferred from Level 1 to Level 2. Their fair value measurement was changed from a quoted price to an expert revaluation derived from inputs based on observable market data.

Conversely, the Bank moved government debt securities of EUR 1,248 thousand from Level 2 to Level 1. As at 31 December 2014, these bonds had prices quoted on an active market.

In the portfolio of available-for-sale financial assets government debt securities of EUR 110,953 thousand were transferred from Level 2 to Level 1 due to a change in the valuation from expert price to market price.

The following table shows the significant movements between Level 1 and Level 2 as at 31 December 2013:

(EUR '000)

	Transfers from Level 1 into Level 2	Transfers from Level 2 into Level 1
Financial assets at fair value through profit or loss		
Bank bonds	1,155	996
Other bonds	-	31
Available-for-sale financial assets		
Government debt securities	1,270	-

As at 31 December 2013, the Bank made transfers in the portfolio of financial assets at fair value through profit or loss between Level 1 and Level 2 due to a change in the valuation source used for the financial instruments. Bank bonds of EUR 1,155 thousand were transferred from Level 1 to Level 2. Their fair value measurement was changed from a quoted price to an expert revaluation derived from inputs based on observable market data.

Conversely, the Bank moved bank bonds of EUR 996 thousand and other bonds of EUR 31 thousand from Level 2 to Level 1. As at 31 December 2013, these bonds had prices quoted on an active market.

In the portfolio of available-for-sale financial assets government debt securities of EUR 1,270 thousand were transferred from Level 1 to Level 2. These securities were no longer listed on the public market as at year-end 2013 and so were valued by an expert price.

Reconciliation of fair value measurements of Level 3 financial instruments

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2014:

(EUR '000)	Assets		Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss
As at 1 January 2014	2,183	261	6,159
Total losses recorded in the statement of profit or loss and other comprehensive income*	(1,425)	-	(19)
Purchases	56	-	-
Sales	-	-	56
Transfers from Level 3	(544)	-	(5,693)
As at 31 December 2014	**270**	**261**	**503**

** presented in 'Net trading result'*

The total gains or losses for the year relating to financial assets/liabilities held at the end of the reporting period as at 31 December 2014 included a gain of EUR 164 thousand presented in 'Net trading result'.

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value as at 31 December 2013:

(EUR '000)	Assets		Liabilities
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss
As at 1 January 2013	1,679	261	2,365
Total losses recorded in the statement of profit or loss and other comprehensive income*	(309)	-	(1,546)
Purchases	21	-	-
Sales	-	-	21
Transfers into Level 3	792	-	5,319
As at 31 December 2013	**2,183**	**261**	**6,159**

** presented in 'Net trading result'*

The total gains or losses for the year relating to financial assets/liabilities held at the end of the reporting period as at 31 December 2013 included a gain of EUR 52 thousand presented in 'Net trading result'.

Transfers in Level 3 financial instruments measured at fair value

As at 31 December 2014, derivatives with a positive fair value of EUR 544 thousand and derivatives with a negative fair value of EUR 5,693 thousand were transferred from Level 3 to Level 2. The parameters used for their calculation are based on the observable information on the market.

As at 31 December 2013, derivatives with the positive fair value of EUR 792 thousand and derivatives with the negative fair value of EUR 5,319 thousand were transferred from level 2 to level 3. These financial instruments started to be valued based on third party prices. The parameters used for their calculation are not based on the observable information on the market.

All financial instruments in Level 3 are revalued to fair value based on a revaluation obtained from KBC.

36. ČSOB SR RISKS

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability. Each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, operational risk and the market risk of the trading and banking books.

The independent risk control process includes business risks such as changes in the environment, technology, industry and reputation risk. These are monitored through the KBC Group's internal capital adequacy assessment process ('ICAAP'). This process is managed centrally by the parent company, KBC, in Belgium which prepares policy and methodology for the whole KBC Group.

In accordance with NBS Regulation no. 13/2010 on other types of risks, on details about the system of risk management of banks and the subsidiaries of foreign banks and which establishes the definition of sudden and unexpected change of interest rates on the market, the Bank implemented these strategies of risk management: liquidity risk management, market risk management of the banking book and trading book, credit risk management, operational risk management, reputational risk management, business risk management, strategic risk management and ICAAP management. Risk management strategies include the main objectives and principles of the risk management of the Bank and are reassessed at least once per year and approved by the Board of Directors.

36.1. Risk management structure and basic assumptions

The Board of Directors has direct responsibility for identifying and controlling risk; however, there are separate independent bodies responsible for managing and monitoring risk.

The risk management structure in the Bank is based on a uniform principle of risk management applied within the KBC Group; its model, the 'KBC Risk Management Framework', defines the responsibilities and tasks of individual committees, departments and persons within the organization for guaranteeing sound risk management. Risk management includes:

- Involvement of the Bank's top bodies in the risk management process.
- The activities of specialized committees and independent departments involved in risk management at the overall level of ČSOB SR.
- Primary risk management within departments and organizational units.

<u>The organizational structure of senior bodies and committees for risk management is as follows:</u>

Board of Directors

The Board of Directors is fully responsible for the overall risk management approach and for approving risk management strategies and principles. The Board of Directors monitors the risk profile of the Bank, liquidity, capital adequacy (regulatory and economic capital) and capital utilization and also makes decisions concerning the risk mitigation actions, setting of limits and monitoring of limit overruns.

Supervisory Board

The Supervisory Board is responsible for monitoring the overall risk management process within the Bank.

Audit Committee ('AC')

The AC is an advisory committee for the Supervisory Board. This advisory board performs supervision of the integrity and effectiveness of internal control measures, risk management and correctness of financial reports on behalf of the Board of Directors. The AC also monitors compliance of the Bank's processes with legal requirements.

Risk and Compliance Committee ('RCC')

The RCC is an advisory committee for the Supervisory Board in identifying current and future risk appetite and overall risk management strategy. The Committee also oversees their implementation in the Bank by senior management and oversee compliance with the rules, in order to comply with the law. The RCC also monitors products provided to clients to ensure that they are fully in line with the business model and risk strategy of the Bank.

Assets and Liabilities Committee ('ALCO')

The ALCO is an advisory committee for the Board of Directors in the area of balance sheet management (banking and trading book). The ALCO has decision-making and recommendation powers in the area of liquidity management and funding, interest rate and investment management, market and liquidity risk management and business strategy and planning. The focus, competences, membership and the decision making of ALCO are defined within the ALCO statutes. The results from ALCO meetings are submitted to the Board of Directors.

Operational Risk and Business Continuity Committee ('ORBC')

The ORBC is the platform with advisory and decision-making powers in the domains of operational risk and business continuity management. The ORBC discusses and approves the operational risk and business continuity management approach in various areas, proposed by the relevant units. The ORBC also monitors the strategy of operational risk management and business continuity management and implementation of principles and rules for management thereof. The chairman of the Committee is a member of the Board of Directors and the Chief Risk Officer.

Local Credit Committee ('LCC')

The LCC is a committee entrusted with the KBC Group-wide responsibility and authority for taking decisions on (individual) credit applications falling within the delegated powers of decision of the LCC. As such, in principle, it acts as the highest decision-making committee for the Bank.

<u>Other risk management bodies:</u>

Division of Risk, Compliance & Change management

Within the Division of Risk, Compliance and Change management are the Risk and Capital Management Department and Credit Risk Management Department responsible for implementing and maintaining risk-related procedures to ensure an independent control process of risks. These departments are also responsible for the identification, quantification, monitoring, valuation and reporting of risks and for the independent control of risks, including monitoring the risk of exposure against limits and the assessment of risk from new products and structured transactions. Departments are also responsible for the strategy of risk management for particular risks and its adherence.

Asset and Liability Management Department ('ALM')

The ALM Department is responsible for managing the assets and liabilities in the banking book. It is also primarily responsible for the funding and liquidity risks of the Bank.

Financial Markets Division ('FM')

The FM Division is responsible for managing assets and liabilities on the Bank's trading book.

Internal Audit Department

The risk management processes throughout the Bank are audited annually by the Internal Audit function, which scrutinizes both the adequacy of the procedures and the Bank's compliance with them. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the AC.

Risk reporting and measurement systems

The Bank's risks are measured using methods which reflect both the anticipated loss likely to arise in normal circumstances and unexpected losses which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios such as might arise in the event of the unlikely occurrence of extreme events.

Monitoring and controlling risk is performed primarily on the basis of limits established by the Bank. These limits reflect the business strategy and market environment of the Bank, as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures its overall risk-bearing capacity in relation to the aggregated risk exposure across all risk types and activities.

Information compiled from all business units is examined and processed in order to analyse, control and identify risks as they arise. This information is presented and explained to the Bank’s Board of Directors and relevant risk management committees. The reports include aggregate credit exposure, hold limit exceptions, Value at Risk (‘VaR’) analyses, interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes.

The Board of Directors receives a monthly integrated report designed to provide all the information necessary to assess and decide on the risks of the Bank. This report is also submitted to the RCC on a quarterly basis.

The Daily Risk Report containing information regarding drawing of the limits is provided to the Board and all other relevant members of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses derivative financial instruments and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risk, credit risk, and exposures arising from forecast transactions.

The Bank’s risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Middle Office (based on economic considerations rather than on the IFRS hedge accounting criteria). The effectiveness of all hedge relationships is monitored by the Unit on a quarterly basis. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on an ongoing basis.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The concentrations of credit risk thus identified are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

36.2. Credit risk

Credit risk is the risk of loss in the event that its customer, client or counterparty fails to meet its obligations to the Bank resulting from a contractual relationship. The Bank manages and checks credit risk by determining limits to the extent to which it is willing to accept exposure in respect of one counterparty, and individual geographical and industry sectors. The Bank regularly monitors the volume and quality of the exposures in respect of the imposed limits.

The Bank uses a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes regular collateral revisions. Counterparty limits are established by a credit risk classification system, which assigns each counterparty a Probability of Default risk rating (PD rating). Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss to which it is exposed as a result of the risk and to take corrective action.

Internal Rating Based approach ('IRB')

ČSOB SR has implemented internal rating models/tools within the credit process for corporate customers and SMEs, MicroSME customers, private persons, municipalities, housing cooperatives and other customers. The models were developed and constructed in compliance with the Basel II and Basel III regulations as well as with valid Slovak and European legislation. The Bank uses the Internal Rating Based approach also to calculate internal capital requirement ('ICAAP').

The non-retail models produce rating grades on a unified KBC 'PD master scale'. Rating grades 1-9 are used for non-default/normal customers, while rating grades 10-12 are used for customers in default. Each rating grade is associated with a predefined range of probability of default during the next 12 months (e.g. a client accorded PD rating 3 has a probability of default of between 0.20% - 0.40%). Customers with PD ratings 8 and 9 are considered as 'weak normal' and the management of such files is monitored by the Corporate Credits Recovery and Restructuring Section.

The IRB approach also includes the development of score-models for retail portfolios within the Bank, estimates of key parameters such as Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD') within defined homogeneous sets of exposures and a process of regular recalculation, validation and monitoring. Retail portfolio clients (private persons and MicroSMEs especially) are scored and based on the derived score they are divided into pools with the same value of PD or other risk parameters for the whole pool. Score-models are used in the application process so that they influence the incoming population.

All models have to follow the standards defined within the KBC Group, to be independently validated by a specialist appointed from the Credit Risk Management Department and have to be approved by Chief Risk Officer. The Bank applies models developed by the KBC Group to assess the quality of sovereign and banking counterparties. These models are also validated in KBC.

During the first quarter of 2014, the National Bank of Slovakia granted the Bank prior approval to use the IRB approach for the calculation of the own funds requirement for credit risk. The Bank has been reporting under the IRB approach since 31 March 2014.

Corporate and SME customers

The Bank ranks companies with an annual turnover exceeding EUR 10 million, multinational companies with special access required, especially in terms of granted products, international clients of the KBC Group in the category of Large Corporate clients. The clients in this segment are also individually negotiated municipalities, mainly the largest regional cities.

Within the category of SME clients, the Bank classifies clients not meeting the requirements for the segment of Corporate clients, with an annual turnover from EUR 1.5 million up to EUR 10 million inclusive and companies that are economically connected with a client, belonging to SME segment. SME clients also include autonomous regions and municipal clients not belonging to Corporate segment as well as housing cooperatives.

Credit acceptance process

The acceptance process for Corporate customers is organized in three stages. In the first stage, the relationship manager of the introducing entity prepares a written credit proposal. In the second stage, an advisor independent of the business line (i.e. reporting to Credits) screens the proposal and prepares a recommendation. The final decision is made at the appropriate decision-making level (committee). The 'four eyes' principle is always applied. The decision invariably includes an approved counterparty rating.

The established rating models that assign a specific probability of default to each client determine the level of risk and the acceptance process is adapted accordingly. Thus, the Bank can modify the acceptance authority, follow a simpler framework in cases of lower risk, adjust price policy, set more precise monitoring rules, implement advanced risk control based on the portfolio system, etc. The new rating models were integrated into specialized rating tools which can also be used for pricing purposes.

The approval process for SME clients is either complex (similar to Corporate rating process) or simple. The simple process uses scoring models and simplified approval delegation structure. It is applicable for clients with total exposure up to EUR 0.5 million inclusive (up to EUR 1 million in case of economically connected clients) and 250 employees at the maximum.

Retail and MicroSME customers

The category of MicroSME clients consists of clients who do not qualify for inclusion into the Corporate and SME clients, their annual turnover is less than EUR 1.5 million and number of employees is 250 at the maximum. These clients are managed by retail branches and their total credit exposure from loan-drawing is less than or equals EUR 0.5 million (EUR 1 million for economically connected clients).

Credit acceptance process

The retail acceptance process is based on a number of scoring models (scorecards) that influence the loan portfolio quality. The retail acceptance process also uses access to external data sources (Credit Register) that provide additional information on a client's risk profile. Each acceptance process runs on a score-model developed in-house as long as the data history allows it. Score-models are typically based on both socio-demographic and behavioural data. The acceptance process also covers pre-approved loans for existing retail customers based on the outcome from behavioural score-models.

Portfolio risk management

A number of loss-predicting models are used to manage the risk of the retail credit portfolios. Regular back-testing of those models reveals a high degree of precision in the predicted development. The use of these modelling techniques and score-models implemented in tandem with management techniques significantly reduces the credit risk undertaken within retail portfolios.

Derivative financial instruments

Credit risk arising from derivative financial instruments in respect of the Bank's existing rules and processes is limited and in general insignificant when compared to other instruments with credit risks.

Credit risk-related receivables

The Bank grants its customers guarantees that may result in a requirement for the Bank to make payments on their behalf. Such payments are collected from customers on the terms of a letter of credit. They expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet and off-balance sheet. The maximum exposure is shown gross, without taking into account any collateral and other credit risk mitigation tools.

(EUR ’000)	**31 Dec 2014**	**31 Dec 2013 Reclassified**
Mandatory minimum reserves (Note 3)	8,072	7,185
Financial assets at fair value through profit or loss	226,546	198,603
Available-for-sale financial assets	472,966	421,847
Loans and advances to financial institutions	59,135	46,481
Loans and advances to customers	3,774,391	3,518,973
Held-to-maturity investments	1,107,879	1,061,360
Investments in subsidiaries	77,591	80,351
Assets held for sale	-	11,988
Other assets	16,125	12,452
Total	**5,742,705**	**5,359,240**
Contingent liabilities	210,947	190,712
Undrawn credit limits provided	892,113	795,767
Total	**1,103,060**	**986,479**
Total credit risk exposure	**6,845,765**	**6,345,719**

The financial assets described above represent the current credit risk exposure, but not the maximum risk exposure that could arise in the future as a result of changes in values.

Maximum credit risk exposure

The maximum exposure to the credit risk of financial assets is represented by their net carrying amount.

The maximum exposure to credit risk for off-balance sheet commitments (e.g. undrawn loan limits, financial guarantees granted) is represented by the maximum amount the Bank has to pay if the commitment is called in, which is also equal to their carrying amount.

The maximum credit risk exposure for off-balance sheet positions of derivative transactions best represents the related credit equivalent of derivative transactions, as at 31 December 2014 amounting to EUR 89,830 thousand (2013: EUR 62,085 thousand).

Concentration risk in terms of credit risk

Concentration risk is monitored by client/counterparty, geographical region and industry sector from both the qualitative and quantitative perspectives.

The maximum credit exposure to a client or a counterparty as at 31 December 2014 was EUR 88,308 thousand (2013: EUR 76,407 thousand) before taking collateral or other credit enhancements into account and EUR 88,308 thousand (2013: EUR 76,407 thousand) after taking them into account.

The Bank's financial assets and off-balance sheet items with credit risk, before taking any collateral or other credit enhancements into account, may be divided into the following geographical regions:

(EUR '000)	**31 Dec 2014**	**31 Dec 2013**
Slovak Republic	6,524,194	6,062,935
Belgium	18,694	14,418
Czech Republic	19,096	33,628
Germany	74,574	69,823
Netherlands	48,381	64,294
Hungary	70,546	37,914
Other	90,280	62,707
	6,845,765	**6,345,719**

The Bank's financial assets and off-balance sheet items with credit risk by industry sector are as follows:

(EUR '000)	**31 Dec 2014**	**31 Dec 2013**
Agriculture, Forestry and Fisheries	15,732	17,526
Mining and extraction	7,069	6,015
Industrial production	458,985	456,296
Supply of electricity, gas, steam and cold air	116,221	96,461
Supply of water, cleaning and transfer of wastewater, waste, related services	71,433	62,760
Construction	178,714	191,674
Wholesale, retail, repairs of motor vehicles and motorcycles	360,710	350,781
Transport and storage	187,770	178,500
Accommodation and catering	11,608	10,826
Information and communication	39,889	29,416
Financial and insurance activities	165,275	193,304
Real estate activities	348,843	371,669
Professional, scientific and technical activities	157,937	131,910
Administration and supporting services	75,558	80,331
Public administration and defence, Social insurance	1,751,762	1,574,486
Education	2,397	2,843
Health and social support	14,181	10,948
Art, entertainment and relaxation	814	500
Other activities	183,169	193,417
Household activities in role of employers	2,391,812	2,136,427
Activities of extraterritorial organizations and associations	305,886	249,629
	6,845,765	**6,345,719**

Credit risk based on quality of financial assets

The quality of financial assets from the perspective of credit risk is managed based on internal ratings.

The net carrying amount of financial assets according to risk categories based on individual assessment as at 31 December 2014 is presented in the following table:

	Unimpaired			Impaired			Total		
(EUR ’000)	**Amortised cost**	**Impair. loss/ Provision**	**Carrying value**	**Amortised cost**	**Impair. loss/ Provision**	**Carrying value**	**Amortised cost**	**Impair. loss/ Provision**	**Carrying value**
Mandatory minimum reserves (Note 3)	8,072	-	8,072	-	-	-	8,072	-	8,072
Financial assets at fair value through profit or loss	226,546	-	226,546	-	-	-	226,546	-	226,546
Available-for-sale financial assets	472,705	-	472,705	888	(627)	261	473,593	(627)	472,966
Loans and advances to financial institutions	59,165	(30)	59,135	92	(92)	-	59,257	(122)	59,135
Loans and advances to customers	3,684,803	(7,017)	3,677,786	188,778	(92,173)	96,605	3,873,581	(99,190)	3,774,391
from that:									
Public administration	*150,683*	*(42)*	*150,641*	*253*	*(253)*	-	*150,936*	*(295)*	*150,641*
Corporate	*1,237,239*	*(1,305)*	*1,235,934*	*105,898*	*(54,929)*	*50,969*	*1,343,137*	*(56,234)*	*1,286,903*
Retail:	*2,296,881*	*(5,670)*	*2,291,211*	*82,627*	*(36,991)*	*45,636*	*2,379,508*	*(42,661)*	*2,336,847*
- Mortgage loans	1,925,263	(1,974)	1,923,289	54,020	(13,030)	40,990	1,979,283	(15,004)	1,964,279
- Consumer loans	121,394	(972)	120,422	8,523	(7,121)	1,402	129,917	(8,093)	121,824
- Credit cards	14,238	(189)	14,049	1,551	(1,422)	129	15,789	(1,611)	14,178
- Overdrafts	20,355	(288)	20,067	2,684	(2,501)	183	23,039	(2,789)	20,250
- MicroSME	215,631	(2,247)	213,384	15,849	(12,917)	2,932	231,480	(15,164)	216,316
Held-to-maturity investments	1,107,879	-	1,107,879	-	-	-	1,107,879	-	1,107,879
Investments in subsidiaries	74,202	-	74,202	10,954	(7,565)	3,389	85,156	(7,565)	77,591
Other assets	16,334	(209)	16,125	-	-	-	16,334	(209)	16,125
Total	**5,649,706**	**(7,256)**	**5,642,450**	**200,712**	**(100,457)**	**100,255**	**5,850,418**	**(107,713)**	**5,742,705**
Off-balance sheet liabilities	**1,093,096**	**(707)**	**1,092,389**	**11,503**	**(832)**	**10,671**	**1,104,599**	**(1,539)**	**1,103,060**
Total credit risk exposure	**6,742,802**	**(7,963)**	**6,734,839**	**212,215**	**(101,289)**	**110,926**	**6,955,017**	**(109,252)**	**6,845,765**

The net carrying amount of financial assets according to risk categories based on individual assessment as at 31 December 2013, reclassified, is presented in the following table:

	Unimpaired			**Impaired**			**Total**		
(EUR '000)	**Amortised cost**	**Impair. loss/ Provision**	**Carrying value**	**Amortised cost**	**Impair. loss/ Provision**	**Carrying value**	**Amortised cost**	**Impair. loss/ Provision**	**Carrying value**
Mandatory minimum reserves (Note 3)	7,185	-	7,185	-	-	-	7,185	-	7,185
Financial assets at fair value through profit or loss	198,603	-	198,603	-	-	-	198,603	-	198,603
Available-for-sale financial assets	421,586	-	421,586	888	(627)	261	422,474	(627)	421,847
Loans and advances to financial institutions	46,536	(55)	46,481	92	(92)	-	46,628	(147)	46,481
Loans and advances to customers	3,422,754	(7,235)	3,415,519	192,560	(89,106)	103,454	3,615,314	(96,341)	3,518,973
from that*:									
Public administration	*131,022*	-	*131,022*	*331*	*(331)*	-	*131,353*	*(331)*	*131,022*
Corporate	*1,265,174*	*(1,406)*	*1,263,768*	*108,738*	*(56,741)*	*51,997*	*1,373,912*	*(58,147)*	*1,315,765*
Retail:	*2,026,558*	*(5,829)*	*2,020,729*	*83,491*	*(32,034)*	*51,457*	*2,110,049*	*(37,863)*	*2,072,186*
- Mortgage loans	1,682,973	(2,052)	1,680,921	51,628	(11,110)	40,518	1,734,601	(13,162)	1,721,439
- Consumer loans	102,517	(1,559)	100,958	7,346	(5,811)	1,535	109,863	(7,370)	102,493
- Credit cards	13,980	-	13,980	1,464	(1,293)	171	15,444	(1,293)	14,151
- Overdrafts	19,463	-	19,463	6,774	(1,857)	4,917	26,237	(1,857)	24,380
- MicroSME	207,625	(2,218)	205,407	16,279	(11,963)	4,316	223,904	(14,181)	209,723
Held-to-maturity investments	1,061,360	-	1,061,360	-	-	-	1,061,360	-	1,061,360
Investments in subsidiaries	73,697	-	73,697	10,954	(4,300)	6,654	84,651	(4,300)	80,351
Assets held for sale	-	-	-	18,352	(6,364)	11,988	18,352	(6,364)	11,988
Other assets	12,752	(300)	12,452	-	-	-	12,752	(300)	12,452
Total	**5,244,473**	**(7,590)**	**5,236,883**	**222,846**	**(100,489)**	**122,357**	**5,467,319**	**(108,079)**	**5,359,240**
Off-balance sheet liabilities	**973,238**	**(700)**	**972,538**	**14,761**	**(820)**	**13,941**	**987,999**	**(1,520)**	**986,479**
Total credit risk exposure	**6,217,711**	**(8,290)**	**6,209,421**	**237,607**	**(101,309)**	**136,298**	**6,455,318**	**(109,599)**	**6,345,719**

** In 2014 the Bank reassessed the segmentation of customers and also adjusted comparatives.*

The main considerations for loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days, or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringements of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The local management of the Bank is responsible for deciding the length of the emergence period. In both 2014 and 2013, the Bank used a uniform emergence period of four months.

Individually assessed allowances

The Bank determines allowances appropriate to each individually significant loan or receivable on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the availability of other financial support and the realizable value of collateral, and the timing of expected cash flows. The impairment losses are evaluated at each reporting date (or as at the date the reports are submitted to the Bank's management), unless extraordinary or unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer loans) and for individually significant loans and receivables where there is not as yet any objective evidence of individual impairment.

The collective assessment takes account of impairments that are likely to be present in the portfolio even though there is no objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for up to one year. The impairment allowance is then reviewed by the credit management to ensure its alignment with the Bank's overall policy.

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

Ageing analysis of financial assets past due but not impaired based on individual assessment

The table shows a delinquency analysis of the Bank's net overdue but not impaired loans and receivables based on individual assessment as at 31 December 2014:

(EUR '000)	**Due**	**Past due from 1 to 30 days**	**Past due from 31 to 90 days**	**Total**
Public administration	149,855	786	-	150,641
Corporate	1,234,422	1,135	377	1,235,934
Retail:	2,239,616	39,083	12,512	2,291,211
- Mortgage loans	1,880,950	32,692	9,647	1,923,289
- Consumer loans	116,701	3,129	592	120,422
- Credit cards	13,409	572	68	14,049
- Overdrafts	19,914	2	151	20,067
- MicroSME	208,642	2,688	2,054	213,384
Total	**3,623,893**	**41,004**	**12,889**	**3,677,786**

The table shows a delinquency analysis of the Bank's net overdue but not impaired loans and receivables based on individual assessment as at 31 December 2013, reclassified:

(EUR '000)	**Due**	**Past due from 1 to 30 days**	**Past due from 31 to 90 days**	**Total**
Public administration	129,643	1,379	-	131,022
Corporate*	1,252,594	2,544	8,630	1,263,768
Retail*:	1,961,581	44,211	14,937	2,020,729
- Mortgage loans	1,631,782	37,354	11,785	1,680,921
- Consumer loans	96,553	3,357	1,048	100,958
- Credit cards	13,078	765	137	13,980
- Overdrafts	19,205	-	258	19,463
- MicroSME	200,963	2,735	1,709	205,407
Total	**3,343,818**	**48,134**	**23,567**	**3,415,519**

** In 2014 the Bank reassessed the segmentation of customers and also adjusted comparatives.*

The credit quality of loans and advances to customers that are neither past due nor impaired based on individual assessment are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000) Rating	% possible default	Net carrying amount 31 Dec 2014	Net carrying amount 31 Dec 2013 Reclassified
1	0.00% - 0.10%	254,868	41,794
2	0.10% - 0.20%	191,253	313,593
3	0.20% - 0.40%	1,029,566	877,934
4	0.40% - 0.80%	880,012	566,949
5	0.80% - 1.60%	228,251	656,624
6	1.60% - 3.20%	551,726	509,586
7	3.20% - 6.40%	290,775	144,274
8	6.40% - 12.80%	124,217	139,894
9	12.80% - 100.00%	60,702	88,563
Undefined	-	12,523	4,607
Total		**3,623,893**	**3,343,818**

Collateral and other credit enhancements

The tables below provide the financial effect of collaterals and of other credit enhancements for all groups of financial assets. The financial effect represents the effect of mitigating the exposure to credit risk.

(EUR '000)	31 Dec 2014	31 Dec 2013
Real estates	2,569,083	2,323,120
Securities	32	-
Cash and cash equivalents	21,028	26,905
Bank guarantees	26,633	92,219
Other	340,357	364,501
Total	**2,957,133**	**2,806,745**

(EUR '000)	31 Dec 2014	31 Dec 2013
Loans and advances to financial institutions	6,890	5,330
Loans and advances to customers	2,797,519	2,636,484
Undrawn credit limits provided	152,724	164,931
Total	**2,957,133**	**2,806,745**

The amount and types of collateral required depend on an assessment of the credit risk of the counterparty. The Bank has internal guidelines in place to assess the separate types of collateral and determine the valuation parameters to be employed.

The Bank accepted guarantees from its parent company and other subsidiaries within the KBC Group for credit risk mitigation of other subsidiaries of the Bank and for third parties (Note 32).

The Bank monitors the market value of collateral and requires collateral based on contractual conditions.

Collateral realization

The Bank employs different procedures when realizing collateral for retail and non-retail exposures. This divergent approach has resulted from legislation as well as the granularity of individual exposures in these classes of assets. In 2014 and 2013, the Bank did not acquire any assets other than cash from the realization of collateral.

Collateral realization in the RETAIL segment

In the event of an unsuccessful early collection in respect of retail customers, the client and the owner of the collateral (usually real estate) are contacted in order to be informed of the realization of the collateral by the Bank. If the client is amenable to cooperation in resolving this problem, the Bank usually proposes that the real estate be sold under conditions which it specifies (price, legal terms, etc.).

Otherwise, the Bank enters into contracts with external auction companies. An auction company holds an auction after which the Bank obtains the funds acquired, without any charges and fees for the auction company. Subsequently, this amount is used to settle the respective receivable due from the client.

In 2014, the net amount of cash acquired by the Bank from collateral realization in the Retail segment was EUR 4,763 thousand (2013: EUR 6,531 thousand), of which EUR 1,651 thousand (2013: EUR 3,732 thousand) was obtained through cooperation with external auction companies.

Collateral realization in the NON-RETAIL segment

In the non-retail segment, the Bank obtained assets from the realization of various collaterals in the form of cash only, i.e. by using the following types of realization: direct sale, unrestricted auction, auction under distraint and auction within bankruptcy proceedings. Other types of assets (e.g. real estate) are not transferred to the Bank's assets but the Bank implements their sale.

Original type of assets served as collateral	**Type of realization**	**Assets received – cash and cash equivalents**	
(EUR '000)		**31 Dec 2014**	**31 Dec 2013**
Real estate	Auction under execution	71	442
Real estate	Auction within bankruptcy proceedings	790	105
Real estate	Voluntary auction	2,443	650
Real estate	Direct sale	280	4,710
Real estate	Tender within bankruptcy proceedings	-	104
Movable assets	Performance of right of lien	-	109
Financial resources	Performance of right of lien	740	753
Total		**4,324**	**6,873**

Forbearance measures

Based on the new guidelines on non-performing exposures and forbearance measures laid down by the European Banking Authority, which came into effect on 30 September 2014, the Bank implemented a new definition of forborne loans.

Forbearance measures consist of concessions towards a debtor facing or about to face financial difficulties. Concession refers to either a modification of the previous terms and conditions of a contract the debtor is considered unable to comply with or a total or a partial refinancing of a troubled debt contract. Credit facilities for which forbearance measures have been extended and for which the exit criteria are not met are considered to be forborne (formerly known as 'distressed restructured credits').

The Bank has assigned defaulted PD ratings on distressed restructured loans since 2011. This approach was required by local regulator (NBS) and guaranteed conservative approach to exposures with deteriorated asset quality (forborne exposures). Despite conservative assignment of PD ratings to forborne (restructured) exposures, classification of exposures as non-performing for the purposes of IFRS disclosure was adjusted to be in line with new EBA ITS.

Since default (and thus also non-performing) status occurs any time a forbearance measure is granted, the minimum period for assignment of the 'Forborne tag' is 36 months. This period consists of the 12 months of non-performing status and 24 months of what is referred to as 'probation period'. In addition, any time more than 30 days past due is observed at an individual receivable during the 'probation period', the receivable is re-classified as non-performing and the 36-month period is re-set.

As at 31 December 2014, the net carrying amount of forborne exposures included in the credit portfolio is presented in the following table:

	Gross amount			**Impairment loss**			**Net amount**		
(EUR '000)	**Perfor-ming**	**Non-perfor ming**	**Total**	**Perfor-ming**	**Non-perfor ming**	**Total**	**Perfor-ming**	**Non-perfor ming**	**Total**
Public administration	-	56	**56**	-	(56)	**(56)**	-	-	-
Corporate	262	56,349	**56,611**	(2)	(20,806)	**(20,808)**	260	35,543	**35,803**
Retail	9,972	15,601	**25,573**	(37)	(2,819)	**(2,856)**	9,935	12,782	**22,717**
Total	**10,234**	**72,006**	**82,240**	**(39)**	**(23,681)**	**(23,720)**	**10,195**	**48,325**	**58,520**

36.3. Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not, in effect, be able to meet its liabilities when they become due under standard and liquidity crisis developments.

The Bank limits this risk through the proper structure of the balance sheet, with the respect to the quality and maturity of assets and liabilities and through the stabilization and diversification of financial resources. Besides the stable source of primary deposits, the Bank also has available secondary financial resources to maintain a sufficient liquidity level. The Bank creates and maintains regular contacts with clients and other counterparties, important for the Bank in view of liquidity, regularly reviews the reliability of individual financial sources and the availability of high – quality collateral for additional financing.

The medium-term and long-term liquidity position of the Bank is assessed and managed under liquidity scenarios. The basic scenario reflects the expected trend in internal and external liquidity conditions (standard development in assets and liabilities of the Bank is expected), the stress scenario includes various stress factors related to the Bank and also the financial market. Short-term liquidity is monitored through liquidity ratios. The short-term liquidity risk resulted from the actual assets and liabilities of the Bank.

In addition, the Bank measures and monitors short and long term liquidity indicators defined in the International framework for liquidity risk measurement, monitoring and standards issued by the Basel Committee on Banking Supervision – Liquidity coverage ratio ('LCR') and Net stable funding ratio ('NSFR'). The Bank also plans and monitors economically adjusted indicator NSFR ('ENSFR'), which is defined and used for liquidity management within the whole KBC Group. ENSFR is also one of the key performance measures of ČSOB Bank (i.e. KPI's).

The most important liquidity ratios for the Bank in 2014 were:

1. The Liquid asset indicator is a ratio defined by the regulator in accordance with the NBS Regulation no. 18/2008 as subsequently amended. It is defined as the percentage of total liquid assets to volatile liabilities. The ratio cannot be lower than 1.0.

Liquid asset indicator as at 31 Dec 2014	1.29
Average liquid asset indicator in 2014	1.29
Regulatory limit for liquid asset indicator (valid till December 2014)	1.00

Liquid asset indicator as at 31 Dec 2013	1.39
Average liquid asset indicator in 2013	1.37
Regulatory limit for liquid asset indicator	1.00

2. The Loan-to-Deposits ratio ('LtD') is a liquidity ratio, the calculation of which was revised and approved by the Board of Directors on 11 June 2013 and it is defined as a ratio of provided loans to stable funds. Stable funds are defined as the sum of deposits from clients and public authorities and issued debt securities. The ratio should not exceed 110%. As at 31 December 2014 and 31 December 2013, ČSOB SR met this limit.

In accordance with the amendment of NBS Regulation no. 18/2008 (by the NBS Regulation no. 11/2014) the Bank has introduced new local regulatory ratio Liquidity coverage ratio ('LCR') since December 2014. This ratio is derived from the LCR defined in the International framework for liquidity risk measurement, monitoring and standards issued by the Basel Committee on Banking Supervision and it is defined as the percentage of total highly liquid assets to the sum of net cash outflows. The value of the local LCR cannot be lower than 1.0. As at 31 December 2014, the Bank met the limit required by the NBS.

In addition to standard liquidity trends, the Bank has also prepared an emergency plan for liquidity management in the event of a liquidity crisis situation. This emergency plan defines the indicators for early warning of a potential liquidity crisis and determines the responsibilities of relevant bodies during a liquidity crisis.

The following tables show the Bank's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities. The tables include both interest and principal cash flows. The principal cash flows are the best estimates using average effective yields.

(EUR '000) **31 Dec 2014**	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**5 years and more**	**Total**
Financial liabilities at fair value through profit or loss (excluding derivatives)	147,401	9,986	2,968	3,825	-	164,180
Amounts owed to financial institutions	21,186	218	-	275,236	-	296,640
Amounts owed to customers	2,966,145	725,961	576,921	73,082	5,580	4,347,689
Debt securities issued	-	47,007	54,596	302,594	98,464	502,661
Total financial liabilities	**3,134,732**	**783,172**	**634,485**	**654,737**	**104,044**	**5,311,170**

(EUR '000) **31 Dec 2013, reclassified**	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**5 years and more**	**Total**
Financial liabilities at fair value through profit or loss (excluding derivatives)	175,284	8,657	2,117	-	-	186,058
Amounts owed to financial institutions	11,742	260	129	140,727	-	152,858
Amounts owed to customers	2,872,036	664,250	434,066	128,138	1,079	4,099,569
Debt securities issued	-	-	-	333,066	110,131	443,197
Total financial liabilities	**3,059,062**	**673,167**	**436,312**	**601,931**	**111,210**	**4,881,682**

36.4. Market risk

Market risk for financial instruments in the Bank's portfolios is defined as a change in the future cash flows and market prices of these financial instruments resulting from movements in market variables. In general, the most important variables are interest rates, foreign exchange rates and equity prices.

The Bank classifies exposures to market risk into either its trading (trading book) or non-trading portfolios (banking book). Market risk for the trading portfolio is managed and monitored based on a standard VaR rate that reflects the interdependence of risk variables. In addition to the VaR method, a further measure is an analysis of sensitivity using Basis Point Value ('BPV') indicators. Within the positions kept in the banking book, market risk is measured and managed using the BPV sensitivity analysis and cumulative interest rate GAPs.

Market risk – Trading Book

The Bank's Board of Directors defines the maximum acceptable level of risk by using VaR and BPV limits. The Bank applies a VaR method to estimate the market risk in the financial instruments recorded in the Bank's portfolios and to determine the potential economic loss resulting from unfavourable movements in market variables.

The risk rate of the VaR business portfolio in terms of its present value has been defined as the maximum potential loss to which the Bank may be exposed within a precisely defined time horizon and with probability specified in advance. To estimate VaR for interest rate as well as FX risks, the Bank currently uses the method of historical simulation based over a two-year period of the development of market risk factors. The reliability level is set at 99% within a ten working-day horizon. The adequacy and accuracy of the internal model is regularly evaluated using the results of back-tests performed on a daily basis.

An overview of actual VaR along with drawing up predefined limits forms part of a daily report to the Bank's senior management.

In addition to the standard VaR calculations, the Bank also performs detailed stress-test analyses. These consist of various scenarios for unexpected movements in market risk factors and their impact on the market values of the positions currently held by the Bank. The set of predefined scenarios includes actual historical market shocks as well as artificially designed tests.

The Bank has no open position in equity, or in FX options. Technical limits are set for positions in interest rate options, permitting the opening of minor positions only.

VaR summary as at 31 December 2014 is as follows:

(EUR '000)	**Interest rate**	**FX**	**Effect of correlation**	**Global VaR total**
31 December 2014	1,322	200	(48)	1,474
Average	1,766	162	(147)	1,781
Max	2,162	466	-	2,265
Min	1,322	29	-	1,375

VaR summary as at 31 December 2013 is as follows:

(EUR '000)	**Interest rate**	**FX**	**Effect of correlation**	**Global VaR total**
31 December 2013	1,772	286	(298)	1,760
Average	2,025	271	(233)	2,063
Max	3,043	983	-	3,047
Min	1,230	46	-	1,232

Risk management of the Trading Book includes, besides the VaR limit and BPV limits, also limits for open FX position, limits for back-to-back trading, stop-loss limits, volume limits, limits for unquoted prices, limits for trades without physical delivery, limits for inadequate high margins and profits, Professional limits ('PRF') linked to credit risk.

Market risk – Banking Book

Interest rate risk

The interest rate risk of financial instruments positioned in the banking book has been defined as a change in the future cash flows of these financial instruments or in their actual market value resulting from movements in interest rates. The Board of Directors approved a set of BPV sensitivity limits and maximum interest rate exposure limits for predefined time periods which are used for monitoring and managing the interest rate risk. Positions are monitored weekly and hedging strategies are used to close potential open positions.

The sensitivity of the Bank's positions to the interest rate changes is described in the tables below.

The impact of interest rate changes on the non-tradable assets and liabilities is described by the sensitivity of net interest income. The impact of interest rate changes on financial assets held for trading is expressed by the sensitivity of the separate statement of profit or loss and other comprehensive income. Sensitivity of equity results from the revaluation of financial assets and liabilities held for sale. Shock parallel tests of the yield curve are used to measure sensitivity.

Sensitivity to change in interest rates as at 31 December 2014:

2014 (EUR '000)	**Growth in basis points**	**Net interest income sensitivity**	**Profit and loss sensitivity**	**Capital sensitivity**
EUR	+10	(1,471)	65	(1,657)
CZK	+10	51	(50)	-
USD	+10	(37)	-	(276)

Sensitivity to change in interest rates as at 31 December 2013:

2013 (EUR '000)	**Growth in basis points**	**Net interest income sensitivity**	**Profit and loss sensitivity**	**Capital sensitivity**
EUR	+10	(1,769)	149	(1,403)
CZK	+10	93	(93)	-
USD	+10	(41)	-	(168)

Security risk

The Bank's portfolio is not exposed to material security risk.

Foreign exchange risk

The foreign exchange risk of financial instruments posted in the banking book has been defined as a change in the future cash flows of these financial instruments resulting from movements in foreign exchange rates. The exchange rate risk management strategy approved by the Board of Directors does not allow any significant open currency positions to be held in non-trading portfolios. Only technically minimum open positions in foreign currencies are permitted. The values for each currency are determined by the Bank's Board of Directors. Positions are monitored daily and hedging strategies are used to close potential open currency positions.

The table below provides an analysis of the Bank´s net open foreign exchange positions. The remaining currencies are included under 'Other':

(EUR '000)	**EUR**	**USD**	**CZK**	**Other**	**Total**
31 Dec 2014					
Financial assets					
Cash and balances with central bank	167,799	2,319	4,056	2,603	**176,777**
Financial assets at fair value through profit or loss	174,820	8,215	40,020	3,491	**226,546**
Available-for-sale financial assets	431,792	41,174	-	-	**472,966**
Loans and advances to financial institutions	22,684	9,039	6,403	21,009	**59,135**
Loans and advances to customers	3,759,408	11,766	3,215	2	**3,774,391**
Held-to-maturity investments	1,099,594	8,285	-	-	**1,107,879**
Total financial assets	**5,656,097**	**80,798**	**53,694**	**27,105**	**5,817,694**
Financial liabilities					
Financial liabilities at fair value through profit or loss	134,096	4,236	-	66,891	**205,223**
Amounts owed to financial institutions	294,095	853	102	281	**295,331**
Amounts owed to customers	4,001,290	171,277	60,209	112,094	**4,344,870**
Debt securities issued	400,940	-	43,604	-	**444,544**
Total financial liabilities	**4,830,421**	**176,366**	**103,915**	**179,266**	**5,289,968**
Net FX position of financial assets and liabilities at 31 Dec 2014	**825,676**	**(95,568)**	**(50,221)**	**(152,161)**	**527,726**
Total financial assets at 31 Dec 2013, reclassified	5,273,866	67,423	14,312	13,529	**5,369,130**
Total financial liabilities at 31 Dec 2013, reclassified	4,387,529	195,148	103,775	181,276	**4,867,728**
Net FX position of financial assets and liabilities at 31 Dec 2013	**886,337**	**(127,725)**	**(89,463)**	**(167,747)**	**501,402**

36.5. Operational risk

Operational risk is the risk of a potential negative deviation from the expected value of the organization resulting from inadequate or failed internal processes, people and systems or from sudden man-made or natural external events.

Operational risk also includes legal risk. In the event of failure, the reputation of the Bank may be damaged and the legal and regulatory consequences may cause financial losses. It is not possible to exclude all operational risk, but operational risk can be managed by regular monitoring actions and by actions taken against the possible risks.

Operational risk is managed by the implementation of key controls defined by the KBC Group, evaluating and addressing the risk identified in banking processes and a proactive approach to potential risks. The mitigation of operational risk is also ensured via application of insurance.

Regularly reviewed plans for business continuity performance ensure that, in the event of failure, the Bank will be able to perform its activities. The objective of these plans is to minimize the impacts of unexpected events on banking activity.

37. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

The following table shows the distribution of assets, liabilities and equity based on expected settlement:

	31 Dec 2014			31 Dec 2013, reclassified		
(EUR '000)	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash and balances with central bank	176,777	-	**176,777**	121,866	-	**121,866**
Financial assets at fair value through profit or loss	100,748	125,798	**226,546**	11,962	186,641	**198,603**
Available-for-sale financial assets	9,641	463,325	**472,966**	8,226	413,621	**421,847**
Loans and advances to financial institutions	51,660	7,475	**59,135**	39,367	7,114	**46,481**
Loans and advances to customers	744,816	3,029,575	**3,774,391**	809,704	2,709,269	**3,518,973**
Held-to-maturity investments	52,772	1,055,107	**1,107,879**	29,035	1,032,325	**1,061,360**
Investments in subsidiaries	-	77,591	**77,591**	-	80,351	**80,351**
Current income tax asset	5,170	-	**5,170**	-	-	-
Deferred income tax asset	-	10,182	**10,182**	-	15,920	**15,920**
Property and equipment	-	48,583	**48,583**	-	52,299	**52,299**
Intangible assets	-	11,244	**11,244**	-	12,859	**12,859**
Assets held for sale	-	-	**-**	11,988	-	**11,988**
Other assets	8,337	7,788	**16,125**	10,851	1,601	**12,452**
Total assets	**1,149,921**	**4,836,668**	**5,986,589**	**1,042,999**	**4,512,000**	**5,554,999**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	184,649	20,574	**205,223**	185,957	67,526	**253,483**
Amounts owed to financial institutions	21,358	273,973	**295,331**	12,125	132,837	**144,962**
Amounts owed to customers	4,263,292	81,578	**4,344,870**	3,964,363	128,416	**4,092,779**
Debt securities issued	105,674	338,870	**444,544**	4,958	371,546	**376,504**
Provisions	-	9,304	**9,304**	-	8,821	**8,821**
Other liabilities	28,100	10,224	**38,324**	30,621	3,095	**33,716**
Current income tax liability	-	-	**-**	8,339	-	**8,339**
Equity	-	648,993	**648,993**	-	636,395	**636,395**
Total liabilities and equity	**4,603,073**	**1,383,516**	**5,986,589**	**4,206,363**	**1,348,636**	**5,554,999**

38. CAPITAL

From 1 January 2014, the Bank actively manages the volume of its capital in accordance with the Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012 (hereinafter 'Regulation (EU) no. 575/2013' or 'CRR'). The Bank actively manages its capital capacity also in accordance with NBS Regulation no. 23/2014 establishing national elections for institutions under a special regulation which repeals NBS Regulation no. 4/2007 so as to ensure a Common Equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%. The Bank, in addition to maintaining common equity Tier 1 capital to meet capital requirements, maintains a capital conservation buffer to preserve capital in the form of common equity Tier 1 capital ratio of 2.5% of its total risk exposure.

The Bank regularly evaluates the adequacy of internal capital, through the Internal Capital Adequacy Assessment Process ('ICAAP'), to cover the risks to which the Bank's activity is exposed. The Bank has an integrated process of internal capital management to existing risk management systems. Within ICAAP the Bank applies a qualitative and quantitative approach to risk assessment.

The volume of internal capital covering potential losses should meet the level of economic capital at minimum. Economic capital is defined as an unexpected loss in fair value calculated as a one-year time horizon with a reliability level of 99.9%. The Bank has a sufficient amount of available financial resources covering the risks to which the Bank is subject.

The primary objectives of the Bank are to maintain strong capital resources to meet the regulatory requirements, preserve its credibility and ensure continuity in its activities. The Board of Directors regularly reviews the principles of management and distribution of the Bank's capital.

The Bank manages its capital structure with respect to the changes in economic environment and changes in risk profile of its activities.

(EUR '000)	**31.12.2014***
Own funds	**543,322**
Tier 1 Capital	***541,866***
Common Equity Tier 1 Capital (CET 1)	***541,866***
Share capital	248,004
Share premium	484,726
Legal reserve fund	49,601
Retained earnings	3,818
Accumulated other comprehensive income	23,971
Value adjustments due to the requirements for prudent valuation	(441)
Software	(11,244)
Restructuring reserve fund	(216,162)
IRB shortfall of credit risk adjustments to expected losses	(16,436)
Other transitional adjustments to CET1 Capital	(23,971)
Tier 2 Capital	***1,456***
IRB Excess of provisions over expected losses eligible	3,437
T2 instruments of financial sector entities where the institution has a significant investment	(1,981)

** calculated according to Regulation (EU) no. 575/2013*

(tis. EUR)	**31.12.2013***
Total regulatory capital	**451,543**
Tier 1 capital (core capital)	***520,636***
Share capital	248,004
Share premium	484,726
Legal reserve fund	37,990
Retained earnings	3,818
Software	(12,859)
Restructuring reserve fund	(216,162)
Other items reducing capital	(24,881)
Tier 2 capital (supplementary funds)	***16,232***
Revaluation surplus on available-for-sale financial assets	16,232
Deductible items from Tier 1 and Tier 2 capital	***(85,325)***
Investments to other financial institutions	(80,344)
Subordinated receivables	(4,981)

***** *calculated according to NBS Regulation 4/2007*

As at 31 December 2014 and 31 December 2013, ČSOB SR met the obligatory capital requirements.

39. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents consist of the following items:

(EUR ’000)	**Note**	**31 Dec 2014**	**31 Dec 2013**
Cash and balances with central bank	3	176,777	121,866
Loans and advances to financial institutions – Current accounts	6	47,217	30,866
Loans and advances to financial institutions – Loans and advances to banks		621	499
Financial assets at fair value through profit or loss – Loans and deposits to banks	4	34,133	-
		258,748	**153,231**

40. POST BALANCE SHEET EVENTS

From 31 December 2014, up to the date of issue of these financial statements, there were no such events identified that would require adjustments to or disclosure in these financial statements.

These Separate Financial Statements were approved and authorized for issue by the Board of Directors on 18 March 2015.

Daniel Kollár
Chief Executive Officer

Stefan Delaet
Chief Officer for Finance, Credits and ALM