



Consolidated Financial Statements

for the year ended 31 December 2016

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

and Independent Auditor's Report

Československá obchodná banka, a.s. and the group entities

Consolidated Financial Statements for the year ended 31 December 2016

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

Contents

Independent Auditor's Report	3
Consolidated Statement of Financial Position	8
Consolidated Statement of Profit or Loss and Other Comprehensive Income	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
Notes to the Consolidated Financial Statements	12

Independent Auditor's Report

To the Shareholders, Supervisory Board, and Board of Directors of
Československá obchodná banka, a.s.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Československá obchodná banka, a.s. and its subsidiaries (together the "Group") as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

Consolidated financial statements of Československá obchodná banka, a.s. comprise the following:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the consolidated financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Regulation (EU) No. 537/2014.

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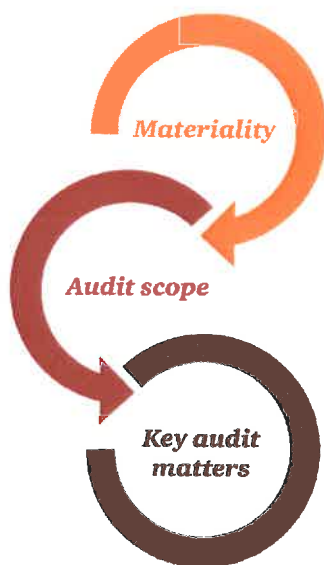
The firm's ID No. (IČO): 35 739 347.

Tax Identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.

Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

Our audit approach



Overview

Overall group materiality is EUR 5.0 million and was estimated based on a combination of two benchmarks, total profit before tax (5%) and total equity (1%), each carrying a 50% weight.

We focused our audit work on the most material consolidated entities:

- Československá obchodná banka, a.s.
- ČSOB Leasing, a.s.

These two entities represent approximately 97% of the Group's total assets at 31 December 2016 and 97% of the Group's profit for the year then ended.

The audit of the loan loss provisions estimate required our significant attention given the nature of the estimate and its significance to the consolidated financial statements.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality

EUR 5.0 million

How we determined it

We based the materiality on a combination of two benchmarks, profit before tax and equity, each carrying 50% weight.

Rationale for the materiality benchmark applied

The performance of the Group is most commonly measured by financial statements users based on the Group's profitability. However, the Group's capital is also an important indicator to many users of the financial statements and shareholder return is also commonly expressed relative to the amount of the bank's capital, that is, as a return on equity. The quantitative thresholds of approximately 5% applied to profit before tax and 1% applied to equity are within a range set out in our internal firm's guidance.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Loan loss provisions estimate	
The loan loss provisions are a critical estimate, as explained in more detail in note 2.2 in the consolidated financial statements.	We verified that the Group's methodology for estimating loan loss provisions was appropriate and applied consistently.
The identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the determination of the recoverable amount of loans are inherently uncertain.	We assessed and tested the design, implementation, and operating effectiveness of the controls related to the timely identification of impaired loans, independent validation of models used by management for calculation of loan loss provisions, and annual back-testing of the models.
The Group recognised portfolio provisions for loans, which are not individually significant, and a provision for impairment losses incurred but not yet reported or identified with a specific loan.	We examined a sample of individually significant loan exposures, both unimpaired and impaired, in order to test loan loss provisions calculated on an individual basis. We considered management's assumptions, including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default.
The loan provisions required our significant attention given the inherent uncertainty and significance of this estimate for the consolidated financial statements.	We assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Group to estimate portfolio loan loss provisions for loans that share similar credit risk characteristics. We inspected the results of back testing of provisions for losses incurred but not yet reported or identified with a specific loan.
	The engagement partner has read the consolidated financial statements to assess the relevant loan impairment and credit quality disclosures.
	Our procedures did not lead to a material adjustment to loan impairment provisions at 31 December 2016.

Reporting on other information in the consolidated annual report

Management is responsible for consolidated annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 (the "Accounting Act"). The consolidated annual report comprises (a) the consolidated financial statements and (b) other information. Management has not prepared the consolidated annual report by the date of our audit report.

Our opinion on the consolidated financial statements does not cover the other information. When the consolidated annual report becomes available to us, our responsibility will be to read the other information identified above and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated annual report, we will also consider whether it includes the disclosures required by the Accounting Act, when it becomes available to us. This will include checking the consistency of the consolidated annual report with the consolidated financial statements, and whether the consolidated annual report has been prepared in accordance with the Accounting Act.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the relevant financial reporting framework and with other identified applicable local law or other requirements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Slovensko, s.r.o.
PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161
Bratislava, 21 March 2017



Tučný
Mgr. Juraj Tučný, FCCA
UDVA licence No. 1059

Československá obchodná banka, a.s. and the group entities

Consolidated Financial Statements for the year ended 31 December 2016

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

Consolidated Statement of Financial Position at 31 December 2016
(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR '000)	Note	31 Dec 2016	31 Dec 2015 Reclassified
Assets			
Cash and balances with central bank	3	203,708	232,685
Financial assets at fair value through profit or loss	4	57,303	77,913
Available-for-sale financial assets	5	498,944	537,268
Available-for-sale financial assets pledged as collateral	5, 15	17,661	15,554
Loans and receivables to financial institutions	6	45,814	47,941
Loans and receivables to customers	7	6,096,696	5,464,198
Held-to-maturity investments	8	1,369,590	1,188,377
Held-to-maturity investments pledged as collateral	8, 15	108,841	77,857
Current income tax asset		3,931	1,419
Deferred income tax asset	29	20,885	14,376
Property and equipment	9	79,913	71,203
Intangible assets	10	10,887	12,665
Assets held for sale	11	5,495	2,107
Other assets	12	24,105	22,141
Total assets		8,543,773	7,765,704
Liabilities and equity			
Financial liabilities at fair value through profit or loss	14	217,591	293,775
Amounts owed to financial institutions	15	895,503	797,929
Amounts owed to customers	16	5,618,558	5,073,882
Debt securities issued	17	1,047,207	823,327
Provisions	13, 18	7,378	11,598
Other liabilities	19	55,709	54,519
Current income tax liability		1	6,852
Total liabilities		7,841,947	7,061,882
Share capital		248,004	248,004
Share premium		484,726	484,726
Reserve funds		49,601	49,601
Revaluation reserve		(197,935)	(184,439)
Retained earnings		34,201	31,347
Net profit for year		83,229	74,583
Total equity	21	701,826	703,822
Total liabilities and equity		8,543,773	7,765,704



Daniel Kollár
Chief Executive Officer



Stefan Delaet
Chief Officer for Finance, Credits and ALM

The Notes on pages 12 to 92 form an integral part of these Consolidated Financial Statements.

**Consolidated Statement of Profit or Loss and Other Comprehensive Income
for year ended 31 December 2016**

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

(EUR '000)	Note	31 Dec 2016	31 Dec 2015 Reclassified
Interest income		244,449	248,396
Interest expense		(34,301)	(40,228)
Net interest income	23	210,148	208,168
Fee and commission income		63,374	65,951
Fee and commission expense		(9,706)	(11,360)
Net fee and commission income	24	53,668	54,591
Net trading result and exchange differences	25	15,158	16,254
Net realized result from available-for-sale financial assets		15,816	1,893
Other operating result	26	5,700	8,577
Total income		300,490	289,483
Personnel expenses	27	(80,613)	(76,606)
Depreciation and amortization	9, 10	(11,913)	(11,528)
Other operating expenses	28	(88,254)	(84,298)
Operating expenses		(180,780)	(172,432)
Profit for year before impairment losses, financial guarantees and tax		119,710	117,051
Impairment losses and financial guarantees	13	(15,853)	(18,323)
Profit for year before tax		103,857	98,728
Income tax expense	29	(20,628)	(24,145)
Net profit for year		83,229	74,583
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets		(17,741)	7,736
Cash flow hedge		208	172
Income tax relating to items that may be reclassified subsequently to profit or loss		4,037	(1,740)
Other comprehensive income/(loss) for year, net of tax		(13,496)	6,168
Total comprehensive income for year		69,733	80,751
Net profit attributable to:			
Owners of the parent		83,229	74,583
Total comprehensive income attributable to:			
Owners of the parent		69,733	80,751

The Notes on pages 12 to 92 form an integral part of these Consolidated Financial Statements.

Československá obchodná banka, a.s. and the group entities

Consolidated Financial Statements for the year ended 31 December 2016

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

Consolidated Statement of Changes in Equity for year ended 31 December 2016

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

(EUR '000)	Share capital	Share premium	Reserve funds	Revaluation reserve on available-for-sale financial assets	Revaluation reserve on cash flow hedge	Other revaluation reserve	Retained earnings	Total
Equity as at 1 January 2015	248,004	484,726	44,169	25,555	-	(216,162)	91,814	678,106
Total comprehensive income for year:	-	-	-	6,034	134	-	74,583	80,751
<i>Net profit for year</i>	-	-	-	-	-	-	74,583	74,583
<i>Other comprehensive income for year, net of tax</i>	-	-	-	6,034	134	-	-	6,168
Profit distribution – reserve funds	-	-	5,432	-	-	-	(5,432)	-
Dividends paid	-	-	-	-	-	-	(55,035)	(55,035)
Equity as at 31 December 2015	248,004	484,726	49,601	31,589	134	(216,162)	105,930	703,822
Equity as at 1 January 2016	248,004	484,726	49,601	31,589	134	(216,162)	105,930	703,822
Total comprehensive income for year:	-	-	-	(13,662)	166	-	83,229	69,733
<i>Net profit for year</i>	-	-	-	-	-	-	83,229	83,229
<i>Other comprehensive income/(loss) for year, net of tax</i>	-	-	-	(13,662)	166	-	-	(13,496)
Dividends paid	-	-	-	-	-	-	(71,729)	(71,729)
Equity as at 31 December 2016	248,004	484,726	49,601	17,927	300	(216,162)	117,430	701,826

The Notes on pages 12 to 92 form an integral part of these Consolidated Financial Statements.

Československá obchodná banka, a.s. and the group entities

Consolidated Financial Statements for the year ended 31 December 2016

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Consolidated Statement of Cash Flows for year ended 31 December 2016

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

(EUR '000)	Note	31 Dec 2016	31 Dec 2015 Reclassified
Profit before taxes		103,857	98,728
<i>Adjustments for:</i>			
Depreciation and amortization		11,913	11,528
Unrealized losses from financial instruments		4,961	11,202
Negative goodwill immediately recognized in profit or loss		(295)	(355)
Dividend income		(12)	(10)
Interest income		(244,449)	(248,396)
Interest expense		34,301	40,228
Impairment losses and provisions		16,475	15,661
(Gain) on disposal of property and equipment, intangible assets and assets held for sale		(317)	(136)
Cash flow from operations before changes in operating assets and liabilities		(73,566)	(71,550)
<i>Changes in operating assets and liabilities:</i>			
Loans and receivables to financial institutions		(10,332)	2,461
Financial assets at fair value through profit or loss		13,926	78,299
Available-for-sale financial assets		14,908	(33,280)
Loans and receivables to customers		(655,379)	(748,107)
Other assets		(7,678)	(1,305)
Amounts owed to financial institutions		98,150	123,778
Financial liabilities at fair value through profit or loss		(71,571)	111,314
Amounts owed to customers		544,768	552,727
Provisions		(142)	(500)
Other liabilities		1,207	(2,309)
Cash flow from operations before interest and taxes		(145,709)	11,528
Interest received		259,950	252,444
Interest paid		(33,970)	(42,884)
Income taxes paid		(32,526)	(14,992)
Net cash flow from operating activities		47,745	206,096
Cash flow from investing activities			
Acquisition of held-to-maturity investments		(244,785)	(261,381)
Repayment of held-to-maturity investments		30,205	116,015
Dividends received		12	10
Purchase of property and equipment, intangible assets		(25,307)	(17,499)
Proceeds from sale of property and equipment, intangible assets and assets held for sale		3,464	3,200
Acquisition of subsidiaries, net of cash acquired	2.23	-	9,472
Net cash flow on investing activities		(236,411)	(150,183)
Cash flow from financing activities			
Proceeds from issue of debt securities		331,985	126,114
Repayment of debt securities		(112,909)	(113,844)
Dividends paid		(71,729)	(55,035)
Net cash flow from/(on) financing activities		147,347	(42,765)
Net change in cash and cash equivalents		(41,319)	13,148
Cash and cash equivalents at beginning of year	37	276,779	263,631
Cash and cash equivalents at end of year	37	235,460	276,779
Net change		(41,319)	13,148

The Notes on pages 12 to 92 form an integral part of these Consolidated Financial Statements.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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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 2016, ČSOB SR had 133 branches.

Československá obchodná banka, a.s., is 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, legal entity identifier code ('LEI code') 52990096Q5LMCH1WU462.

ČSOB SR is a part of the group of KBC Bank NV, 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 and controlling company of ČSOB SR is KBC GROUP NV, 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 responsibilities as other entities within the KBC group in Europe. ČSOB SR provides 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.

These financial statements comprise of financial statements of ČSOB SR and its subsidiaries ('ČSOB Group SR' or 'the Group').

ČSOB SR has the following subsidiaries within its group ('ČSOB Group SR') as at 31 December 2016:

- ČSOB Stavebná sporiteľňa, a.s.
- ČSOB Leasing, a.s. and its subsidiary
- Nadácia ČSOB (non-consolidated)
- ČSOB Centrála, s.r.o.

Nadácia ČSOB is not consolidated because the Group does not have sufficient exposure to variable returns of this entity. As a non-profit organisation, net assets of Nadácia ČSOB are designated for non-profit or charitable purposes, it cannot pay dividends nor can it transfer net assets to the ČSOB Group SR upon liquidation due to restrictions in Slovak legislation.

As at 1 July 2016, ČSOB Factoring, a.s., was legally merged with ČSOB SR without any impact on consolidated figures. The Group continues to provide business activities of similar characteristics as were provided by subsidiary before the merger.

As at 1 July 2015, ČSOB Leasing, a.s., acquired new companies VB Leasing SK, s.r.o. and VB Leasing Sprostredkovateľská, s.r.o. ('VB Leasing') with 100% share of capital. The business activity of acquired companies is leasing and insurance broker. The companies were fully consolidated. As at 1 July 2016, VB Leasing was legally merged with ČSOB Leasing without any impact on consolidated figures.

The Chief Executive Officer and Chairman of the ČSOB SR Board of Directors as at 31 December 2016 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 2016 is Luc Gijsens. The member of the Supervisory Board is Peter Leška.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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2. SIGNIFICANT ACCOUNTING PRINCIPLES AND METHODS

2.1. Basic accounting principles

The Group's Consolidated Financial Statements for the year ended 31 December 2016 ('consolidated financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and Act No 431/2002 Coll. on Accounting. The Group also prepares Separate Financial Statements for ČSOB SR in accordance with the International Financial Reporting Standards as adopted by the EU and Act No 431/2002 Coll. on Accounting.

The ČSOB Group SR prepared and issued Separate and Consolidated Financial Statements for the year ended 31 December 2016 on 21 March 2017.

Separate and Consolidated Financial Statements for the preceding accounting period (as at 31 December 2015) were approved and authorized for issue on 16 March 2016.

These consolidated financial statements have been prepared under the going-concern assumption that the ČSOB Group SR will continue in operation for the foreseeable future, using the historical cost method except as 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 presentation currency in the consolidated financial statements is the Euro ('EUR') and the amounts are rounded to thousands of EUR, unless stated otherwise.

Basis of Consolidation

The consolidated financial statements present the accounts and results of the Bank and its controlled companies. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the acquisition date up to the date when control is lost over the subsidiary. All intra-group balances and transactions, including unrealized intra-group profits or losses, are eliminated on consolidation. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Subsidiary Undertakings

A subsidiary is a subject 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.

Where an entity either began or ceased to be controlled during the year, the results are included only from the date such control commenced or up to the date control ceased.

Goodwill

Goodwill is measured at the acquisition date as the difference between the acquisition-date fair value of the consideration transferred and the amount of any NCI in the entity acquired and the acquisition-date fair value of any previously held equity interest in the entity acquired and the net of the acquisition-date fair value of the identifiable assets acquired and liabilities assumed. Accordingly, where an acquirer chooses to measure NCI at fair value at the acquisition date, the goodwill reported will typically be higher, reflecting goodwill attributable to the NCI.

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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As at 31 December 2015, the Group has a negative goodwill immediately recognized in profit or loss from the acquisition of VB Leasing which is recorded under 'Other operating result' in the consolidated statement of profit or loss and other comprehensive income.

2.2. Significant accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain significant accounting estimates. While applying the Group'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 consolidated financial statements. The most significant judgments and estimates are as follows:

Impairment losses on loans

The ČSOB Group SR reviews its loan portfolio at each reporting date and assesses whether an allowance for impairment should be recorded in the consolidated 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. For more information see Notes 2.10, 7, 13 and 34.2.

The ČSOB Group SR 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 ČSOB Group SR monitors and evaluates loan portfolios in terms of concentration in sectors, industries, their distribution to individual ratings, the existence of collateral and territorial exposure.

Provisions

Provisions for liabilities are recognized when the ČSOB Group SR 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 present value of those cash flows. See Note 18.

2.3. Foreign currencies

The EUR is the currency of the primary economic environment in which all the entities of the ČSOB Group SR 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 consolidated statement of profit or loss and other comprehensive income under 'Net trading result and exchange differences'.

2.4. Financial instruments – accounting for recognition and derecognition

Financial assets and liabilities are recognized in the consolidated statement of financial position when the ČSOB Group SR 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 consolidated statement of financial position when the contractual rights to the cash flows from the financial asset expire or are transferred and the transfer qualifies for derecognition. A transfer requires that the Group either:

- a) has transferred the contractual rights to receive the asset's cash flows; or
- b) has retained the contractual rights to receive the asset's cash flows but has assumed a contractual obligation to pay those cash flows to a third party.

After a transfer, the Group assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Group has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

A financial liability is derecognized from the consolidated 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 ČSOB Group SR recognizes 'regular way' purchases and sales using settlement date accounting. In settlement date accounting, a financial asset is recognized or derecognized in the consolidated statement of financial position on the date it is physically transferred to or from the ČSOB Group SR ('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 consolidated 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 ČSOB Group SR classifies financial assets in the following categories:

- Financial assets and liabilities at fair value through profit or loss
- Loans and receivables
- 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 entered into the ČSOB Group SR.
- 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:
 - o 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.
 - o 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.
 - o 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 consolidated statement of financial position at fair value. Gains and losses resulting from changes in fair value are recorded in the consolidated statement of profit or loss and other comprehensive income as 'Net trading result and exchange differences' as incurred. Interest income or expense is recorded in the consolidated statement of profit or loss and other comprehensive income as 'Net interest income' for those held in the banking book (hedging derivatives) or in 'Net trading result and exchange differences' for those held in the trading book (trading derivatives).

Where the transaction price differs from the fair value evidenced by quoted price in an active market for identical items or based on a valuation technique that uses only data from observable markets, the Group immediately recognizes the difference between the transaction price and the fair value (a Day 1 profit) in the consolidated statement of profit or loss and other comprehensive income as 'Net trading result and exchange differences'. 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 consolidated statement of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognized.

Loans and receivables to financial institutions and Loans and receivables to customers

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

Loans and receivables to financial institutions and loans and receivables to customers are recorded in the consolidated 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 consolidated statement of profit or loss and other comprehensive income as 'Interest income'. Losses arising from the impairment of these investments are recognized in the consolidated 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 Group's management has the positive intention and ability to hold to maturity. Where the ČSOB Group SR plans to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale financial assets.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Held-to-maturity investments are recognized in the consolidated 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 consolidated 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 consolidated 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 receivables.

Available-for-sale financial assets are recognized in the consolidated 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, the unrealized gain or loss is reclassified from other comprehensive income to 'Net realized result from available-for-sale financial assets' in the consolidated statement of profit or loss. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded in the consolidated statement of profit or loss and other comprehensive income as 'Interest income'. Equity investments whose fair value cannot be reliably measured are held at cost less impairment (Note 5). 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 ČSOB Group SR being under an obligation to deliver either cash or another financial asset to the counterparty.

These liabilities are measured in the consolidated 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 consolidated statement of profit or loss and other comprehensive income as 'Interest expense'.

2.6. Embedded derivatives

The ČSOB Group SR 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 classified as a trading derivative. When the ČSOB Group SR 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 Group'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 Group's criteria for the application of hedge accounting include:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the hedging 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% based on materiality threshold set at the beginning of the hedge contract depending on a basis point value ('BPV').

The Group uses instruments, designated as hedging instruments as cash flow hedges and fair value hedges to manage the Group's interest rate risk.

Fair value hedges

For designated and qualifying fair value hedges, changes in the fair value of hedging instruments are recognized in the consolidated statement of profit or loss and other comprehensive income in 'Net trading result and exchange differences' together with any changes in the fair value of the hedged items (assets or liabilities) that are attributable to the hedged risk. Interest income/interest expense of hedging instrument is presented in the consolidated 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 assets hedged is presented in the consolidated 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 31.

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

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is initially recognized in other comprehensive income and accumulated in equity in 'Revaluation reserve on cash flow hedge'. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the consolidated statement of profit or loss and other comprehensive income in 'Net trading result and exchange differences'. When the hedged cash flow affects the consolidated statement of profit or loss and other comprehensive income, the gain or loss on the hedging instrument is reclassified from other comprehensive income to the corresponding income or expense line in profit or loss. When the hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified from other comprehensive income to profit or loss when the hedged forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred from other comprehensive income to profit or loss.

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 consolidated statement of financial position as assets. The corresponding cash received is recognized in the consolidated 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 consolidated statement of profit or loss and other comprehensive income over the life of the agreement. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in the consolidated statement of financial position to 'Available-for-sale financial assets pledged as collateral' or 'Held-to-maturity investments pledged as collateral', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated statement of financial position. The corresponding cash paid is recognized in the consolidated statement of financial position in 'Financial assets at fair value through profit or loss', 'Loans and receivables to financial institutions' or 'Loans and receivables 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 consolidated 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 Group.

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 fair valued using the quoted market prices if a price is quoted in an active market. For financial instruments that are not traded in an active 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 may be affected by assumptions made by the ČSOB Group SR, including the discount rate, liquidity and credit spreads and estimates of future cash flows. See Note 33.

2.10. Impairment of financial assets

At each balance sheet date, the ČSOB Group SR 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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Objective evidence that a financial asset or a group of assets is impaired includes observable data that is available to the ČSOB Group SR 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 ČSOB Group SR 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:
 - o adverse changes in the payment status of borrowers in the group, or
 - o national or local economic conditions that correlate with defaults on assets in the group

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

The ČSOB Group SR assesses impairment of these categories of financial assets on an individual basis 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 ČSOB Group SR 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 current effective 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 ČSOB Group SR 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 ČSOB Group SR 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 ČSOB Group SR'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 corresponding entry in the consolidated statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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 consolidated statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

Available-for-sale financial assets

For available-for-sale equity investments, the ČSOB Group SR assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

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 represents objective evidence that the asset is impaired. The Group 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 consolidated 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 profit or loss line 'Impairment losses and financial guarantees'. 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 consolidated 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.

Such a right of set off:

- must not be contingent on a future event and
- must be legally enforceable in all of the following circumstances:
 - o the normal course of business,
 - o the event of default and
 - o the event of insolvency or bankruptcy.

2.12. 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.

ČSOB Group SR as a lessee

The leases entered into by the ČSOB Group SR as a lessee are primarily operating leases. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. Income and expenses from operating leases are presented in the consolidated statement of profit or loss and other comprehensive income under 'Other operating result'.

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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

ČSOB Group SR as a lessor

Lease contracts under which the risks and rewards related to the ownership of the leased asset are substantially transferred from the ČSOB Group SR to the client customer are classified as finance leases. A finance lease is recognized when the leased asset is delivered to the customer at an amount equal to the net investment in the lease and presented as a finance lease receivable. The gross investment in the lease represents future minimum lease payments plus the initial direct costs or fees. The difference between gross and net investment in the lease represent the future income from the lease, which is presented as 'Interest income' in the consolidated statement of profit or loss and other comprehensive income during the lease term using the effective interest method.

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

Repossessed collateral from finance and operating leases are mainly non-financial assets acquired by the Group in the settlement of overdue contracts. The assets are initially recognised at fair value when acquired and included in 'Assets held for sale' and 'Other assets' respectively.

2.13. Recognition of income and expenses

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

Interest received and interest paid

Interest income and interest expense are recognized in the consolidated 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 discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying value of the financial asset or financial liability.

When calculating the effective interest rate, the ČSOB Group SR estimates cash flows taking into consideration all the contractual terms of the financial instrument but excluding any future credit losses. The early redemption options are not considered, unless management determined that their impact on the carrying value would be material to the financial statements and reliable estimates can be made. The calculation includes all material 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, such as securities related fees and payment services fees, 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 proportionally over the period for which the service is provided.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

2.14. 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, loans and receivables to banks measured at fair value through profit or loss with original maturity of up to three months, loans and receivables to banks measured at amortised cost, government treasury bills and treasury bills of the National Bank of Slovakia ('NBS') with original maturity of up to three months.

2.15. Property, equipment and intangible assets

Land, buildings, equipment and intangible assets include real estate used by the ČSOB Group SR, 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 consolidated 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 and its depreciation are disclosed in Note 9.

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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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.

2.16. Financial guarantees

In the normal course of business, the ČSOB Group SR provides financial guarantees consisting of letters of credit and letters of guarantee. If the ČSOB Group SR is a guarantee holder (financial guarantee received), the financial guarantee is not recorded on the balance sheet, but is taken into consideration as collateral when determining impairment of the guaranteed asset. If the ČSOB Group SR is a guarantor, financial guarantees given are recognized in the consolidated financial statements at the higher of the deferred 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 consolidated 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 consolidated statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

2.17. Employee benefits

Pensions to the Group'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 ČSOB Group SR contributes to the employees' additional pension insurance beyond the framework of legal social security. Contributions are charged to the consolidated statement of profit or loss and other comprehensive income as they are made.

The ČSOB Group SR also operates other post-employment benefits comprising lump sum retirement benefits, long service and jubilee benefits. The cost of providing pensions is charged to the consolidated 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 to the maturity periods of benefits.

2.18. Provisions

Provisions are created when the ČSOB Group SR 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.

2.19. 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 taxable profit is determined from profit/loss for the current accounting period, adding tax non-deductible expenses and deducting income which is 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 consolidated financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the end of the reporting period.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Deferred tax is calculated using the balance sheet liability 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 netted within the individual companies of the Group.

The ČSOB Group SR pays various indirect operating taxes which are a part of 'Other operating expenses'. Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

2.20. Fiduciary activities

The ČSOB Group SR commonly acts in fiduciary activities that result in the holding or placing of assets on the accounts of individuals and institutions. Assets under management or custody are not recognized as assets or liabilities in the consolidated statement of financial position but are accounted for as off-balance sheet items since the ČSOB Group SR does not bear the risks and rewards of ownership associated with such items.

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

2.21. Changes in accounting policies

Effective from 1 January 2016

The accounting policies adopted are consistent with those used in the previous financial period except that the Group 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 Group.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) is effective for periods beginning on or after 1 January 2016.

Equity Method in Separate Financial Statements (Amendments to IAS 27) is effective for periods beginning on or after 1 January 2016.

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.

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. It did lead to small presentation changes in the consolidated financial statements for the year ended 31 December 2016.

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.

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) is effective for periods beginning on or after 1 January 2016.

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

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Effective after 1 January 2016

The following standards, amendments and interpretations have been issued and are effective after 1 January 2016. The Group has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group's financial statements.

IFRS 9 Financial Instruments (2014) is effective for periods beginning on or after 1 January 2018.

In July 2014, the IASB issued IFRS 9 on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date for IFRS 9 is 1 January 2018. A project relating to IFRS 9 has been running for some time at the Group and has been managed by the parent company KBC. In 2016, the project moved from the design phase to the implementation phase, which will continue in 2017. The project is structured around two pillars, namely 'Classification & measurement' and 'Impairment', as well as a common work stream relating to the impact on reporting and disclosures. The project, which has been implemented at both KBC and ČSOB Group SR level, is being managed by the Finance function (along with the Credits function for the impairment phase) and involves all the departments and entities that are affected. A detailed group-wide IFRS 9 Operating Model, which was developed as part of the project in 2016, is nearing completion and will be put in place in 2017.

Classification and measurement of financial instruments

Classification and measurement of financial assets under IFRS 9 will depend on the specific business model in place and the assets' contractual cash-flow characteristics. The Group's project is at the stage where all the business models have been identified, analysed and documented, as to a large extent have the characteristics of the contractual cash-flows. Based on current market conditions, regulations, interpretation, assumptions and policies, the impact of first-time application is currently expected to be limited (subject to an audit review).

For financial liabilities, IFRS 9 changes the presentation of gains and losses on own credit risk for financial instruments designated at fair value through profit or loss. The gains and losses on own credit risk will go through other comprehensive income. The impact of adoption is expected to be minimal given the current limited effect of own credit risk.

Impairment of financial assets

In 2016, work continued on completing IFRS 9-compliant impairment policies and modelling guidelines. Several IFRS 9 models have already been built based on existing Basel models and implementation into the calculation engine is going according to plan.

Financial assets that are subject to impairment will be classified into three stages:

- Stage 1: Performing
- Stage 2: Underperforming (where lifetime expected credit losses are required to be measured)
- Stage 3: Non-performing or impaired

Policies and processes have been established to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach will be used for the investment portfolio, except that ČSOB Group SR intends to use the low-credit-risk exemption, meaning that all bonds in scope with a PD of 1 to 3 are considered to be in Stage 1, unless any of the other triggers indicate otherwise.

For Stage 1 and Stage 2 – under IAS 39 – ČSOB Group SR records incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss ('ECL') basis for Stage 1 and on a lifetime ECL basis for Stage 2. As a consequence, impairment levels are generally expected to increase for these stages. We do not expect any major impact on Stage 3.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Impairment levels under IFRS 9 will differ from current prudential requirements because of:

- application of a through-the-cycle estimate for prudential purposes as opposed to a point-in-time estimate under IFRS 9;
- application of a 12-month PD for prudential purposes as opposed to a lifetime PD under IFRS 9 (for Stage 2 and Stage 3); and
- inclusion of prudential floors and downturn adjustments in the PD, EAD and LGD estimates for prudential purposes.

Hedge accounting

ČSOB Group SR intends to use the option to continue with hedge accounting under IAS 39 and to await further developments at the IASB regarding macro hedging.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and 28) does not yet have a set effective date.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018. The key concept of the new standard is identifying separate Performance Obligations. Entities will follow a five-step model for revenue recognition:

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

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

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

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) is effective for annual periods beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

Classification and Measurement of Share-based Payment Transactions (Amendment to IFRS 2) is effective for periods on or after 1 January 2018.

Clarifications to IFRS 15 (Amendment to IFRS 15) is effective for periods on or after 1 January 2018.

Disclosure Initiative (Amendment to IAS 7) is effective for periods on or after 1 January 2017.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendment to IAS 12) is effective for periods on or after 1 January 2017.

Transfers of Investment Property (Amendment to IAS 40) is effective for periods on or after 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration is effective for periods on or after 1 January 2018.

Annual Improvements to IFRSs (2014 – 2016 Cycle), issued in December 2016 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, two of which are applicable on or after 1 January 2018 and one on or after 1 January 2017.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

2.22. Reclassification of the consolidated statement of financial position at 31 December 2015 and consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2015

In 2016, the Group performed a review of the presentation of the financial statements. The Group decided to change the presentation of some items in the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income. The changed presentation is in compliance with the IFRS and provides reliable and more relevant information to the users of the financial statements.

Due to the amended presentation of the financial statements, some comparative amounts in the consolidated statement of financial position at 31 December 2015 and the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2015 were reclassified.

The explanation for reclassifications of the consolidated statement of financial position is as follows:

1. The Group reclassified repossessed assets from financial leasing and consumer loans, which are subject to sale, from 'Loans and receivables to customers' to 'Assets held for sale'.
2. The Group reclassified repossessed assets from operating leasing from 'Property and equipment' to 'Other assets'.
3. The Group reclassified assets from operating leasing, whose residual value is less than 10% of purchase price, from 'Property and equipment' to 'Loans and receivables to customers'.
4. The Group reclassified financial assets pledged as collateral to separate lines from 'Available-for-sale financial assets'/'Held-to-maturity investments' to 'Available-for-sale financial assets pledged as collateral'/'Held-to-maturity investments pledged as collateral'.

(EUR '000)	Note	31 Dec 2015 Before reclass.	Note of reclass.	Changes in presentation	31 Dec 2015 After reclass.
Loans and receivables to customers	7	5,465,129	1,3	(931)	5,464,198
Available-for-sale financial assets	5	552,822	4	(15,554)	537,268
Available-for-sale financial assets pledged as collateral	5, 15	-	4	15,554	15,554
Held-to-maturity investments	8	1,266,234	4	(77,857)	1,188,377
Held-to-maturity investments pledged as collateral	8, 15	-	4	77,857	77,857
Property and equipment	9	73,123	2,3	(1,920)	71,203
Assets held for sale	11	-	1	2,107	2,107
Other assets	12	21,397	2	744	22,141

The explanation for reclassifications of the consolidated statement of profit or loss and other comprehensive income is as follows:

1. The Group reclassified income from products insurance from 'Fees and commission income' to 'Fee and commission expense' for better presentation of the impact from bank-insurance activity.
2. The Group renamed the line 'Net trading result' to 'Net trading result and exchange differences'.
3. The Group moved Net realized result from available-for-sale financial assets from 'Net trading result and exchange differences' to a separate line.
4. The items of other comprehensive income are presented before tax and the line 'thereof: income tax relating to items that may be reclassified subsequently to profit or loss' was renamed to 'income tax relating to items that may be reclassified subsequently to profit or loss'.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The comparison of the consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2015 prior to reclassification and after reclassification is as follows:

(EUR '000)	Note	31 Dec 2015 Before reclass.	Note of reclass.	Changes in presentation	31 Dec 2015 After reclass.
Interest income		248,396		-	248,396
Interest expense		(40,228)		-	(40,228)
Net interest income	23	208,168		-	208,168
Fee and commission income		70,385	1	(4,434)	65,951
Fee and commission expense		(15,794)	1	4,434	(11,360)
Net fee and commission income	24	54,591		-	54,591
Net trading result and exchange differences	25	18,147	2,3	(1,893)	16,254
Net realized result from available-for-sale financial assets		-	3	1,893	1,893
Other operating result	26	8,577		-	8,577
Total income		289,483		-	289,483
Personnel expenses	27	(76,606)		-	(76,606)
Depreciation and amortization		(11,528)		-	(11,528)
Other operating expenses	28	(84,298)		-	(84,298)
Operating expenses		(172,432)		-	(172,432)
Profit for year before impairment losses, provisions and tax		117,051		-	117,051
Impairment losses and financial guarantees	13	(18,323)		-	(18,323)
Profit for year before tax		98,728		-	98,728
Income tax expense	29	(24,145)		-	(24,145)
Net profit for year		74,583		-	74,583
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Available-for-sale financial assets		6,034	4	1,702	7,736
Cash flow hedge		134	4	38	172
thereof: income tax relating to items that may be reclassified subsequently to profit or loss		(1,740)	4	1,740	-
Income tax relating to items that may be reclassified subsequently to profit or loss		-	4	(1,740)	(1,740)
Other comprehensive income for year, net of tax		6,168		-	6,168
Total comprehensive income for year		80,751		-	80,751

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

2.23. Acquisition of VB Leasing

On 1 July 2015, KBC, the shareholder of ČSOB Group SR, and VB-Leasing International Holding GMBH, shareholder of VB Leasing, agreed on the sale of 100% of the shares of VB Leasing to ČSOB Leasing, a.s.

The fair values of the identifiable assets and liabilities of VB Leasing at the acquisition date were:

(EUR '000)	Fair value recognized on acquisition
Assets	
Cash and balances with central bank	3
Loans and receivables to financial institutions	13,610
Loans and receivables to customers	149,359
Deferred income tax asset	1,627
Property and equipment	345
Intangible assets	211
Other assets	727
Total assets	165,882
Liabilities	
Financial liabilities at fair value through profit or loss	546
Amounts owed to financial institutions	157,933
Provisions	20
Other liabilities	2,403
Current income tax liability	189
Total liabilities	161,091
Total identifiable net assets at fair value	4,791
Negative goodwill immediately recognized in profit or loss	(650)
Purchase consideration transferred	4,141

No contingent consideration liability was recognized at the acquisition date.

The consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 include income and expenses of VB Leasing SK from transactions carried out after 1 July 2015. Therefore data stated in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 are not entirely comparable.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

3. CASH AND BALANCES WITH CENTRAL BANK

(EUR '000)	31 Dec 2016	31 Dec 2015
Cash balances	185,711	223,211
Mandatory minimum reserves	17,997	9,474
	203,708	232,685

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 0.00% p.a. as at 31 December 2016 (2015: 0.05% p.a.). 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 2016	31 Dec 2015
Financial assets held for trading:		
Loans and receivables to banks	113	-
Financial trading derivatives (Note 31)	14,581	21,275
Government debt securities	1	1,347
Bank bonds	24,093	30,314
Other bonds	18,515	24,971
Other loans and receivables to customers	-	6
	57,303	77,913

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(EUR '000)	31 Dec 2016	31 Dec 2015
At fair value:		
Government debt securities	359,399	429,426
Bank bonds	71,554	63,208
Other bonds	80,443	46,232
Shares:	5,072	13,688
VISA Europe Limited	-	13,688
VISA Inc.	2,902	-
Mastercard	2,170	-
	516,468	552,554
At cost:		
Shares	895	895
Impairment losses (Note 13)	(758)	(627)
	137	268
	516,605	552,822

As at 31 December 2016, the ČSOB Group SR holds in its portfolio of securities available-for-sale, other bonds with a market value of EUR 17,661 thousand (2015: EUR 15,554 thousand) placed as collateral for a loan received from banks. These securities are presented separately from securities available-for-sale in the consolidated statement of financial position in line 'Available-for-sale financial assets pledged as collateral'. See Notes 15 and 32.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

During 2016, the Group realized the sale of VISA Europe Limited shares for consideration in the combination of an upfront cash and Visa Inc shares. The realized gain from the transaction, in the amount of EUR 14,333 thousand (pre-tax), is recognized under 'Net realized result from available-for-sale financial assets' in the consolidated statement of profit or loss and other comprehensive income.

6. LOANS AND RECEIVABLES TO FINANCIAL INSTITUTIONS

(EUR '000)	31 Dec 2016	31 Dec 2015
Current accounts	29,519	41,165
Loans and receivables to banks	16,415	6,883
	45,934	48,048
Impairment losses (Note 13)	(120)	(107)
	45,814	47,941

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 2016 (0.40%) p.a (2015: (0.30%) p.a.).

7. LOANS AND RECEIVABLES TO CUSTOMERS

As at 31 December 2016, loans and receivables to customers, according to risk categories based on individual assessment, are as follows:

(EUR '000)	Exposure	Impairment losses (Note 13)	Net carrying amount
Unimpaired loans and receivables to customers	6,030,614	(11,966)	6,018,648
Impaired loans and receivables to customers	203,957	(125,909)	78,048
Total	6,234,571	(137,875)	6,096,696

As at 31 December 2015, loans and receivables to customers, according to risk categories based on individual assessment, reclassified, are as follows:

(EUR '000)	Exposure	Impairment losses (Note 13)	Net carrying amount
Unimpaired loans and receivables to customers	5,379,410	(10,569)	5,368,841
Impaired loans and receivables to customers	208,183	(112,826)	95,357
Total	5,587,593	(123,395)	5,464,198

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Finance lease

Loans and receivables to customers include also net investments into finance lease. Lease contracts relate to cars and other technical equipment.

(EUR '000)	Minimum lease payments		Net present value of lease payments	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Finance lease receivable				
Payable in less than 1 year	235,709	221,182	228,661	198,927
Payable 2-5 years	370,003	366,764	338,139	344,832
Payable in more than 5 years	23,368	23,832	21,729	21,855
	629,080	611,778	588,529	565,614
Less: future finance income (unrealized finance lease income)	(40,551)	(46,164)	-	-
Present value of future lease payments	588,529	565,614	588,529	565,614
Allowance for uncollectible lease payments	(5,629)	(4,739)	(5,629)	(4,739)

As at 31 December 2016, the Group possessed assets (mainly cars related to leased assets) with the net book value of EUR 1,893 thousand (2015: EUR 2,107 thousand), which the Group is in the process of selling. See Note 11.

8. HELD-TO-MATURITY INVESTMENTS

(EUR '000)	31 Dec 2016	31 Dec 2015
Government debt securities	1,365,941	1,171,293
Bank bonds	112,518	94,941
	1,478,459	1,266,234
Impairment losses (Note 13)	(28)	-
	1,478,431	1,266,234

As at 31 December 2016, the Group holds in its portfolio of held-to-maturity investments government debt securities with the carrying amount of EUR 108,841 thousand (2015: EUR 77,857 thousand) placed as collateral for a loan received from banks. These securities are presented separately from securities held-to-maturity in the consolidated statement of financial position in line 'Held-to-maturity pledged as collateral'. See Notes 15 and 32.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

9. PROPERTY AND EQUIPMENT

(EUR '000)	Investment property	Land and buildings	ICT equipment	Office equipment	Other	Total
Cost at 1 January 2016	1,474	88,314	11,312	8,089	50,129	159,318
Additions	-	954	1,071	57	25,211	27,293
Disposals	-	(1,115)	(480)	(353)	(10,882)	(12,830)
Transfer to Assets held for sale	-	(9,055)	-	-	-	(9,055)
Other transfers	-	-	-	-	(1,490)	(1,490)
Cost at 31 December 2016	1,474	79,098	11,903	7,793	62,968	163,236
Accumulated depreciation at 1 January 2016	(891)	(48,372)	(9,312)	(7,682)	(21,680)	(87,937)
Depreciation	(53)	(2,857)	(1,119)	(158)	(1,645)	(5,832)
Disposals	-	559	471	408	2,986	4,424
Transfer to Assets held for sale	-	5,221	-	-	-	5,221
Other transfers	-	-	-	-	806	806
Depreciation in operating lease	-	-	-	-	(6,750)	(6,750)
Disposals in operating lease	-	-	-	-	4,678	4,678
Accumulated depreciation at 31 December 2016	(944)	(45,449)	(9,960)	(7,432)	(21,605)	(85,390)
Impairment loss at 1 January 2016	(241)	(1,376)	-	-	(549)	(2,166)
Creation	-	(100)	-	-	-	(100)
Release/Use	-	94	-	-	274	368
Transfer to Assets held for sale	-	232	-	-	-	232
Impairment loss at 31 December 2016	(241)	(1,150)	-	-	(275)	(1,666)
Net book value at 31 December 2016	289	32,499	1,943	361	41,088	76,180
Acquisition of property and equipment						3,733
Net book value at 31 December 2016	289	32,499	1,943	361	41,088	79,913

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

(EUR '000)	Investment property	Land and buildings	ICT equipment	Office equipment	Other	Total
Cost at 1 January 2015	212	89,670	12,753	8,993	50,555	162,183
Additions	-	1,344	1,711	56	14,727	17,838
Disposals	-	(1,452)	(2,927)	(965)	(12,067)	(17,411)
Transfer to Investment property	1,262	(1,262)	-	-	-	-
Transfer from acquisition	-	14	109	5	218	346
Other transfers	-	-	(334)	-	(3,304)	(3,638)
Cost at 31 December 2015, reclassified	1,474	88,314	11,312	8,089	50,129	159,318
Accumulated depreciation at 1 January 2015	(168)	(47,166)	(11,742)	(8,448)	(25,710)	(93,234)
Depreciation	(21)	(2,988)	(771)	(155)	(1,399)	(5,334)
Disposals	-	1,080	2,915	921	4,715	9,631
Transfer to Investment property	(702)	702	-	-	-	-
Other transfers	-	-	286	-	1,432	1,718
Depreciation in operating lease	-	-	-	-	(5,407)	(5,407)
Disposals in operating lease	-	-	-	-	4,689	4,689
Accumulated depreciation at 31 December 2015, reclassified	(891)	(48,372)	(9,312)	(7,682)	(21,680)	(87,937)
Impairment loss at 1 January 2015	(16)	(1,282)	-	-	(855)	(2,153)
Creation	(235)	(94)	-	-	-	(329)
Release/Use	10	-	-	-	306	316
Impairment loss at 31 December 2015, reclassified	(241)	(1,376)	-	-	(549)	(2,166)
Net book value at 31 December 2015	342	38,566	2,000	407	27,900	69,215
Acquisition of property and equipment						1,988
Net book value at 31 December 2015, reclassified	342	38,566	2,000	407	27,900	71,203

Operating lease

The table below shows the net book value of assets leased to customers under operating lease:

(EUR '000)	31 Dec 2016	31 Dec 2015
Passenger cars	30,755	22,111
Other motor vehicles	2,784	2,038
Machinery and equipment	466	308
Total	34,005	24,456

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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

(EUR '000)	31 Dec 2016	31 Dec 2015
Operating lease receivable		
Payable in less than 1 year	7,052	5,163
Payable in 2-5 years	11,329	6,791
Payable in more than 5 years	19	37
Total	18,400	11,991

10. INTANGIBLE ASSETS

(EUR '000)	Software	Internally generated software	Total
Cost at 1 January 2016	35,692	7,924	43,616
Additions	2,102	2,035	4,137
Disposals	(98)	-	(98)
Cost at 31 December 2016	37,696	9,959	47,655
Accumulated amortization at 1 January 2016	(27,705)	(4,177)	(31,882)
Amortization	(3,657)	(2,477)	(6,134)
Disposals	118	-	118
Accumulated amortization at 31 December 2016	(31,244)	(6,654)	(37,898)
Net book value at 31 December 2016	6,452	3,305	9,757
Acquisition of intangible assets			1,130
Net book value at 31 December 2016	6,452	3,305	10,887

(EUR '000)	Software	Internally generated software	Total
Cost at 1 January 2015	32,215	6,017	38,232
Additions	3,497	1,907	5,404
Disposals	(231)	-	(231)
Transfer from acquisition	211	-	211
Cost at 31 December 2015	35,692	7,924	43,616
Accumulated amortization at 1 January 2015	(23,577)	(2,321)	(25,898)
Amortization	(4,359)	(1,856)	(6,215)
Disposals	231	-	231
Accumulated amortization at 31 December 2015	(27,705)	(4,177)	(31,882)
Net book value at 31 December 2015	7,987	3,747	11,734
Acquisition of intangible assets			931
Net book value at 31 December 2015	7,987	3,747	12,665

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Insurance cover

The ČSOB Group SR's insurance covers all standard risks to tangible and intangible assets. Tangible and intangible assets of the Group 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.

11. ASSETS HELD FOR SALE

As at 31 December 2016 the Group reclassified land and buildings which met the held for sale criteria from 'Property and equipment' to 'Assets held for sale'.

(EUR '000)	Land and buildings	Other (Note 7)	Total
Net book value at 1 January 2016	-	2,107	2,107
Additions	-	1,647	1,647
Disposals	-	(1,861)	(1,861)
Transfer from Property and equipment	3,602	-	3,602
Net book value at 31 December 2016	3,602	1,893	5,495

As at 31 December 2015, the Group did not hold land and buildings classified as 'Assets held for sale'. The other assets classified as held for sale were at the net book value of EUR 2,107 thousand.

The net book value of Group'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.

12. OTHER ASSETS

(EUR '000)	31 Dec 2016	31 Dec 2015 Reclassified
Other financial assets:		
Accrued non-interest income	1,535	1,213
Advances	14,095	6,684
Fair value changes of hedged item	3,530	6,179
Hedging derivatives (Note 31)	1,513	590
Other assets	1,028	4,602
	21,701	19,268
Impairment losses (Note 13)	(267)	(2,049)
	21,434	17,219
Other non-financial assets:		
Prepaid charges	2,671	4,922
	2,671	4,922
	24,105	22,141

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

13. IMPAIRMENT LOSSES AND FINANCIAL GUARANTEES

(EUR '000)	1 Jan 2016	Use (mainly receiv. written off/ceded)*	Creation/ (Release)	Other adjust.	31 Dec 2016
Impairment losses and financial guarantees to:					
Loans and receivables to financial institutions (Note 6)	107	-	13	-	120
Loans and receivables to customers (Note 7)	123,395	(7,412)	20,205	1,687	137,875
Public administration	282	-	150	(9)	423
Corporate	61,976	(5,332)	13,249	263	70,156
Retail:	61,137	(2,080)	6,806	1,433	67,296
- Mortgage loans	16,623	(264)	1,290	561	18,210
- Consumer loans	9,660	2,550	(1,240)	457	11,427
- Credit cards	1,703	193	(215)	79	1,760
- Overdrafts	2,738	(31)	234	65	3,006
- MicroSME	18,862	(2,401)	4,691	271	21,423
- ČSOB Stavebná spořitelňa	3,415	(1,577)	1,626	-	3,464
- ČSOB Leasing Group	8,136	(550)	420	-	8,006
Available-for-sale financial assets (Note 5)	627	-	131	-	758
Held-to-maturity investments (Note 8)	-	-	28	-	28
Property and equipment (Note 9)	1,972	-	(74)	(232)	1,666
Assets held for sale	-	-	-	232	232
Other assets (Note 12)	2,049	(360)	180	(1,602)	267
Provisions for off-balance sheet risks	6,526	-	(4,630)	(70)	1,826
	134,676	(7,772)	15,853	15	142,772

* including income from recovery of assets previously written off

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

(EUR '000)	1 Jan 2015	Use (mainly receiv. written off/ceded)*	Creation/ (Release)	Other adjust.	31 Dec 2015
Impairment losses and financial guarantees to:					
Loans and receivables to financial institutions (Note 6)	122	-	(15)	-	107
Loans and receivables to customers (Note 7)	117,194	(8,350)	13,204	1,347	123,395
<i>Public administration</i>	296	-	(35)	21	282
<i>Corporate</i>	64,554	(8,383)	5,891	(86)	61,976
<i>Retail:</i>	52,344	33	7,348	1,412	61,137
- <i>Mortgage loans</i>	15,004	(749)	1,519	849	16,623
- <i>Consumer loans</i>	8,093	1,491	(128)	204	9,660
- <i>Credit cards</i>	1,611	201	(179)	70	1,703
- <i>Overdrafts</i>	2,789	(282)	185	46	2,738
- <i>MicroSME</i>	15,164	(762)	4,217	243	18,862
- <i>ČSOB Stavebná sporitelňa</i>	2,135	(91)	1,371	-	3,415
- <i>ČSOB Leasing Group</i>	7,548	225	363	-	8,136
Available-for-sale financial assets (Note 5)	627	-	-	-	627
Property and equipment (Note 9)	1,895	-	77	-	1,972
Other assets (Note 12)	1,355	571	123	-	2,049
Provisions for off-balance sheet risks	1,539	-	4,934	53	6,526
	122,732	(7,779)	18,323	1,400	134,676

* including income from recovery of assets previously written off

Provisions for off-balance sheet risks

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

14. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(EUR '000)	31 Dec 2016	31 Dec 2015
Financial liabilities designated at fair value through profit or loss on initial recognition:		
Term deposits – banks	128,084	190,643
Term deposits – non-bank customers	62,700	76,114
Debt securities issued	13,618	9,531
	204,402	276,288
Financial liabilities held for trading:		
Financial trading derivatives (Note 31)	13,189	17,487
	13,189	17,487
	217,591	293,775

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Financial liabilities, which are designated at fair value through profit or loss on initial recognition, are a part of dealing room portfolio. The Group monitors, manages, evaluates and reports them at fair value basis.

15. AMOUNTS OWED TO FINANCIAL INSTITUTIONS

(EUR '000)	31 Dec 2016	31 Dec 2015
Current accounts of banks	13,343	10,351
Term deposits and loans received from banks and multilateral banks	882,160	787,578
	895,503	797,929

As at 31 December 2016 and 31 December 2015, the Group has:

- three loans received from European Investment Bank in the carrying amount of EUR 103,571 thousand (2015: EUR 177,892 thousand) - maximum maturity until 2018, interest rate 3M EURIBOR + range 0.32% - 0.63%. 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 was fully paid at 31 December 2016 (2015: EUR 4,303 thousand). Sources were as the matter of priority used for the sub-project of thermal insulation of residential buildings;
- seven loans received from Council of Europe Development Bank in the carrying amount of EUR 193,945 thousand (2015: EUR 157,293 thousand) – maximum maturity until 2021, interest rate 3M EURIBOR + range 0.41% - 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. Sources are intended also for supporting competitiveness of small and medium-sized enterprises and health care.

As at 31 December 2016, loans received from banks in the amount of EUR 149,741 thousand (2015: EUR 100,183 thousand) were secured by other bonds (available-for-sale portfolio) with a market value of EUR 17,661 thousand (2015: EUR 15,554 thousand) and by government debt securities (held-to-maturity portfolio) with a carrying amount of EUR 108,841 thousand (2015: EUR 77,857 thousand) and with a market value of EUR 131,381 thousand (2015: EUR 93,122 thousand).

16. AMOUNTS OWED TO CUSTOMERS

(EUR '000)	31 Dec 2016	31 Dec 2015
Current accounts – customers	2,818,235	2,413,837
Current accounts – government bodies and funds	106,636	169,531
Term deposits and saving accounts – customers	2,317,455	2,255,106
Term deposits and saving accounts – government bodies	274,202	165,576
Other financial liabilities	102,030	69,832
	5,618,558	5,073,882

17. DEBT SECURITIES ISSUED

(EUR '000)	31 Dec 2016	31 Dec 2015
Bills of exchange	6,874	8,324
Bonds	590,283	380,788
Mortgage bonds	450,050	434,215
	1,047,207	823,327

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The table below shows the structure of bonds and mortgage bonds as at 31 December 2016:

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 2016 (EUR '000)	Maturity
Mortgage bonds:								
ČSOB XIII.	November 11	EUR	5.50%	10,000.00	2,500	25,000	25,207	November 31
ČSOB XV.	April 12	EUR	3.80%	10,000.00	4,000	40,000	41,095	April 17
ČSOB XXVII.	March 16	EUR	0.50%	10,000.00	5,000	50,000	50,344	March 21
ČSOB XXVIII.	July 16	EUR	0.20%	10,000.00	2,500	25,000	25,068	July 19
ČSOB XIX.	July 12	EUR	4.70%	10,000.00	2,500	25,000	24,940	July 36
ČSOB XX.	March 13	EUR	1.60%	10,000.00	6,000	60,000	60,755	March 17
ČSOB XXIX.	September 16	EUR	0.30%	10,000.00	4,300	43,000	43,157	September 21
ČSOB XXII.	May 14	EUR	1.20%	10,000.00	5,500	55,000	55,428	May 18
ČSOB XXIII.	November 14	EUR	1.65%	1,000.00	14,534	14,534	14,557	November 18
ČSOB XXIV.	February 15	EUR	1.60%	1,000.00	9,657	9,657	9,787	February 19
ČSOB XXV.	June 15	EUR	0.40%	10,000.00	5,000	50,000	49,440	June 20
ČSOB XXVI.	November 15	EUR	0.60%	10,000.00	5,000	50,000	50,272	November 20
							450,050	
Bonds:								
ČSOB I. 2021	March 15	EUR	ZERO	1,000.00	10,000	10,000	9,221	March 21
ČSOB II. 2019	October 15	EUR	0.50%	750.00	4,893	3,670	3,715	October 19
ČSOB III. 2020	September 16	EUR	0.40%	1,000.00	3,985	3,985	3,998	September 20
ČSOB Leasing Float 2018	December 13	EUR	3M EURIBOR	100,000.00	3,500	350,000	353,311	December 18
ČSOB Leasing Fix 2018	December 13	EUR	1.34%	100,000.00	320	32,000	10,007	December 18
ČSOB Leasing Float 2019	December 15	EUR	3M EURIBOR + 0.50%	100,000.00	1,600	160,000	160,024	December 19
ČSOB Leasing Float 2021	December 16	EUR	3M EURIBOR + 0.50%	100,000.00	2,100	210,000	50,007	December 21
							590,283	

The issuer and also the owner of the ČSOB Leasing bonds with the floating interest rates have the right to ask for the early redemption of the bond or a part of the bond. The notional of matured bonds should be at least EUR 5 million or multiple of EUR 5 million. The bond could be redeemed upon any coupon payment.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The table below shows the structure of bonds and mortgage bonds as at 31 December 2015:

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 2015 (EUR '000)	Maturity
Mortgage bonds:								
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	19,996	November 16
ČSOB XV.	April 12	EUR	3.80%	10,000.00	4,000	40,000	41,000	April 17
ČSOB XVII.	April 12	CZK	ZERO	100,000.00	4,000	14,802	14,778	January 16
ČSOB XVIII.	April 12	CZK	ZERO	100,000.00	4,000	14,802	14,663	April 16
ČSOB XIX.	July 12	EUR	4.70%	10,000.00	2,500	25,000	24,969	July 36
ČSOB XX.	March 13	EUR	1.60%	10,000.00	6,000	60,000	60,753	March 17
ČSOB XXI.	August 13	EUR	1.10%	10,000.00	5,300	53,000	53,129	August 16
ČSOB XXII.	May 14	EUR	1.20%	10,000.00	5,500	55,000	55,454	May 18
ČSOB XXIII.	November 14	EUR	1.65%	1,000.00	14,667	14,667	14,690	November 18
ČSOB XXIV.	February 15	EUR	1.60%	1,000.00	9,862	9,862	9,988	February 19
ČSOB XXV.	June 15	EUR	0.40%	10,000.00	5,000	50,000	49,254	June 20
ČSOB XXVI.	November 15	EUR	0.60%	10,000.00	5,000	50,000	50,334	November 20
							<u>434,215</u>	
Bonds:								
ČSOB I. 2021	March 15	EUR	ZERO	1,000.00	10,000	10,000	9,047	March 21
ČSOB II. 2019	October 15	EUR	0.50%	1,000.00	4,991	4,991	5,005	October 19
ČSOB Leasing Float 2018	December 13	EUR	3M EURIBOR	100,000.00	3,500	350,000	349,483	December 18
ČSOB Leasing Fix 2018	December 13	EUR	1.34%	100,000.00	320	32,000	17,253	December 18
							<u>380,788</u>	

18. PROVISIONS

(EUR '000)	1 Jan 2016	Creation/ (Release)	Use	31 Dec 2016*
Provision for litigation	4,277	885	(22)	5,140
Provision for restructuring	263	(263)	-	-
Other provisions	532	-	(120)	412
	<u>5,072</u>	<u>622</u>	<u>(142)</u>	<u>5,552</u>

(EUR '000)	1 Jan 2015	Transfer from acquisition	Creation/ (Release)	Use	31 Dec 2015*
Provision for litigation	8,094	20	(3,457)	(380)	4,277
Provision for restructuring	120	-	263	(120)	263
Other provisions	-	-	532	-	532
	<u>8,214</u>	<u>20</u>	<u>(2,662)</u>	<u>(500)</u>	<u>5,072</u>

*Provisions total does not include provision for off-balance sheet risks which is presented in Note 13.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Provision for litigation

The ČSOB Group SR conducted a review of legal proceedings outstanding against it as at 31 December 2016. 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 Group has increased the provision for these legal cases by a net amount of EUR 862 thousand (2015: decrease of EUR 3,817 thousand). As at 31 December 2016, this provision amounts to EUR 5,140 thousand (2015: 4,277 thousand). The gain/(loss) from the release/creation of the provision for legal cases is presented in the consolidated statement of profit or loss and other comprehensive income under 'Other operating result'.

19. OTHER LIABILITIES

(EUR '000)	31 Dec 2016	31 Dec 2015
Other financial liabilities		
Accrued non interest charges	8,397	7,136
Hedging derivatives (Note 31)	7,622	8,527
Other liabilities	21,328	20,576
	37,347	36,239
Other non-financial liabilities		
Employee benefits and other employee funds	3,243	3,206
of that:		
<i>benefits paid on retirement</i>	911	825
<i>length of service benefits</i>	357	354
<i>anniversary benefits</i>	212	194
Wages and social security charges	14,188	14,355
Income received in advance	931	719
	18,362	18,280
	55,709	54,519

20. OVERVIEW OF CONTINGENT LIABILITIES**a) Contingent liabilities**

(EUR '000)	31 Dec 2016	31 Dec 2015
Credit facilities issued but not drawn	1,273,571	1,276,489
Financial guarantees given	208,822	215,577
Letters of credit given	24,775	6,415
Other*	490	-
	1,507,658	1,498,481

* Commencing 1 January 2015, the Group is required to participate in the resolution process by paying financial contributions to European Resolution Fund. Irrevocable payment commitment to European Resolution Fund is recognized in the amount of EUR 490 thousand (15% of the annual contribution).

Bank guarantees and letters of credit cover liabilities to customers (payment and non-payment liabilities) against beneficiaries (third parties). Bank guarantees represent an irrevocable liability on the part of the ČSOB Group SR 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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

A letter of credit represents a written obligation on the part of the ČSOB Group SR 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 ČSOB Group SR 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 ČSOB Group SR 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 ČSOB Group SR on behalf of a customer authorizing a third party to draw drafts on the ČSOB Group SR 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 ČSOB Group SR 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, other than the sale and leaseback arrangements, which are explained further below:

(EUR '000)	31 Dec 2016	31 Dec 2015
Less than 1 year	1,346	1,326
From 1 year to 5 years	1,012	1,216
Total	2,358	2,542
Minimum lease payments recognized as an expense for the year	763	618

The operating leases related to information technologies leased from KBC Group NV, are included in 'Less than 1 year' in the amount of EUR 579 thousand (2015: EUR 809 thousand). They represent expected half-year lease payments according to the contractual notice period.

Sale and lease-back arrangements

The Group 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 leasebacks.

(EUR '000)	31 Dec 2016	31 Dec 2015
Payable in period:		
Less than 1 year	410	1,976
From 1 year to 5 years	-	181
Total	410	2,157
Minimum lease payments recognized as an expense for the year	1,976	1,976

Contractual commitment

The Group has a contractual commitment relating to the completion of its planned New Head Quarter ('NHQ') next year. The final amount and payout itself is contingent, subject to fulfillment of contractual conditions relating to NHQ in terms of quality, timing and legal requirements and timely finalization of surrounding buildings/lands. See Note 38.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

b) Lawsuits

In addition to the litigation for which provisions are created (Note 18), the ČSOB Group SR is named in and is defending a number of legal actions arising in the ordinary course of business. The management of the ČSOB Group 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 2016 and 31 December 2015.

c) 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, the ČSOB Group 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.

21. EQUITY

The structure of shareholders of the ČSOB Group SR is as follows:

	% of share capital 31 Dec 2016	% of share capital 31 Dec 2015
KBC Bank NV Belgium	100.00%	100.00%
Total	100.00%	100.00%

Share capital

As at 31 December 2016 and 31 December 2015, authorized and fully paid share capital consists of 7,470 ordinary shares with a nominal amount of EUR 33,200 each. 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 shares and their issue price. As at 31 December 2016 and 31 December 2015, 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 parent of the ČSOB Group SR is obliged to contribute an amount to the fund each year which is not less than 10% of its annual net profit 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 2016 and 31 December 2015, the legal reserve fund was EUR 49,601 thousand.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Revaluation reserve

Revaluation reserve from available-for-sale financial assets and cash flow hedge:

(EUR '000)	31 Dec 2016	31 Dec 2015
Available-for-sale financial assets		
As at 1 January	31,589	25,555
Net gain arising on the revaluation	(1,925)	9,629
Cumulative gain reclassified to profit or loss upon sale of available-for-sale financial assets	(15,816)	(1,893)
Income tax relating to gain arising on the revaluation and disposals	4,079	(1,702)
As at 31 December	17,927	31,589
Cash flow hedge		
As at 1 January	134	-
Net gain arising on the revaluation	208	172
Income tax relating to gain arising on the revaluation	(42)	(38)
As at 31 December	300	134

Other revaluation reserve

In 2007, KBC Bank decided to transform the branch 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 a difference between the fair value of in kind contribution to the equity of the new company and the predecessor entity carrying amounts. The fair value of the in kind contribution 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 2016 and 31 December 2015, in the negative amount of EUR 216,162 thousand.

Profit distribution

The profit distribution of the ČSOB Group SR is as follows:

(EUR '000)	Attributable from profit for the year	
	2016*	2015
Dividends	-	71,729
Retained earnings	83,229	2,854

* Based on the proposed profit distribution.

The Group's management proposed to the shareholder to retain profit for 2016 to strengthen its capital position.

(EUR '000)	31 Dec 2016	31 Dec 2015
Dividends per share		
Dividends	-	71,729
Number of shares in nominal value of EUR 33,200	7,470	7,470
Dividends per share in EUR	-	9,602

22. INFORMATION ON SEGMENTS

The ČSOB Group SR 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, building loans of ČSOB Stavebná sporiteľňa, financing through ČSOB Leasing Group (lease, operating lease - SME, consumer loans)

Deposit products: current accounts and service packages, saving and term deposits, funds and savings programmes.

Retail banking offers electronic banking services and payments services (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 the ČSOB Group 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 company Patria. Investment advisory is provided to private banking clients.

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, financing through ČSOB Leasing Group (lease, operating lease, consumer loans)

Deposit products: current accounts and service packages, term deposits, deposits with notice period

Corporate banking offers services of electronic banking and payments services (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 ČSOB Group SR.

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

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Information on segments as at 31 December 2016 is as follows:

(EUR '000)	Retail banking/ MicroSME /Private banking	Corporate banking	Financial markets and ALM	Other	Total
Consolidated statement of profit or loss and other comprehensive income					
Net interest income	123,276	64,196	13,521	9,155	210,148
Net fee and commission income	34,154	16,656	1,103	1,755	53,668
Net trading result and exchange differences	4,975	3,016	6,448	719	15,158
Net realized result from available-for-sale financial assets	-	-	1,483	14,333	15,816
Other operating result	2,419	2,687	75	519	5,700
Total income	164,824	86,555	22,630	26,481	300,490
Personnel expenses	(38,048)	(13,725)	(2,161)	(26,679)	(80,613)
Depreciation and amortization	(4,328)	(736)	(59)	(6,790)	(11,913)
Other operating expenses	(34,052)	(6,941)	425	(47,686)	(88,254)
Operating expenses	(76,428)	(21,402)	(1,795)	(81,155)	(180,780)
Profit/(loss) for year before impairment losses, financial guarantees and tax	88,396	65,153	20,835	(54,674)	119,710
Impairment losses and financial guarantees	(8,830)	(6,592)	(32)	(399)	(15,853)
Profit/(loss) for year before tax	79,566	58,561	20,803	(55,073)	103,857
Income tax expense					(20,628)
Net profit for year					83,229
Total assets	3,870,712	2,395,183	2,035,398	242,480	8,543,773
Total liabilities and equity	3,534,382	2,791,365	1,379,860	838,166	8,543,773

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Information on segments as at 31 December 2015, reclassified, is as follows:

(EUR '000)	Retail banking/ MicroSME /Private banking	Corporate banking	Financial markets and ALM	Other	Total
Consolidated statement of profit or loss and other comprehensive income					
Net interest income	123,448	61,101	16,451	7,168	208,168
Net fee and commission income	36,786	15,560	917	1,328	54,591
Net trading result and exchange differences	5,632	1,964	8,695	(37)	16,254
Net realized result from available-for-sale financial assets	-	-	1,893	-	1,893
Other operating result	1,510	1,919	917	4,231	8,577
Total income	167,376	80,544	28,873	12,690	289,483
Personnel expenses	(37,110)	(13,529)	(2,184)	(23,783)	(76,606)
Depreciation and amortization	(4,319)	(848)	(45)	(6,316)	(11,528)
Other operating expenses	(35,400)	(6,422)	272	(42,748)	(84,298)
Operating expenses	(76,829)	(20,799)	(1,957)	(72,847)	(172,432)
Profit/(loss) for year before impairment losses, financial guarantees and tax	90,547	59,745	26,916	(60,157)	117,051
Impairment losses and financial guarantees	(8,751)	(8,958)	(2)	(612)	(18,323)
Profit/(loss) for year before tax	81,796	50,787	26,914	(60,769)	98,728
Income tax expense					(24,145)
Net profit for year					74,583
Total assets	3,308,966	2,318,861	1,885,571	252,306	7,765,704
Total liabilities and equity	3,232,455	2,632,226	1,124,435	776,588	7,765,704

Interest income/expense and fee and commission income/expense are not presented on a gross basis since the Group assesses the performance of the segments primarily on the basis of the net interest income and net fee and commission income.

The Group operates in the Slovak Republic.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

23. NET INTEREST INCOME

(EUR '000)	31 Dec 2016	31 Dec 2015
Interest income		
From accounts and loans provided to central bank	5	22
From loans and receivables to financial institutions	243	206
From deposits and loans provided to customers	185,159	191,878
Held-to-maturity investments	41,448	40,120
Available-for-sale financial assets	13,579	13,548
Financial assets held for trading (excluding derivatives)	850	2,037
ALM derivatives	54	209
Financial liabilities not measured at fair value through profit or loss	1,909	161
Financial liabilities measured at fair value through profit or loss	521	215
Other - not measured at fair value through profit or loss	681	-
	244,449	248,396
Interest expense		
From amounts owed to financial institutions and multilateral banks	(939)	(2,067)
From deposits and loans received from customers	(15,610)	(19,279)
From debt securities issued	(8,809)	(10,077)
Financial liabilities designated at fair value through profit or loss on initial recognition	(1,879)	(2,840)
ALM derivatives	(341)	(425)
Hedge derivatives	(6,722)	(5,539)
Financial assets measured at fair value through profit or loss	(1)	(1)
	(34,301)	(40,228)
	210,148	208,168

24. NET FEE AND COMMISSION INCOME

(EUR '000)	31 Dec 2016	31 Dec 2015 Reclassified
Fee and commission income		
Securities related fees	209	612
Asset management services - trust and fiduciary activities, entry fees	4,659	6,187
Credit and guarantee related fees*	12,854	15,436
Payment services**	33,447	33,325
Distribution fees	10,709	8,815
Other	1,496	1,576
	63,374	65,951
Fee and commission expense		
Securities related fees	(1,058)	(914)
Asset management services - trust and fiduciary activities	(2)	(2)
Credit and guarantee related fees*	(1,386)	(1,434)
Payment services**	(5,047)	(6,544)
Distribution fees	(673)	(651)
Products insurance	(277)	(275)
Other	(1,263)	(1,540)
	(9,706)	(11,360)
	53,668	54,591

* all fees related to loans and credit commitments except those included in 'Net interest income' based on the effective interest rate definition.

** fees received and paid for payment services, which involve many different kinds of cash payment and on-time realization of agreed payments

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

25. NET TRADING RESULT AND EXCHANGE DIFFERENCES

(EUR '000)	31 Dec 2016	31 Dec 2015 Reclassified
Held for trading interest rate instruments	942	311
Held for trading foreign exchange instruments	10,671	12,936
Held for trading commodity instruments	83	73
Net result from financial liabilities at fair value through profit or loss	28	341
Net result from hedging derivatives	1,560	942
Net result from hedged items	(2,649)	(1,562)
Foreign exchange differences	4,523	3,213
	15,158	16,254

26. OTHER OPERATING RESULT

(EUR '000)	31 Dec 2016	31 Dec 2015
Loss on disposal of property, plant and equipment	(257)	(376)
Income from rental	392	506
Net income from operating lease	1,861	1,542
<i>from that:</i>		
<i>income from operating lease</i>	13,383	10,743
<i>expense from operating lease</i>	(11,522)	(9,201)
(Creation)/release of provisions for operating losses, claims and legal disputes regarding commercial activity	(885)	3,457
Losses from financial operations	(155)	(230)
Negative goodwill immediately recognized in profit or loss	295	355
Realized gain on other than available-for-sale/trading financial assets	38	917
Other operating activities	4,411	2,406
	5,700	8,577

27. PERSONNEL EXPENSES

(EUR '000)	31 Dec 2016	31 Dec 2015
Wages and salaries	(60,508)	(57,491)
Social security	(19,067)	(17,536)
Pensions expenses	(492)	(455)
Other post-employment benefits	(209)	(236)
Provisions for restructuring charges	263	(263)
Other staff expenses	(600)	(625)
	(80,613)	(76,606)

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The number of employees of the ČSOB Group SR as at 31 December 2016 was 2,563; thereof 307 managers (2015: 2,493; thereof 323 managers).

Remuneration to management is provided if accruals or other resources were created and the conditions of the Internal Remuneration Policy of the ČSOB Group SR were met, mainly: an annual bonus for the Group'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 Indicators.

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 union on the social programme for employees with whom employment was terminated on the basis of the above reasons.

The ČSOB Group SR provides contributions to the supplementary pension scheme on a monthly basis for all of its employees including senior management. The contribution of the employer and employee is calculated on the basis of the monthly salary paid for working hours of a calendar month 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.

28. OTHER OPERATING EXPENSES

(EUR '000)	31 Dec 2016	31 Dec 2015
Information technology expenses	(25,874)	(20,408)
Rental expenses	(9,738)	(9,994)
Repair and maintenance	(2,681)	(2,705)
Marketing expenses	(10,043)	(9,627)
Professional fees	(4,962)	(5,304)
<i>Including: Audit of Statutory Financial Statements</i>	<i>(315)</i>	<i>(291)</i>
<i>Services involving the issuance of a report</i>		
<i>(other than Statutory Financial Statements)</i>	<i>(213)</i>	<i>(344)</i>
Other facilities expenses	(8,126)	(7,924)
Communication expenses	(95)	(86)
Travel expenses	(706)	(664)
Training and recruitment expenses	(649)	(557)
Personnel related expenses	(492)	(475)
Costs charged by other KBC group entities (Note 30)	(4,876)	(5,081)
Provision related to general administrative expenses	-	(532)
Contributions to deposit protection funds	(939)	(860)
Bank levy	(13,092)	(11,500)
European Resolution Fund*	(2,778)	(5,288)
Other operating expenses	(3,203)	(3,293)
	(88,254)	(84,298)

* Commencing 1 January 2015, the Group is required to participate in the resolution process by paying financial contributions to European Resolution Fund (see Note 20).

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

29. TAXATION

The income tax structure is as follows:

(EUR '000)	31 Dec 2016	31 Dec 2015
Current tax	23,163	24,604
Deferred tax	(2,535)	(459)
	<u>20,628</u>	<u>24,145</u>

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

(EUR '000)	31 Dec 2016	31 Dec 2015
Profit before tax	103,857	98,728
Tax rate	22%	22%
Tax expense calculated using applicable tax rates	22,849	21,720
Deferred tax due to change in tax rate	(1,090)	-
Permanent differences between tax and accounting income	(2,635)	1,217
Permanent differences between tax and accounting expenses	1,504	1,208
	<u>20,628</u>	<u>24,145</u>

Commencing 1 January 2017, the basic tax rate valid in Slovak republic is changed from 22% to 21%.

The deferred tax structure as at 31 December 2016 is as follows:

(EUR '000)	Temporary differences	Deferred income tax asset/(liability)
Loans and receivables to customers		
– tax non-deductible impairment losses to customers	93,770	19,692
Employee benefits and accrual for unpaid bonuses	10,465	2,198
Tangible and intangible assets	1,690	(355)
Other	10,589	2,224
Provisions for risk and charges	4,272	897
Losses carried forward	5,119	1,075
Available-for-sale financial assets	22,692	(4,766)
Cash flow hedge	380	(80)
	<u>148,977</u>	<u>20,885</u>

The deferred tax structure as at 31 December 2015 is as follows:

(EUR '000)	Temporary differences	Deferred income tax asset/(liability)
Loans and receivables to customers		
– tax non-deductible impairment losses to customers	79,144	17,413
Employee benefits and accrual for unpaid bonuses	11,140	2,451
Tangible and intangible assets	5,616	(1,236)
Other	20,151	4,433
Provisions for risk and charges	856	188
Losses carried forward	45	10
Available-for-sale financial assets	40,202	(8,845)
Cash flow hedge	172	(38)
	<u>157,326</u>	<u>14,376</u>

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

30. RELATED PARTIES

Parties are generally 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 ČSOB Group SR is controlled by KBC Bank, which holds 100 % of the voting rights of the Group's total votes. Related parties include also 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:

(EUR '000)	31 Dec 2016		31 Dec 2015	
	KBC Bank NV	KBC Group	KBC Bank NV	KBC Group
Loans and receivables to financial institutions	3,293	672	1,422	331
Financial assets at fair value through profit or loss	7,046	243	6,706	129
<i>thereof: financial trading derivatives</i>	7,046	130	6,706	129
Loans and receivables to customers	-	16	-	-
Other assets	8,273	586	590	516
<i>thereof: hedging derivatives</i>	1,513	-	590	-
Amounts owed to financial institutions	412,416	155,996	452,356	1,344
Financial liabilities at fair value through profit or loss	105,390	21	190,556	3,395
<i>thereof: financial trading derivatives</i>	10,418	21	10,529	3,395
Amounts owed to customers	-	34,200	-	36,105
Debt securities issued	573,349	293,891	366,736	247,602
Other liabilities	7,845	881	8,660	44
<i>thereof: hedging derivatives</i>	7,622	-	8,527	-

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

(EUR '000)	31 Dec 2016		31 Dec 2015	
	KBC Bank NV	KBC Group	KBC Bank NV	KBC Group
Interest income	2,455	23	257	14
Fee and commission income	758	6,053	211	6,340
Net trading result and exchange differences	7,761	141	3,161	3,436
Other operating result	-	577	-	848
Interest expense	(7,422)	(2,965)	(5,933)	(2,838)
Fee and commission expense	(1,142)	(2)	(977)	(1)
Other operating expenses	(433)	(15,504)	(645)	(13,664)
<i>thereof: costs charged by other KBC group entities*</i>	(433)	(4,443)	(645)	(4,436)

* intercompany invoices from KBC Group consolidated entities insofar they cannot be classified in other blocks of 'Other operating expense' (Note 28).

Terms of significant contracts with related parties:

- Amounts owed to financial institutions – maximum maturity until 2020 (2015: until 2018); weighted average contractual interest rate (0.18%) (2015: (0.05%)).
- Debt securities issued – maximum maturity until 2036 (2015: until 2036); weighted average contractual interest rate 1.21% (2015: 1.27%) and float contractual interest rate 3M EURIBOR + range 0.00% – 0.50% (2015: 3M EURIBOR).
- Financial liabilities at fair value through profit or loss (excl. derivatives) – maximum maturity until January 2017 (2015: until January 2016) and weighted average contractual interest rate (0.35%) (2015: (0.28%)).

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

As at 31 December 2016, total guarantees received (to loans and receivables to customers) from related parties, represent EUR 32,157 thousand (2015: EUR 22,934 thousand).

As at 31 December 2016, guarantees given by the Group towards related parties are in the amount of EUR 9,835 thousand (2015: EUR 11,380 thousand).

As at 31 December 2016 and 31 December 2015, the Group did not create any provision for doubtful debts towards related parties.

Transactions with key management personnel

As at 31 December 2016, loans granted to members of the Board of Directors and Supervisory Board represent EUR 498 thousand (2015: EUR 332 thousand). Deposits from members of the Board of Directors and Supervisory Board as at 31 December 2016 amounted to EUR 486 thousand (2015: EUR 369 thousand).

Personnel expenses of senior management for the year ended 31 December 2016 were EUR 2,080 thousand (2015: EUR 2,115 thousand). These personnel expenses include the total remuneration amounted to EUR 1,905 thousand (2015: EUR 1,928 thousand) and social expenses amounted to EUR 175 thousand (2015: EUR 187 thousand) of members of the Board of Directors and Supervisory Board, which are regulated by the Internal Remuneration Policy of the ČSOB Group SR.

31. DERIVATIVE FINANCIAL INSTRUMENTS

The ČSOB Group SR uses derivative financial instruments for trading purposes, fair value hedging and cash flow 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 ČSOB Group SR 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 ČSOB Group SR 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 ČSOB Group SR minimises credit risk through credit approvals, limits and monitoring procedures. In addition, the ČSOB Group SR obtains collateral where appropriate, and uses bilateral master netting arrangements. There are no significant credit risk exposures in trading derivatives outside of standard international investment banking which are considered by the Group as usual used in trading and managing banking risks.

The maximum credit risk on the Group's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of the bilateral netting arrangements and the collateral held. The Group'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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Trading derivative financial instruments

The trading activities of the ČSOB Group 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 currency or interest rate position of the Banking Book and which do not meet the criteria for hedge accounting. For these purposes, the ČSOB Group 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 ČSOB Group SR 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 consolidated 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 consolidated statement of profit or loss and other comprehensive income in 'Net trading result and exchange differences'. Interest income/expense related to derivative financial instruments is recognized in 'Net interest income' for those held in the banking book (hedging derivatives) or in 'Net trading result and exchange differences' for those held in the trading book (trading derivatives).

Hedging derivative financial instruments

The ČSOB Group SR applies the portfolio hedging of cash flow and fair value related to interest rate risk. The Group'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.

Fair value hedging derivatives

The hedged item represents a portfolio of fixed interest loans and receivables to customers and the hedging instrument is a portfolio of interest rate swaps, in which the Group pays fixed and receives floating interest rate. As at 31 December 2016, the hedge was effective in hedging the fair value exposure to interest rate movements. The Group recognized a gain on hedging instruments in the amount of EUR 1,560 thousand (2015: gain of EUR 942 thousand) and a loss on hedged item attributable to the hedged risk amounted of EUR (2,649) thousand (2015: loss of EUR (1,562) thousand), which are presented in 'Net trading result and exchange differences'. See Note 25.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading and hedging positions as at 31 December 2016 and 31 December 2015 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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

(EUR '000)	Nominal values		Fair values	
	Receivables	Liabilities	Positive	Negative
Derivative instruments as at 31 Dec 2016				
Hedging derivatives				
Interest rate swaps	1,670,000	1,670,000	1,513	7,622
Total hedging derivatives (Notes 12 and 19)	1,670,000	1,670,000	1,513	7,622
Trading derivatives				
FX contracts				
FX forwards	19,370	18,713	747	102
FX swaps and Cross-currency interest rate swaps	358,414	354,779	5,146	2,385
FX options	142,696	142,696	799	792
Interest rate contracts				
Interest rate swaps	1,655,396	1,655,396	7,350	6,109
Interest rate options	98,071	98,071	403	3,665
Commodity contracts				
Commodity swaps and options	1,888	1,888	136	136
Total trading derivatives (Notes 4 and 14)	2,275,835	2,271,543	14,581	13,189

(EUR '000)	Nominal values		Fair values	
	Receivables	Liabilities	Positive	Negative
Derivative instruments as at 31 Dec 2015				
Hedging derivatives				
Interest rate swaps	1,375,000	1,375,000	590	8,527
Total hedging derivatives (Notes 12 and 19)	1,375,000	1,375,000	590	8,527
Trading derivatives				
FX contracts				
FX forwards	11,619	11,400	260	113
FX swaps and Cross-currency interest rate swaps	383,449	381,052	3,947	2,845
FX options	188,130	188,130	1,368	1,366
Interest rate contracts				
Interest rate swaps	1,559,238	1,559,238	14,341	7,556
Interest rate options	116,416	116,416	372	4,614
Commodity contracts				
Commodity swaps and options	8,200	8,200	987	993
Total trading derivatives (Notes 4 and 14)	2,267,052	2,264,436	21,275	17,487

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

32. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

(EUR '000)	Gross amounts of financial assets	Gross amounts of financial assets offset	Net amounts of financial assets	Related amounts not offset			Net amount
				Financial instruments	Cash collateral received	Securities collateral received	
31 Dec 2016							
Derivatives (Note 31)	16,094	-	16,094	9,152	-	-	6,942
Total	16,094	-	16,094	9,152	-	-	6,942

(EUR '000)	Gross amounts of financial assets	Gross amounts of financial assets offset	Net amounts of financial assets	Related amounts not offset			Net amount
				Financial instruments	Cash collateral received	Securities collateral received	
31 Dec 2015							
Derivatives (Note 31)	21,865	-	21,865	9,514	-	-	12,351
Total	21,865	-	21,865	9,514	-	-	12,351

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

(EUR '000)	Gross amounts of financial liabilities	Gross amounts of financial liabilities offset	Net amounts of financial liabilities	Related amounts not offset			Net amount
				Financial instruments	Cash collateral pledged	Securities collateral pledged	
31 Dec 2016							
Derivatives (Note 31)	20,811	-	20,811	9,152	-	-	11,659
Repurchase agreements (Note 15)	149,741	-	149,741	-	-	126,502	23,239
Total	170,552	-	170,552	9,152	-	126,502	34,898

(EUR '000)	Gross amounts of financial liabilities	Gross amounts of financial liabilities offset	Net amounts of financial liabilities	Related amounts not offset			Net amount
				Financial instruments	Cash collateral pledged	Securities collateral pledged	
31 Dec 2015							
Derivatives (Note 31)	26,014	-	26,014	9,514	-	-	16,500
Repurchase agreements (Note 15)	100,183	-	100,183	-	-	93,411	6,772
Total	126,197	-	126,197	9,514	-	93,411	23,272

33. 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 ČSOB Group SR 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 are 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 ČSOB Group SR 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 and liquidity 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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The observability of the parameters used in the third party's model cannot be assessed, in case the ČSOB Group SR 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 the ČSOB Group 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 the ČSOB Group 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.

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

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

The following table shows the hierarchy levels for determining the fair value of financial assets and liabilities measured at amortized cost (including contingent commitments) as at 31 December 2016 and comparison with carrying amount:

(EUR '000)	Fair value			Carrying amount	
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Cash and balances with central bank	203,708	-	-	203,708	203,708
Loans and receivables to financial institutions	-	-	45,866	45,866	45,814
Loans and receivables to customers	-	2,274	6,277,319	6,279,593	6,096,696
Held-to-maturity investments	1,531,138	108,986	-	1,640,124	1,478,431
Total financial assets				8,169,291	7,824,649
Financial liabilities					
Amounts owed to financial institutions	-	448,765	448,388	897,153	895,503
Amounts owed to customers	-	5,256,809	366,742	5,623,551	5,618,558
Debt securities issued	-	1,061,826	-	1,061,826	1,047,207
Total financial liabilities				7,582,530	7,561,268

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The following table shows the hierarchy levels for determining the fair value of financial assets and liabilities measured at amortized cost (including contingent commitments) as at 31 December 2015, reclassified, and comparison with carrying amount:

(EUR '000)	Fair value			Carrying amount	
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Cash and balances with central bank	232,685	-	-	232,685	232,685
Loans and receivables to financial institutions	-	-	48,010	48,010	47,941
Loans and receivables to customers	-	2,517	5,622,691	5,625,208	5,464,198
old-to-maturity investments	1,348,501	90,988	-	1,439,489	1,266,234
Total financial assets				7,345,392	7,011,058
Financial liabilities					
Amounts owed to financial institutions	-	130,378	668,597	798,975	797,929
Amounts owed to customers	-	4,697,728	380,242	5,077,970	5,073,882
Debt securities issued	-	839,513	-	839,513	823,327
Total financial liabilities				6,716,458	6,695,138

Loans and receivables to financial institutions and Cash and balances with central bank

The carrying values of current account balances and of cash balances are, by definition, equal to their fair values. The fair values of term placements with banks and central bank are estimated by discounting their future cash flows using the current inter-bank market rates including the respective credit spread derived from the Group's own experience of probability of default and loss given default. 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.

Loans and receivables to customers

The fair values of fixed-rate loans to customers that relate to the substantial part of the Group's loan portfolio are estimated by discounting their future cash flows using the current market rates including a respective credit spread derived from the Group's own experience of probability of default and loss given default. Fair value incorporates expected future losses, while amortized cost and related impairment include only incurred losses at the end of the accounting period. The rest of loans and receivables 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.

Contingent commitments

In general, the fair values of contingent commitments equal to fees charged by the Group to its customers when these products are contracted. As at 31 December 2016 and 31 December 2015, the fair value of contingent commitments was not material. For more information about carrying amounts see Note 20.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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 interest rates modified by market unobservable credit spreads.

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 interest rates modified by market unobservable credit spreads.

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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

b) Financial assets and liabilities measured at fair value

The following table represents an analysis of financial assets and liabilities measured at fair value based on their fair value hierarchy as at 31 December 2016:

(EUR '000)	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Financial assets at fair value through profit or loss (Note 4)</i>				
<i>Financial assets held for trading:</i>				
Loans and receivables to banks	-	113	-	113
Financial trading derivatives	-	14,544	37	14,581
Government debt securities	1	-	-	1
Bank bonds	-	24,093	-	24,093
Other bonds	14,511	4,004	-	18,515
Total				57,303
<i>Available-for-sale financial assets (Note 5)</i>				
<i>At fair value:</i>				
Government debt securities	359,399	-	-	359,399
Bank bonds	-	71,554	-	71,554
Other bonds	46,140	34,303	-	80,443
Shares	-	2,170	2,902	5,072
Total				516,468
<i>Other financial assets (Note 12)</i>				
Fair value changes of hedged item (hedged risk)	-	3,530	-	3,530
Hedging derivatives	-	1,513	-	1,513
Total				5,043
Total financial assets				578,814
Financial liabilities				
<i>Financial liabilities at fair value through profit or loss (Note 14)</i>				
Term deposits – banks	-	128,084	-	128,084
Term deposits – non-bank customers	-	62,700	-	62,700
Debt securities issued	-	13,618	-	13,618
Financial trading derivatives	-	13,118	71	13,189
Total				217,591
<i>Other financial liabilities (Note 19)</i>				
Hedging derivatives	-	7,622	-	7,622
Total				7,622
Total financial liabilities				225,213

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The following table represents an analysis of financial assets and liabilities measured at fair value based on their fair value hierarchy as at 31 December 2015:

(EUR '000)	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Financial assets at fair value through profit or loss (Note 4)</i>				
<i>Financial assets held for trading:</i>				
Financial trading derivatives	-	21,168	107	21,275
Government debt securities	1,347	-	-	1,347
Bank bonds	-	30,314	-	30,314
Other bonds	24,868	103	-	24,971
Other loans and receivables to customers	-	6	-	6
Total				77,913
<i>Available-for-sale financial assets (Note 5)</i>				
<i>At fair value:</i>				
Government debt securities	429,426	-	-	429,426
Bank bonds	-	63,208	-	63,208
Other bonds	33,867	12,365	-	46,232
Shares	-	-	13,956	13,956
Total				552,822
<i>Other financial assets (Note 12)</i>				
Fair value changes of hedged item (hedged risk)	-	6,179	-	6,179
Hedging derivatives	-	590	-	590
Total				6,769
Total financial assets				637,504
Financial liabilities				
<i>Financial liabilities at fair value through profit or loss (Note 14)</i>				
Term deposits – banks	-	190,643	-	190,643
Term deposits – non-bank customers	-	76,114	-	76,114
Debt securities issued	-	9,531	-	9,531
Financial trading derivatives	-	17,270	217	17,487
Total				293,775
<i>Other financial liabilities (Note 19)</i>				
Hedging derivatives	-	8,527	-	8,527
Total				8,527
Total financial liabilities				302,302

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Derivatives

Linear derivatives are valued through an internal system of the ČSOB Group SR, 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 ČSOB Group SR classifies debt securities at Level 1, if the Group has available inputs from Reuters or Bloomberg quotations.

If there is no available quotation from these sources, the Group 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 Group, which calculates the present value (cash flows discounted using inter-bank yield curves).

Shares

Equity instruments at fair value in the portfolio of available-for-sale financial assets are valued using its own market prices or market prices of shares with similar characteristics. An illiquidity discount is taken into consideration where appropriate.

Transfers between Level 1 and 2

In 2016 and 2015, the Group did not perform any significant transfers between Level 1 and Level 2.

Level 3 financial instruments

In 2016, the sale of VISA Europe Limited shares was realized in the amount of EUR 14,333 thousand (pre-tax) recognized under 'Net realized result from available-for-sale financial assets' (see Note 5).

As at 31 December 2016, total gains recorded in other comprehensive income from available-for-sale financial assets were in the amount of EUR 3,547 thousand, related to revaluation reserves of VISA Inc. and MasterCard (2015: EUR 13,688 thousand related to VISA Europe Limited shares).

In 2016 and 2015, the Group did not perform any transfers into or out of Level 3.

34. ČSOB GROUP SR RISKS

Risk is inherent in the Group'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 Group's continuing profitability. Each individual within the ČSOB Group SR is accountable for the risk exposures relating to his or her responsibilities. The ČSOB Group SR 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 4/2015 on other types of risks, on details about the system of risk management of banks and the subsidiaries of foreign banks, which establishes the definition of sudden and unexpected change of interest rates on the market, the ČSOB Group SR 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, ICAAP management and management of asset encumbered. Risk management strategies include the main objectives and principles of the risk management of the ČSOB Group SR and are reassessed at least once per year and approved by the Board of Directors.

34.1. Risk management structure and basic assumptions

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

The risk management structure in the ČSOB Group SR 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 Group'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 the ČSOB Group SR.
- Primary risk management within departments and organizational units.

The organizational structure of senior bodies and committees for risk management is as follows:

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 ČSOB Group SR, 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 ČSOB Group SR.

Audit Committee ('AC')

The AC is a subcommittee of the Supervisory Board and advises the Supervisory Board on the integrity of the financial reporting and the effectiveness of internal control and risk management processes.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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 Group 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 Group.

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 ČSOB Group SR in the area of loans.

Other risk management bodies:

Division of Risk and Compliance

Within the Division of Risk and Compliance 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 ČSOB Group SR.

Financial Markets Division ('FM')

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

Internal Audit Department

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

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Risk reporting and measurement systems

The Group'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 ČSOB Group SR 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 ČSOB Group SR. These limits reflect the business strategy and market environment of the ČSOB Group SR, as well as the level of risk that the ČSOB Group SR is willing to accept. In addition, the ČSOB Group SR 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 Group'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 Group. 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 Group's management.

Risk mitigation

As part of its overall risk management, the ČSOB Group SR 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 Group's risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the ČSOB Group SR. 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 ČSOB Group SR 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 Group's performance to developments affecting a particular industry or geographical location.

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

34.2. Credit risk

Credit risk is the risk of loss in the event that the customer, client or counterparty fails to meet its obligations to the ČSOB Group SR resulting from a contractual relationship. The ČSOB Group SR manages and controls 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 ČSOB Group SR regularly monitors the volume and quality of the exposures in respect of the imposed limits.

The ČSOB Group SR 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 ČSOB Group SR 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')

The ČSOB Group SR has implemented internal rating models/tools within the credit process for corporate customers and SMEs, MicroSME customers, private persons, municipalities, housing associations 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 ČSOB Group SR 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 ČSOB Group SR, 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) do not have ratings assigned, but 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 ČSOB Group SR 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 ČSOB Group SR prior approval to use the IRB approach for the calculation of the own funds requirement for credit risk. The Group has been reporting for ČSOB Bank portfolio under the IRB approach since 31 March 2014.

Corporate and SME customers

The Group ranks companies with an annual turnover exceeding EUR 10 million, multinational companies with special treatment required, especially in terms of products provided, 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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Within the category of SME clients, the Group 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 analyst independent of the business line (i.e. reporting to Credits) assesses 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 ČSOB Group SR 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. Rating models are 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. 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 is limited under the Group's existing rules and processes and in general insignificant when compared to other instruments with credit risks.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Credit risk-related receivables

The ČSOB Group SR grants its customers guarantees that may result in a requirement for the ČSOB Group SR to make payments on their behalf. Such payments are collected from customers on the terms of a letter of credit. They expose the ČSOB Group SR 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 without taking into account any collateral and other credit risk mitigation tools.

(EUR '000)	31 Dec 2016	31 Dec 2015 Reclassified
Mandatory minimum reserves (Note 3)	17,997	9,474
Financial assets at fair value through profit or loss (Note 4)	57,303	77,913
Available-for-sale financial assets, excl. shares (Note 5)	511,396	538,866
Loans and receivables to financial institutions (Note 6)	45,814	47,941
Loans and receivables to customers (Note 7)	6,096,696	5,464,198
Held-to-maturity investments (Note 8)	1,478,431	1,266,234
Other financial assets (Note 12)	21,434	17,219
Total	8,229,071	7,421,845
Credit facilities issued but not drawn	1,272,449	1,275,676
Financial guarantees given	208,118	209,864
Letters of credit given	24,775	6,415
Total (Note 20)	1,505,342	1,491,955
Total credit risk exposure	9,734,413	8,913,800

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 of the assets.

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 Group has to pay if the commitment is called in, which is also equal to their carrying amount.

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 governmental counterparty as at 31 December 2016 was EUR 1,684,193 thousand (2015: EUR 1,569,989 thousand) and to a non-governmental counterparty EUR 120,494 thousand (2015: EUR 120,408 thousand) before taking collateral or other credit enhancements into account and EUR 120,494 thousand (2015: EUR 120,408 thousand) after taking them into account.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The Group'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 2016	31 Dec 2015 Reclassified
Slovak Republic	9,274,801	8,595,369
Belgium	15,065	13,056
Czech Republic	157,689	76,244
Germany	13,203	30,420
Netherlands	22,408	42,895
Hungary	78,443	74,606
Other	172,804	81,210
	<u>9,734,413</u>	<u>8,913,800</u>

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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 2016 is presented in the following table:

(EUR '000)	Unimpaired			Impaired			Total	
	Gross carrying amount	Impair. loss/ Provision	Net carrying amount	Gross carrying amount	Impair. loss/ Provision	Net carrying amount	Gross carrying amount	Net carrying amount
Mandatory minimum reserves (Note 3)	17,997	-	17,997	-	-	-	17,997	17,997
Financial assets at fair value through profit or loss (Note 4)	57,303	-	57,303	-	-	-	57,303	57,303
Available-for-sale financial assets, excl. shares (Note 5)	511,396	-	511,396	-	-	-	511,396	511,396
Loans and receivables to financial institutions (Note 6)	45,842	(28)	45,814	92	(92)	-	45,934	45,814
Loans and receivables to customers (Note 7)	6,030,614	(11,966)	6,018,648	203,957	(125,909)	78,048	6,234,571	6,096,696
from that:								
Public administration	210,233	(57)	210,176	493	(366)	127	210,726	210,303
Corporate	1,988,425	(3,295)	1,985,130	100,823	(66,861)	33,962	2,089,248	2,019,092
Retail:	3,831,956	(8,614)	3,823,342	102,641	(58,682)	43,959	3,934,597	3,867,301
- Mortgage loans	2,681,171	(1,973)	2,679,198	45,678	(16,237)	29,441	2,726,849	2,708,639
- Consumer loans	192,824	(1,242)	191,582	11,298	(10,185)	1,113	204,122	192,695
- Credit cards	17,380	(227)	17,153	1,656	(1,533)	123	19,036	17,276
- Overdrafts	21,110	(362)	20,748	2,871	(2,644)	227	23,981	20,975
- MicroSME	256,365	(2,543)	253,822	22,096	(18,880)	3,216	278,461	257,038
- ČSOB Stavebná sporiteľňa	155,459	(328)	155,131	9,298	(3,136)	6,162	164,757	161,293
- ČSOB Leasing Group	507,647	(1,939)	505,708	9,744	(6,067)	3,677	517,391	509,385
Held-to-maturity investments (Note 8)	1,478,459	(28)	1,478,431	-	-	-	1,478,459	1,478,431
Other financial asset (Note 12)	21,701	(267)	21,434	-	-	-	21,701	21,434
Total	8,163,312	(12,289)	8,151,023	204,049	(126,001)	78,048	8,367,361	8,229,071
Off-balance sheet liabilities	1,502,888	(1,045)	1,501,843	4,280	(781)	3,499	1,507,168	1,505,342
Total credit risk exposure	9,666,200	(13,334)	9,652,866	208,329	(126,782)	81,547	9,874,529	9,734,413

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016
prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

The net carrying amount of financial assets according to risk categories based on individual assessment as at 31 December 2015, reclassified, is presented in the following table:

	Unimpaired			Impaired			Total		
	Gross carrying amount	Impair. loss/ Provision	Net carrying amount	Gross carrying amount	Impair. loss/ Provision	Net carrying amount	Gross carrying amount	Impair. loss/ Provision	Net carrying amount
(EUR '000)									
Mandatory minimum reserves (Note 3)	9,474	-	9,474	-	-	-	9,474	-	9,474
Financial assets at fair value through profit or loss (Note 4)	77,913	-	77,913	-	-	-	77,913	-	77,913
Available-for-sale financial assets, excl. shares (Note 5)	538,866	-	538,866	-	-	-	538,866	-	538,866
Loans and receivables to financial institutions (Note 6)	47,956	(15)	47,941	92	(92)	-	48,048	(107)	47,941
Loans and receivables to customers (Note 7)	5,379,410	(10,569)	5,368,841	208,183	(112,826)	95,357	5,587,593	(123,395)	5,464,198
from that:									
<i>Public administration</i>	216,026	(65)	215,961	217	(217)	-	216,243	(282)	215,961
<i>Corporate</i>	1,850,303	(2,751)	1,847,552	100,933	(59,225)	41,708	1,951,236	(61,976)	1,889,260
<i>Retail:</i>	3,313,081	(7,753)	3,305,328	107,033	(53,384)	53,649	3,420,114	(61,137)	3,358,977
- Mortgage loans	2,169,397	(1,805)	2,167,592	49,722	(14,818)	34,904	2,219,119	(16,623)	2,202,496
- Consumer loans	155,198	(1,004)	154,194	9,795	(8,656)	1,139	164,993	(9,660)	155,333
- Credit cards	15,540	(194)	15,346	1,629	(1,509)	120	17,169	(1,703)	15,466
- Overdrafts	21,136	(310)	20,826	2,629	(2,428)	201	23,765	(2,738)	21,027
- MicroSME	239,701	(2,441)	237,260	18,843	(16,421)	2,422	258,544	(18,862)	239,682
- ČSOB Stavebná sporiteľňa	161,863	(238)	161,625	10,008	(3,177)	6,831	171,871	(3,415)	168,456
- ČSOB Leasing Group	550,246	(1,761)	548,485	14,407	(6,375)	8,032	564,653	(8,136)	556,517
Held-to-maturity investments (Note 8)	1,266,234	-	1,266,234	-	-	-	1,266,234	-	1,266,234
Other financial asset (Note 12)	19,268	(2,049)	17,219	-	-	-	19,268	(2,049)	17,219
Total	7,339,121	(12,633)	7,326,488	208,275	(112,918)	95,357	7,547,396	(125,551)	7,421,845
Off-balance sheet liabilities	1,489,279	(825)	1,488,454	9,202	(5,701)	3,501	1,498,481	(6,526)	1,491,955
Total credit risk exposure	8,828,400	(13,458)	8,814,942	217,477	(118,619)	98,858	9,045,877	(132,077)	8,913,800

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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 ČSOB Group SR addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The local management of the Group is responsible for deciding the length of the emergence period. In both 2016 and 2015, the Group used a uniform emergence period of four months for all portfolios.

Individually assessed allowances

The ČSOB Group SR 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 Group's management), unless extraordinary or unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and receivables 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 departments to ensure its alignment with the Group's overall policies and procedures.

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

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

The table shows a delinquency analysis of the Group's net overdue but unimpaired loans and receivables based on individual assessment as at 31 December 2016:

(EUR '000)	Not past due	Past due from 1 to 30 days	Past due from 31 to 90 days	Total
Loans and advances to financial institutions	45,814	-	-	45,814
Loans and advances to customers	5,766,721	218,619	33,308	6,018,648
<i>Public administration</i>	210,176	-	-	210,176
<i>Corporate</i>	1,870,637	104,225	10,268	1,985,130
<i>Retail:</i>	3,685,908	114,394	23,040	3,823,342
- Mortgage loans	2,640,958	30,481	7,759	2,679,198
- Consumer loans	186,842	3,985	755	191,582
- Credit cards	16,360	727	66	17,153
- Overdrafts	20,429	9	310	20,748
- MicroSME	243,341	8,703	1,778	253,822
- ČSOB Stavebná sporiteľňa	152,416	1,976	739	155,131
- ČSOB Leasing Group	425,562	68,513	11,633	505,708
Total	5,812,535	218,619	33,308	6,064,462

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The table shows a delinquency analysis of the Group's net overdue but unimpaired loans and receivables based on individual assessment as at 31 December 2015, reclassified:

(EUR '000)	Not past due	Past due from 1 to 30 days	Past due from 31 to 90 days	Total
Loans and advances to financial institutions	47,514	427	-	47,941
Loans and advances to customers	5,175,838	157,617	35,386	5,368,841
<i>Public administration</i>	215,924	37	-	215,961
<i>Corporate</i>	1,774,013	63,021	10,518	1,847,552
<i>Retail:</i>	3,185,901	94,559	24,868	3,305,328
- Mortgage loans	2,134,345	24,863	8,384	2,167,592
- Consumer loans	150,627	3,011	556	154,194
- Credit cards	14,700	587	59	15,346
- Overdrafts	20,536	-	290	20,826
- MicroSME	233,155	2,671	1,434	237,260
- ČSOB Stavebná spořitelňa	158,860	2,047	718	161,625
- ČSOB Leasing Group	473,678	61,380	13,427	548,485
Total	5,223,352	158,044	35,386	5,416,782

The credit quality of loans and receivables to financial institutions 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)		Net carrying amount 31 Dec 2016	Net carrying amount 31 Dec 2015
Rating	% possible default		
1	0.00% - 0.10%	8,291	14,718
2	0.10% - 0.20%	21,474	27,948
3	0.20% - 0.40%	97	-
4	0.40% - 0.80%	317	181
5	0.80% - 1.60%	154	-
6	1.60% - 3.20%	761	1,048
7	3.20% - 6.40%	3,953	841
8	6.40% - 12.80%	9,785	1,758
9	12.80% - 100.00%	319	959
Undefined*	-	663	61
Total		45,814	47,514

* the rating or rating model is not assigned

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016
prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

The credit quality of loans and receivables to customers as at 31 December 2016 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	Public administration	Corporate	Retail:	Mortgage loans	Consumer loans	Credit cards	Over drafts	Micro SME	ČSOB Stav.spor.	ČSOB Leasing	Total
1	0.00% - 0.10%	-	145,481	80,446	-	43,080	5,060	3,153	29,153	-	-	225,927
2	0.10% - 0.20%	175,548	95,764	-	-	-	-	-	-	-	-	271,312
3	0.20% - 0.40%	33,808	341,830	1,177,186	1,176,899	5	7	275	-	-	-	1,552,824
4	0.40% - 0.80%	-	352,726	301,355	152,489	66,845	4,186	4,297	73,538	-	-	654,081
5	0.80% - 1.60%	-	282,086	1,036,217	994,195	35,491	2,899	3,632	-	-	-	1,318,303
6	1.60% - 3.20%	-	207,615	246,107	127,994	18,870	1,453	2,762	95,028	-	-	453,722
7	3.20% - 6.40%	-	147,121	134,963	134,963	-	-	-	-	-	-	282,084
8	6.40% - 12.80%	-	15,048	89,987	32,193	15,548	1,798	3,135	37,313	-	-	105,035
9	12.80% - 100.00%	-	5,524	41,023	22,225	7,003	957	3,175	7,663	-	-	46,547
Undefined*	-	820	277,442	578,624	-	-	-	-	646	152,416	425,562	856,886
Total		210,176	1,870,637	3,685,908	2,640,958	186,842	16,360	20,429	243,341	152,416	425,562	5,766,721

The credit quality of loans and receivables to customers as at 31 December 2015, reclassified, 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	Public administration	Corporate	Retail:	Mortgage loans	Consumer loans	Credit cards	Over drafts	Micro SME	ČSOB Stav.spor.	ČSOB Leasing	Total
1	0.00% - 0.10%	-	107,759	70,093	-	32,084	3,987	2,864	31,158	-	-	177,852
2	0.10% - 0.20%	161,647	136,646	9,515	-	8,692	288	535	-	-	-	307,808
3	0.20% - 0.40%	27,417	258,516	1,077,844	1,019,039	-	-	-	58,805	-	-	1,363,777
4	0.40% - 0.80%	23,690	267,084	663,575	600,428	44,301	3,479	3,548	11,819	-	-	954,349
5	0.80% - 1.60%	2,187	394,147	264,164	259,282	4,554	141	187	-	-	-	660,498
6	1.60% - 3.20%	-	170,271	335,928	194,201	42,787	4,135	6,863	87,942	-	-	506,199
7	3.20% - 6.40%	373	110,461	15,531	2,725	9,668	952	2,001	185	-	-	126,365
8	6.40% - 12.80%	-	52,506	71,715	34,941	2,934	815	1,844	31,181	-	-	124,221
9	12.80% - 100.00%	-	17,987	44,257	23,728	5,607	903	2,694	11,325	-	-	62,244
Undefined*	-	610	258,636	633,279	1	-	-	-	740	158,860	473,678	892,525
Total		215,924	1,774,013	3,185,901	2,134,345	150,627	14,700	20,536	233,155	158,860	473,678	5,175,838

* the rating or rating model is not assigned

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016
prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

The credit quality of securities and bonds that are neither past due nor impaired based on individual assessment as at 31 December 2016 are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000)	Rating	% possible default	Financial assets at fair value through profit or loss (Note 4)				Net carrying amount Available-for-sale financial assets (Note 5)				Held-to-maturity investments (Note 8)	
			Government debt securities	Bank bonds	Other bonds	Government debt securities	Bank bonds	Other bonds	Government debt securities	Bank bonds	Government debt securities	Bank bonds
	1	0.00% - 0.10%	1	-	-	359,399	-	-	1,365,921	-	-	-
	2	0.10% - 0.20%	-	24,093	13,763	-	71,554	12,651	-	-	-	112,510
	4	0.40% - 0.80%	-	-	738	-	-	56,018	-	-	-	-
	5	0.80% - 1.60%	-	-	104	-	-	-	-	-	-	-
	Undefined*	-	-	-	3,910	-	-	11,774	-	-	-	-
Total	1			24,093	18,515	359,399	71,554	80,443	1,365,921	80,443	1,365,921	112,510

* the rating or rating model is not assigned

The credit quality of securities and bonds that are neither past due nor impaired based on individual assessment as at 31 December 2015 are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000)	Rating	% possible default	Financial assets at fair value through profit or loss (Note 4)				Net carrying amount Available-for-sale financial assets (Note 5)				Held-to-maturity investments (Note 8)	
			Government debt securities	Bank bonds	Other bonds	Government debt securities	Bank bonds	Other bonds	Government debt securities	Bank bonds	Government debt securities	Bank bonds
	1	0.00% - 0.10%	1,347	-	19,476	429,426	-	-	1,171,293	-	-	-
	2	0.10% - 0.20%	-	30,314	3,606	-	63,208	12,137	-	-	-	94,941
	4	0.40% - 0.80%	-	-	1,786	-	-	21,731	-	-	-	-
	5	0.80% - 1.60%	-	-	103	-	-	12,364	-	-	-	-
Total	1,347			30,314	24,971	429,426	63,208	46,232	1,171,293	46,232	1,171,293	94,941

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The credit quality of financial trading derivatives and hedging derivatives 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:

		31 Dec 2016		31 Dec 2015	
(EUR '000)		Financial trading derivatives (Note 4)	Hedging derivatives (Note 12)	Financial trading derivatives (Note 4)	Hedging derivatives (Note 12)
Rating	% possible default				
1	0.00% - 0.10%	8,262	1,513	11,722	590
2	0.10% - 0.20%	2,123	-	5,403	-
3	0.20% - 0.40%	1,873	-	2,008	-
4	0.40% - 0.80%	7	-	33	-
5	0.80% - 1.60%	480	-	769	-
6	1.60% - 3.20%	212	-	169	-
7	3.20% - 6.40%	109	-	69	-
8	6.40% - 12.80%	-	-	483	-
9	12.80% - 100.00%	-	-	147	-
Undefined*	-	1,515	-	472	-
Total		14,581	1,513	21,275	590

* the rating or rating model is not assigned

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 by disclosing a lower value of fair value of collateral and carrying value of asset.

(EUR '000)	31 Dec 2016	31 Dec 2015
Real estates	3,352,464	2,987,584
Cash and cash equivalents	40,860	49,461
Bank guarantees	41,177	38,031
Other	1,093,006	1,106,401
Total	4,527,507	4,181,477

(EUR '000)	31 Dec 2016	31 Dec 2015
Loans and receivables to financial institutions	818,008	6,768
Loans and receivables to customers	3,526,452	3,977,858
Undrawn credit limits provided	183,047	196,851
Total	4,527,507	4,181,477

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

The ČSOB Group SR accepted guarantees from its parent company and other subsidiaries within the KBC Group for credit risk mitigation of the Group and for third parties (Note 30).

The ČSOB Group SR monitors the market value of collateral and requires additional collateral based on contractual conditions.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Collateral realization

The ČSOB Group SR 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.

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 ČSOB Group SR. If the client is amenable to cooperation in resolving this problem, the Group usually proposes that the real estate be sold under conditions which it specifies (price, legal terms, etc.).

Otherwise, the ČSOB Group SR enters into contracts with external auction companies. An auction company holds an auction after which the Group obtains the funds acquired less any charges and fees for the auction company. Subsequently, this amount is used to settle the respective receivable due from the client.

Collateral realization in the NON-RETAIL segment

In the non-retail segment, the ČSOB Group SR 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 Group's assets but the ČSOB Group SR pursues their sale.

As at 31 December 2016, the Group held a collaterals possessed as assets in the carrying amount of EUR 1,893 thousand presented in 'Assets held for sale' (2015: EUR 2,107 thousand) and EUR 1,277 thousand presented in 'Other assets' (2015: EUR 744 thousand).

Forbearance measures

Based on the guidelines on non-performing exposures and forbearance measures laid down by the European Banking Authority ('EBA'), which came into effect on 30 September 2014, the Group 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 Group 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 technical standards.

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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

As at 31 December 2016, the net carrying amount of forbore exposures included in the credit portfolio is presented in the following table:

(EUR '000)	Gross amount			Impairment loss			Net amount		
	Perfor- ming	Non- perfor- ming	Total	Perfor- ming	Non- perfor- ming	Total	Perfor- ming	Non- perfor- ming	Total
Public administration	-	347	347	-	(219)	(219)	-	128	128
Corporate	7,626	46,106	53,732	(179)	(27,237)	(27,416)	7,447	18,869	26,316
Retail	14,439	13,394	27,833	(762)	(3,143)	(3,905)	13,677	10,251	23,928
Total	22,065	59,847	81,912	(941)	(30,599)	(31,540)	21,124	29,248	50,372

As at 31 December 2015, the net carrying amount of forbore exposures included in the credit portfolio is presented in the following table:

(EUR '000)	Gross amount			Impairment loss			Net amount		
	Perfor- ming	Non- perfor- ming	Total	Perfor- ming	Non- perfor- ming	Total	Perfor- ming	Non- perfor- ming	Total
Public administration	-	43	43	-	(43)	(43)	-	-	-
Corporate	4,311	43,017	47,328	(4)	(19,930)	(19,934)	4,307	23,087	27,394
Retail	22,184	16,759	38,943	(688)	(5,086)	(5,774)	21,496	11,673	33,169
Total	26,495	59,819	86,314	(692)	(25,059)	(25,751)	25,803	34,760	60,563

A movement table of gross carrying amount on exposures with forbearance measures as at 31 December 2016 is presented in the following table:

(EUR '000)	1 Jan 2016	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments and recovery	Write-offs	Other	31 Dec 2016
Public administration	43	320	-	(16)	-	-	347
Corporate	47,328	10,562	(5,928)	(7,564)	-	9,334	53,732
Retail	38,943	8,286	(10,856)	(2,876)	(66)	(5,598)	27,833
Total	86,314	19,168	(16,784)	(10,456)	(66)	3,736	81,912

A movement table of gross carrying amount on exposures with forbearance measures as at 31 December 2015 is presented in the following table:

(EUR '000)	1 Jan 2015	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments and recovery	Other	31 Dec 2015
Public administration	56	-	-	(13)	-	43
Corporate	60,167	5,470	(14,572)	(12,239)	8,502	47,328
Retail	42,001	16,101	(15,673)	(3,522)	36	38,943
Total	102,224	21,571	(30,245)	(15,774)	8,538	86,314

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

A movement table of impairment loss on exposures with forbearance measures as at 31 December 2016 is presented in the following table:

(EUR '000)	1 Jan 2016	Loans which have become forborne	Loans which are no longer considered to be forborne	(Creation)/ Release on forborne loans	Other	31 Dec 2016
Public administration	(43)	(192)	-	16	-	(219)
Corporate	(19,934)	(4,694)	1,719	(2,746)	(1,761)	(27,416)
Retail	(5,774)	(403)	828	(317)	1,761	(3,905)
Total	(25,751)	(5,289)	2,547	(3,047)	-	(31,540)

A movement table of impairment loss on exposures with forbearance measures as at 31 December 2015 is presented in the following table:

(EUR '000)	1 Jan 2015	Loans which have become forborne	Loans which are no longer considered to be forborne	(Creation)/ Release on forborne loans	31 Dec 2015
Public administration	(56)	-	-	13	(43)
Corporate	(20,898)	(2,020)	3,732	(748)	(19,934)
Retail	(4,056)	(950)	690	(1,458)	(5,774)
Total	(25,010)	(2,970)	4,422	(2,193)	(25,751)

34.3. Liquidity risk and funding management

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

The ČSOB Group SR 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 Group also has available secondary financial resources to maintain a sufficient liquidity level. The ČSOB Group SR creates and maintains regular contacts with clients and other counterparties, important for the Group 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 ČSOB Group SR 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 ČSOB Group SR is expected), the stress scenario includes various stress factors related to the ČSOB Group SR and also the financial market. Short-term liquidity is in the Group monitored through liquidity ratios based on the actual balance sheet composition.

In addition, the Group 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 Group 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 the ČSOB Group (i.e. KPI's). The ČSOB Group monitors also the Asset encumbered ratio in the context of international methodological guidelines to the Asset encumbrance reporting.

The most important liquidity ratio for the ČSOB Group in 2016 from the perspective of fulfilment was the locally defined LCR. This regulatory short term liquidity indicator is defined by NBS Decree N^o 11/2014 and is derived from the international LCR indicator as defined by Basel III. It represents the ratio of the sum of highly liquid assets and the sum of net negative cash flows. LCR should not fall below the regulatory limit value 1.0. The Group met the specified minimum limit during the whole year 2016 with a sufficient reserve.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

In addition to standard liquidity trends, the ČSOB Group SR 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 Group's remaining contractual maturity for its non-derivative financial liabilities (including contingent commitments). 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 2016	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)	184,326	3,217	3,975	12,653	-	204,171
Amounts owed to financial institutions	13,340	189,622	313,558	377,329	-	893,849
Amounts owed to customers	3,658,373	1,272,886	557,594	126,661	8,180	5,623,694
Debt securities issued	92	60,965	611,084	342,592	80,614	1,095,347
Total financial liabilities	3,856,131	1,526,690	1,486,211	859,235	88,794	7,817,061
Credit facilities issued but not drawn	1,273,571	-	-	-	-	1,273,571
Financial guarantees given	208,822	-	-	-	-	208,822
Letters of credit given	24,775	-	-	-	-	24,775
Total contingent commitments	1,507,168	-	-	-	-	1,507,168

(EUR '000) 31 Dec 2015	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)	250,244	5,769	18,970	1,302	-	276,285
Amounts owed to financial institutions	228,299	50,429	156,821	362,065	911	798,525
Amounts owed to customers	3,512,661	955,001	463,028	135,844	13,705	5,080,239
Debt securities issued	14,802	1,118	451,178	317,836	93,164	878,098
Total financial liabilities	4,006,006	1,012,317	1,089,997	817,047	107,780	7,033,147
Credit facilities issued but not drawn	1,276,489	-	-	-	-	1,276,489
Financial guarantees given	215,577	-	-	-	-	215,577
Letters of credit given	6,415	-	-	-	-	6,415
Total contingent commitments	1,498,481	-	-	-	-	1,498,481

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

The table below sets out the financial assets of the ČSOB Group SR by expected remaining maturity as at 31 December 2016:

(EUR '000) 31 Dec 2016	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	5 years and more	Un- defined	Total
Cash and balances with central bank	203,708	-	-	-	-	-	203,708
Financial assets at fair value through profit or loss	362	2,111	12,594	23,762	3,892	14,582	57,303
Available-for-sale financial assets	647	1,498	12,510	272,331	224,411	5,208	516,605
Loans and receivables to financial institutions	31,342	4,627	1,023	2,649	6,201	(28)	45,814
Loans and receivables to customers	238,396	222,961	897,816	1,908,489	2,773,794	55,240	6,096,696
Held-to-maturity investments	15,092	4,111	111,601	414,834	932,821	(28)	1,478,431
Other financial assets (Note 12)	-	-	-	-	-	21,434	21,434
Total financial assets	489,547	235,308	1,035,544	2,622,065	3,941,119	96,408	8,419,991

The table below sets out the financial assets of the ČSOB Group SR by expected remaining maturity as at 31 December 2015:

(EUR '000) 31 Dec 2015	Less than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	5 years and more	Un- defined	Total
Cash and balances with central bank	232,685	-	-	-	-	-	232,685
Financial assets at fair value through profit or loss	121	24,850	2,135	24,386	5,140	21,281	77,913
Available-for-sale financial assets	647	9,657	5,233	337,213	186,115	13,957	552,822
Loans and receivables to financial institutions	42,585	2,970	1,017	1,385	-	(16)	47,941
Loans and receivables to customers	313,859	195,276	814,080	1,772,130	2,309,643	59,210	5,464,198
Held-to-maturity investments	36,820	4,108	15,230	459,744	750,332	-	1,266,234
Other financial assets (Note 12)	-	-	-	-	-	17,219	17,219
Total financial assets	626,717	236,861	837,695	2,594,858	3,251,230	111,651	7,659,012

34.4. Market risk

Market risk for financial instruments in the Group'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 ČSOB Group SR 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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

Market risk – Trading Book

The Group's Board of Directors defines the maximum acceptable level of risk by using VaR and BPV limits. The ČSOB Group SR applies a VaR method to estimate the market risk in the financial instruments recorded in the Group'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 ČSOB Group SR 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 ČSOB Group SR 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 Group's senior management.

In addition to the standard VaR calculations, the ČSOB Group SR 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 ČSOB Group SR. The set of predefined scenarios includes actual historical market shocks as well as artificially designed tests.

The ČSOB Group SR 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 2016 is as follows:

(EUR '000)	Interest rate	FX	Effect of correlation	Global VaR total
31 December 2016	233	30	(32)	231
Average	337	101	(70)	368
Max	916	275	-	949
Min	122	17	-	123

VaR summary as at 31 December 2015 is as follows:

(EUR '000)	Interest rate	FX	Effect of correlation	Global VaR total
31 December 2015	551	49	(56)	544
Average	796	143	(102)	837
Max	2,053	426	-	2,155
Min	219	22	-	207

Interest rate sensitivity overview (10 BPV) for trading book is following:

(EUR '000)	Increase in basis point	Profit or Loss Sensitivity	
		31.12.2016	31.12.2015
EUR	+10	(193)	(327)
CZK	+10	6	1
USD	+10	-	5

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.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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 Group's positions to the interest rate changes (with other factors remained unchanged) is described in the tables below.

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

Models used in interest rate risk calculation

Each position of banking book is placed to interest rate risk report according contractual repricing date or repricing date based on behavioural model. Contractual category contains positions where is exactly determined when the maturity or the nearest repricing happens (mainly purchased and issued bonds, loans, term deposits). Behavioural category contains products where is not exactly determined when the maturity/repricing happens (i.e. current accounts) or behave differently from contractual maturity/repricing. The Group therefore created behavioural assumptions of such products based on deep analysis of historical data (analysis is re-evaluated once per year). The Group adjusts parameters of behaviour in products current and saving accounts (internal benchmarking model), future drawdown of mortgage loans and prepayments of consumer and mortgage loans. The Group also monitors potential risk from future mortgage loans prepayments.

Sensitivity to change in interest rates of banking book as at 31 December 2016:

(EUR '000)	Growth in basis points	Net interest income sensitivity	Profit or loss sensitivity	Capital sensitivity
EUR	+10	(1,719)	2	(1,879)
CZK	+10	2	-	-
USD	+10	(58)	-	(232)

Sensitivity to change in interest rates of banking book as at 31 December 2015:

(EUR '000)	Growth in basis points	Net interest income sensitivity	Profit or loss sensitivity	Capital sensitivity
EUR	+10	(1,220)	14	(1,976)
CZK	+10	3	(5)	-
USD	+10	(70)	-	(269)

Equity price risk

Portfolio of the ČSOB Group SR is not exposed to material equity price risk.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

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 limits for each currency are determined by the Group'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 Group's net open foreign exchange positions. The remaining currencies are included under 'Other':

(EUR '000)	EUR	USD	CZK	Other*	Total
31 Dec 2016					
Financial assets					
Cash and balances with central bank	186,462	3,024	5,571	8,651	203,708
Financial assets at fair value through profit or loss	52,985	4,187	-	131	57,303
Available-for-sale financial assets, excl. shares (Note 5)	422,921	47,327	41,148	-	511,396
Loans and receivables to financial institutions	24,584	15,223	349	5,658	45,814
Loans and receivables to customers	6,068,232	9,289	19,174	1	6,096,696
Held-to-maturity investments	1,468,890	9,541	-	-	1,478,431
Other financial assets (Note 12)	5,043	-	-	-	5,043
Total financial assets	8,229,117	88,591	66,242	14,441	8,398,391
Financial liabilities					
Financial liabilities at fair value through profit or loss	193,557	4,398	1,007	18,629	217,591
Amounts owed to financial institutions	893,870	471	1,081	81	895,503
Amounts owed to customers	5,321,997	145,689	67,218	83,654	5,618,558
Debt securities issued	1,047,207	-	-	-	1,047,207
Other financial liabilities (Note 19)	7,622	-	-	-	7,622
Total financial liabilities	7,464,253	150,558	69,306	102,364	7,786,481
Off balance sheet items – assets	3,564,521	158,169	62,049	209,001	3,993,740
Off balance sheet items – liabilities	3,718,498	93,455	58,181	119,310	3,989,444
Net FX position of financial assets and liabilities at 31 Dec 2016	610,887	2,747	804	1,768	616,206
Total financial assets at 31 Dec 2015, reclassified	7,488,446	87,621	47,011	11,528	7,634,606
Total financial liabilities at 31 Dec 2015, reclassified	6,526,517	184,160	92,265	194,498	6,997,440
Off balance sheet items – assets at 31 Dec 2015, reclassified	3,125,258	189,726	59,021	274,570	3,648,575
Off balance sheet items – liabilities at 31 Dec 2015, reclassified	3,461,028	82,160	14,208	88,551	3,645,947
Net FX position of financial assets and liabilities at 31 Dec 2015, reclassified	626,159	11,027	(441)	3,049	639,794

* mostly positions in currencies TRY, PLN and CHF

34.5. 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 Group 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 ČSOB Group SR will be able to perform its activities. The objective of these plans is to minimize the impacts of unexpected events on Group's activity.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

35. CURRENT AND NON-CURRENT ASSETS AND LIABILITIES

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

(EUR '000)	31 Dec 2016			31 Dec 2015, reclassified		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash and balances with central bank	203,708	-	203,708	232,685	-	232,685
Financial assets at fair value through profit or loss	15,067	42,236	57,303	27,106	50,807	77,913
Available-for-sale financial assets	14,655	501,950	516,605	15,537	537,285	552,822
Loans and receivables to financial institutions	36,992	8,822	45,814	46,572	1,369	47,941
Loans and receivables to customers	1,359,173	4,737,523	6,096,696	1,323,215	4,140,983	5,464,198
Held-to-maturity investments	130,804	1,347,627	1,478,431	56,158	1,210,076	1,266,234
Current income tax asset	3,931	-	3,931	1,419	-	1,419
Deferred income tax asset	-	20,885	20,885	-	14,376	14,376
Property and equipment	-	79,913	79,913	-	71,203	71,203
Intangible assets	-	10,887	10,887	-	12,665	12,665
Assets held for sale	5,495	-	5,495	2,107	-	2,107
Other assets	21,187	2,918	24,105	17,737	4,404	22,141
Total assets	1,791,012	6,752,761	8,543,773	1,722,536	6,043,168	7,765,704
Liabilities and equity						
Financial liabilities at fair value through profit or loss	146,294	71,297	217,591	216,400	77,375	293,775
Amounts owed to financial institutions	516,860	378,643	895,503	434,790	363,139	797,929
Amounts owed to customers	2,500,929	3,117,629	5,618,558	2,296,327	2,777,555	5,073,882
Debt securities issued	666,955	380,252	1,047,207	462,875	360,452	823,327
Provisions	-	7,378	7,378	-	11,598	11,598
Other liabilities	47,133	8,576	55,709	46,821	7,698	54,519
Current income tax liability	1	-	1	6,852	-	6,852
Equity	-	701,826	701,826	-	703,822	703,822
Total liabilities and equity	3,878,172	4,665,601	8,543,773	3,464,065	4,301,639	7,765,704

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

36. CAPITAL

From 1 January 2014, the Group actively manages the volume of its capital in accordance with the Regulation of the European Parliament and of the Council (EU) N° 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) N° 648/2012 (hereinafter 'Regulation (EU) N° 575/2013' or 'CRR'). The Group actively manages its capital capacity also in accordance with NBS Regulation N° 23/2014 establishing national elections for institutions under a special regulation which repeals NBS Regulation N° 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 required amount of capital adequacy (total regulatory requirement) is determined by joint capital decisions ('JCD') and by the decision of local regulator about amount of capital buffers. The Group, 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. Since 1 January 2016, the Group maintains a systematically important institution buffer (O-SII) of 1.00% its total risk exposure, which was imposed by local regulator NBS.

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

The primary objectives of the Group 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 Group's capital.

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

(EUR '000)	31 Dec 2016	31 Dec 2015 Reclassified*
Own funds	680,082	610,674
Tier 1 Capital	663,934	605,079
Common Equity Tier 1 Capital (CET 1)	663,934	605,079
Share capital	248,004	248,004
Share premium	484,726	484,726
Legal reserve fund	49,601	49,601
Retained earnings	34,201	31,347
Eligible profit	83,229	2,854
Accumulated other comprehensive income	17,927	31,589
Value adjustments due to the requirements for prudent valuation	(1,161)	(515)
Software	(10 887)	(12,665)
Other revaluation reserve	(216 162)	(216,162)
IRB shortfall of credit risk adjustments to expected losses	(25 544)	(13,700)
Tier 2 Capital	16,148	5,595
IRB Excess of impairment losses over expected losses eligible	16,148	5,595

* The Group reassessed figures after the date of issue the consolidated financial statements for year ended 31 December 2015, which were subjected to external audit of prudential reports.

As at 31 December 2016 and 31 December 2015, the Group met the obligatory capital requirements.

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

37. 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 2016	31 Dec 2015
Cash and balances with central bank	3	203,708	232,685
Loans and receivables to financial institutions			
– Current accounts	6	29,519	41,165
Loans and receivables to financial institutions			
– Loans and receivables to banks		2,120	2,929
Financial assets at fair value through profit or loss			
– Loans and receivables to banks	4	113	-
		<u>235,460</u>	<u>276,779</u>

Československá obchodná banka, a.s. and the group entities

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

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

38. POST BALANCE SHEET EVENTS

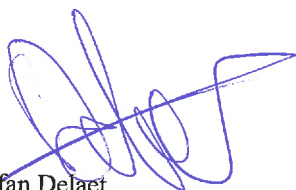
On 3rd March 2017 the Group signed the contract for the acquisition of its New Head Quarter. The accounting recognition of the transaction will be realized in 2017.

From 31 December 2016, up to the date of issue of these financial statements, there were no other events identified that would require adjustments to or disclosure in these financial statements.

These Consolidated Financial Statements were approved and authorized for issue by the Board of Directors on 21 March 2017.



Daniel Kollár
Chief Executive Officer



Stefan Delaet
Chief Officer for Finance, Credits and ALM