ČESKOMORAVSKÁ
ZÁRUČNÍ A ROZVOJOVÁ
BANKA, a. s.

2015

annual review

In the Czech Republic, we represent a promotional bank aimed at contributing to the efficient development of national infrastructure and economic sectors that have been approved for public support according to the economic policies of the Czech Republic government and its regions.

Contents

Presentation part

Financial part

Chairman's introduction

Dear clients, business partners and shareholder representatives,

In the past year, Českomoravská záruční a rozvojová banka, a.s., (CMZRB) entered into a new period which should further shift its operations towards those of a national development bank. The transformation of the Bank's shareholder structure was finalised, and it is now fully owned by the Czech Republic. CMZRB's ongoing development finds strong support in the government's clearly expressed desire further to invigorate the Bank's activities, strengthen its capital, and utilise to its utmost the possibilities it offers in administering financial instruments.

Continuing growth in the Czech economy occurred in an environment of low interest rates which strengthened the attractiveness among enterprises and banks for security in the form of CMZRB bank guarantees. Responding to this challenge was a very demanding task, the fulfilment of which resulted in the largest annual volume of newly provided guarantees in the Bank's history (CZK 6.9 billion), thereby facilitating small and medium-sized enterprises in obtaining investment and working capital loans. I am very pleased that the number of banks utilising the guarantee programme continued to expand. The counter-guarantee from the European Investment Fund (EIF) will also contribute to that programme's further success. With this counter-guarantee, the Bank became the first in the Czech Republic to begin using resources from the European Fund for Strategic Investments, through which the European Commission intends to stimulate investment activity within the EU. The Bank will maintain into the future its enduring focus on new opportunities in this area.

Preparations for implementing new financial instruments within the 2014–2020 programming period constituted one of the main priorities in 2015. We succeeded to clarify in great detail a number of very important questions relating to these financial instruments' creation and administration, and this should establish a more certain and transparent environment for their use than had been the case in the previous programming period.

Due to its cautious financial management through the years, the Bank consistently maintained key economic indicators at levels confirming its stability and trustworthiness. Despite reduced income resulting from continuing changes in the yield structure of the CMZRB's transactions and persistent low interest rates, the Bank succeeded to boost its participation in co-financing the new national guarantee programme, the first call for which was announced in early-2015, and it ensured payment of the cash and non-cash dividends in amounts necessary for completing transfer of the Bank's treasury shares to the state.

Last year, the Bank continued its active involvement in European associations of development and guarantee institutions. These groups directed their efforts to activities of the European Commission, European Investment Bank and EIF relating to use of the European Fund for Strategic Investments and the involvement of national development banks in supporting new investments in Europe.

New efforts that the Bank will pursue in coming years will be undertaken within the overall framework established under the European Commission's communication from 2015 defining the principles for national development banks' operations. Other guidelines for continuing CMZRB's transformation process will take the form of assignments the Bank receives from its shareholder. Moreover, in 2016 it will be equally important for the Bank to launch financial instruments in structural funds as soon as possible, in accordance with the conditions and procedural principles which the relevant state authorities will prepare. I believe that the European Commission will also provide all the guidances necessary for implementing financial instruments an absence of which complicated preparatory work in 2015.

I would like to thank all of the Bank's employees for their great dedication throughout 2015 and the excellent results this brought in support of small and medium-sized enterprises. I also appreciate the efforts of the shareholders' representatives to create space for the Bank's further more effective operations through legislative measures, strengthening of capital, and suggestions for expanding the scope of CMZRB's activities. I believe that through the collective efforts of the Bank's shareholder, management, employees and other partners we will succeed in 2016 to take additional steps to reflect the word "Development" from CMZRB's name into concrete programmes and products supporting economic growth, increasing competitiveness, and achieving other priorities of the state's economic policy.

Jiří Jirásek
Chairman of the Board of Directors

Company profile

The Government of the Czech Republic adopted a resolution on 23 October 1991 for the founding of a specialised banking institution to support small and medium-sized enterprises. This institution was entered into the Commercial Register in January 1992 under the name Českomoravská záruční a rozvojová banka, a.s. (hereinafter referred to as "CMZRB" or the "Bank").

The Bank's initial scope of business was focused solely on implementing government programmes for the support of small and medium-sized enterprises. In subsequent years, that activity was extended to include providing support in the areas of housing and financing infrastructure development projects. CMZRB has a full banking licence, a foreign exchange licence as well as securities broker's licence issued under the relevant laws.

At present, CMZRB's main mission is to facilitate primarily small and medium-sized enterprises' access to financing through specialised banking products and, in accordance with the economic policy aims of the government and regions of the Czech Republic, to assist in developing other selected areas of the economy that require public support.

Throughout its entire time in operation, the Bank has co-operated closely with ministries, state funds, regions, banks, economic chambers and other business representatives. The specific character of CMZRB's activities, the development of modern banking and communication technologies, and its traditionally good co-operation with partners enable the Bank to provide its clients with high-quality banking services all across the Czech Republic while having positive effects on those clients' development. Clients may use the services of the Bank's branches in Prague and in the regional centres of Brno, Hradec Králové, Ostrava and Pilsen. The Bank operates a regional office in České Budějovice for even better contact with its clients.

BANK'S OFFICES

Branch
Regional office

CMZRB offers its clients bank guarantees, preferential loans, financial subsidies and related banking services. It manages an extensive portfolio of guarantees and grants provided for apartment block repair. Financing projects to improve the technical condition of infrastructure and the development of municipalities also constitute part of the Bank's activities. CMZRB additionally uses resources from international financial institutions for these purposes.

The two most important client groups are small and medium-sized enterprises and the owners of apartment blocks, in particular housing co-operatives and apartment-owners associations. Other users of the Bank's services include municipalities, regional authorities, ministries and state funds.

Selected economic indicators

	Unit	2011	2012	2013	2014	2015
Total assets	CZK mil.	58,700	111,706	98,042	127,337	30,999
Liabilities	CZK mil.	52,965	106,748	93,591	122,642	26,124
Shareholder’s equity	CZK mil.	5,735	4,958	4,451	4,695	4,875
Share capital	CZK mil.	2,132	2,132	2,132	2,132	2,132
Profit after tax	CZK mil.	849	812	348	262	196
Guarantee portfolio	CZK mil.	21,398	19,039	18,129	17,900	19,926
Capital ratio	%	17.2	14.4	16.0	17.4	18.5
Average number of employees		217	217	216	211	209
Number of branches		5	5	5	5	5

The Bank’s shareholder holding all voting rights is the Czech Republic, represented by the Ministry of Industry and Trade, Ministry of Regional Development, and Ministry of Finance.

CMZRB conducts no research and development activities.

The Bank’s activities have no negative environmental impacts.

It systematically develops employees’ knowledge and skills, applies proven rules for motivating and rewarding employees, and operates a social programme.

CMZRB has no foreign branches or subsidiaries.

Governing bodies

Board of Directors

Chairman	Ladislav Macka until 31 December 2015 Jiří Jirásek as from 1 January 2016
Vice-Chairman	Pavel Weiss
Members	Jiří Jirásek until 31 December 2015
	Lubomír Rajdl
	Jan Ulip

Supervisory Board

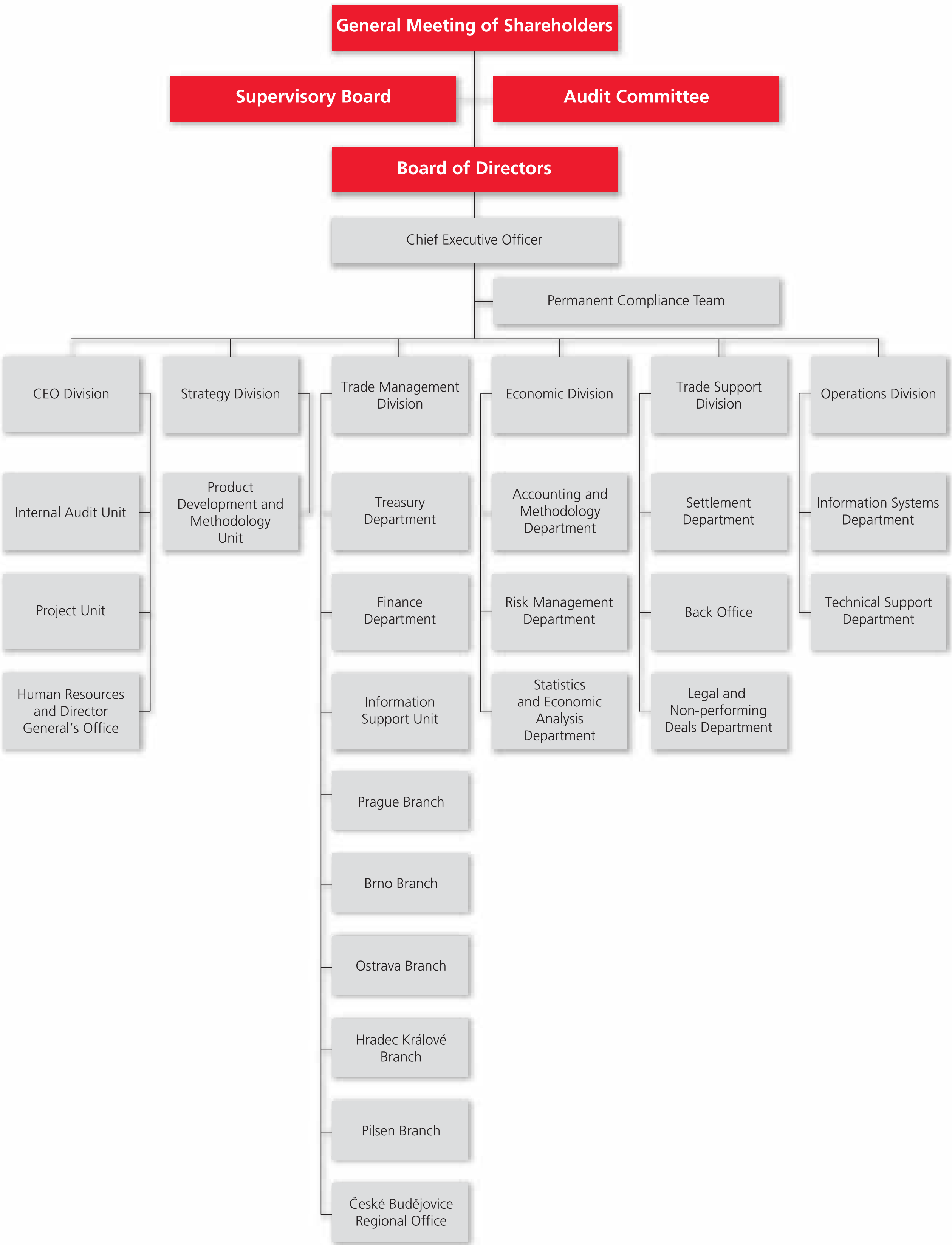
Chairman	Robert Szurman
Vice-Chairman	Jan Gregor
Members	Ladislav Koděra
	Marie Kotrlá
	Olga Letáčková as from 21 April 2015
	Zdeněk Mareš
	Tomáš Novotný
	Jana Šindelářová

As of 13 October 2015, Martin Pros ended his membership in the Supervisory Board.

Audit Committee

Chairman	Milan Novák
Vice-Chairman	Josef Doruška
Members	Robert Szurman

Organisation chart



Information for readers

The data disclosed up to page 33 of this Annual Review have been derived from the financial statements of Českomoravská záruční a rozvojová banka, a. s., as at 31 December 2015 and for the year then ended prepared in accordance with Czech accounting legislation ("Statutory financial statements"). The full version of the Statutory financial statements is included in the Annual Report of Českomoravská záruční a rozvojová banka, a. s., which is published on www.cmzrb.cz in the original Czech language.

The financial statements of Českomoravská záruční a rozvojová banka, a. s., in this Annual Review are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Českomoravská záruční a rozvojová banka, a. s., declares that as of the date of processing the annual review no negative changes in the financial situation or any other changes had occurred that would influence the accurate and correct assessment as to the financial position of Českomoravská záruční a rozvojová banka, a. s.

Report of the Board of Directors on the Bank's business activities and financial situation for 2015

2015

annual review

Economic environment and its impact on the Bank's performance

In 2015, economic growth in the Czech Republic continued to accelerate in comparison to 2014. The Czech economy was also among the strongest developing within the EU. Decreasing unemployment in the Czech Republic ranked the country among the leaders within the EU by that indicator. Most sectors of the national economy, and in particular manufacturing, contributed to the positive economic development. The construction sector turned the corner to recovery, and enterprises' investment activity also picked up. Positive expectations and rising wages brought growth in household consumption. GDP growth was supported, too, by a quickened pace in drawing European grants, and exporters' incomes were positively affected by the Czech crown's stable exchange rate maintained at 27 CZK/EUR through the Czech National Bank's interventions. This generally favourable picture was brightened further by foreign investors' announcements of significant new projects in the Czech Republic.

Similarly as in the preceding year, banking institutions' activities were influenced in 2015 by an environment of low interest rates along with continuing surplus of liquidity. At the end of 2015, the two-week repo interest rate remained at 0.05%. An entirely new phenomenon facing banks and other investors was negative interest rates on investments into Czech government bonds, and even those with medium-term maturity.

Expansion in newly issued loans also affected the small and medium-sized enterprises sector. In the environment of very low interest rates limiting risk premiums, the low interest rates put pressure on the size and quality of security for business loans. This condition naturally led to heightened interest in guarantees from CMZRB. Despite increasing the number of guarantees provided by more than 50% over the previous year, the growing demand could not be fully satisfied and so the exhaustion of resources made it necessary to stop accepting guarantee applications for small enterprises.

In the European context, 2015 was marked by efforts of the European Commission and European Central Bank (ECB) to initiate economic growth. After exhausting all possibilities to support economic growth through low interest rates, the ECB shifted to a policy of quantitative easing with the objective of stimulating credit activity and averting deflation. The European Commission announced an ambitious plan aimed at encouraging investment activity in the EU. Using EUR 21 billion, investments amounting to EUR 315 billion should be supported via the European Investment Bank and European Investment Fund (EIF). The European Fund for Strategic Investments became the instrument for implementing this plan. Through its co-operation with the EIF, CMZRB became the first entity in the Czech Republic to participate in the use of these funds. With the EIF's counter-guarantee, it will be possible during 2015–2017 to support 1,400 enterprises with guarantees totalling CZK 3.1 billion.

The use of EU structural funds during the 2014–2020 programing period assumes a substantial increase in support provided through financial instruments in the forms of loans, guarantees and risk capital. These instruments should have already been actively in use within the Czech Republic during 2015. Unfortunately, such expectations went unmet. In all operational programmes, preparatory activities were focused on completing so-called ex-ante analyses for defining the space and methods for implementing these financial instruments as well as examining the feasibility of their centralised administration in the Czech Republic, similarly as has been done in a number of neighbouring countries.

A considerable delay in preparing the accompanying methodical guidances which the European Commission pledged to provide to member countries remains a factor that will continue to complicate initial implementation of financial instruments during 2016. The amount of funds anticipated for these new forms of support will be less than the original optimistic expectations, however, due, among other reasons, to the announcement in 2015 of several calls for grant applications despite a number of problems. Unfortunately, some of these grant calls are directed to areas where financial instruments could have been utilised, and that will adversely affect the possibilities for their expansion.

The fact that in November 2015 the Government of the Czech Republic approved EXPANZE, the key programme for using financial instruments, is of crucial importance for the Bank's work as financial instruments manager within the Operational Programme Enterprise and Innovations for Competitiveness. Guarantees and preferential loans combined in less economically developed regions with interest rate subsidies will enable many small and medium-sized enterprises more easily and under more advantageous conditions to acquire bank loans for starting or developing their business. Moreover, support programmes focused on energy savings, which the government approved in early-February 2015, provide the Bank with the possibility in 2016 to offer enterprises (including large ones) co-financing of energy savings projects in the form of preferential loans combined with interest rate subsidies.

Changes and forces from the external environment have added to the difficulty of the conditions under which the Bank will operate. As true for the banking sector as a whole, CMZRB in coming years will face increased financial burdens from mandatory contributions to the Crisis Resolution Fund. Additionally, measures to enhance transparency of the provided support, Europe-wide measures related to curbing tax evasion, requirements under EU regulations for structural funds, and a number of other new obligations will result in additional costs to CMZRB to ensure their implementation. The Bank's reclassification from financial to government institutions sector for the purposes of statistical reporting is another change which will require detailed consideration in fulfilling the intent of establishing a development bank of the Czech Republic.

In its communication from July 2015, the European Commission highlighted the importance of creating and properly operating national development banks to support the investment plan for Europe. The Ministry of Finance, Ministry of Regional Development and Ministry of Industry and Trade, as representatives of CMZRB's shareholder, have since 2014 also been intensively dealing with CMZRB's transformation and its operation as a national development bank. Late last year, a proposed document was completed for government deliberation analysing the current situation and setting out further tasks that will need to be accomplished for the Bank's transformation into its new, expanded role. This will be the most important challenge for the CMZRB's further activities since its founding. The government's decision to bolster CMZRB's share capital by CZK 0.5 billion, which was carried out in November 2015, is part of a series of measures to establish new directions for the Bank to pursue even while maintaining its current main activities.

Basic economic characteristics of the Bank for 2011–2015

	Unit	2011	2012	2013	2014	2015
Total balance sheet	CZK mil.	58,700	111,706	98,042	127,337	30,999
Assets:						
Deposits and loans at banks	CZK mil.	16,932	70,045	63,884	91,060	261
Securities accepted by the Czech National Bank for refinancing	CZK mil.	14,384	18,545	7,783	9,946	10,474
Debt securities	CZK mil.	8,443	5,513	11,272	13,929	10,703
Payments from guarantees and other classified receivables	CZK mil.	4,324	4,479	3,556	3,082	2,477
Liabilities and equity:						
Shareholder's equity	CZK mil.	5,735	4,958	4,451	4,695	4,875
Liabilities	CZK mil.	52,965	106,748	93,591	122,642	26,124
of which: reserves	CZK mil.	2,219	2,342	2,495	2,909	3,124
funds to cover credit risks	CZK mil.	2,998	2,680	2,557	2,341	2 659
Off-balance sheet:						
Guarantees granted	CZK mil.	21,398	19,039	18,129	17,900	19,926
Total revenues	CZK mil.	4,537	4,410	3,505	2,969	2,785
of which: from securities and interbank operations	CZK mil.	795	725	516	426	376
from operations with clients	CZK mil.	1,099	976	686	568	454
Total expenses	CZK mil.	3,688	3,599	3,157	2,707	2,589
of which: net impairment allowances and provisions	CZK mil.	184	225	442	382	331
Profit after tax *)	CZK mil.	849	812	348	262	196
Capital ratio	%	17.2	14.4	16.0	17.1	18.5

Business activity continued to expand in 2015 and newly issued guarantee and loan transactions totalled CZK 11.1 billion (CZK 8.0 billion in 2014). The growth was made possible by concurrent use of the Bank's own resources and those of the programme's contracting authority (Ministry of Industry and Trade) for financing the costs of preferential guarantees in programmes supporting small and medium-sized enterprises. The total value of the guarantee and loan transaction portfolios increased by 5.8% to CZK 23 billion, with the guarantee transaction portfolio expanding year on year by 11.3% to CZK 19.9 billion.

Despite growth in the guarantee and loan transaction portfolios, the decline in income from this business activity continued (CZK –100 million). That was due in particular to changes in the Bank's pricing policy (since the second half of 2012 the prices of newly provided loans and guarantees have not included profit). Remuneration for administration of guarantees provided in 2015 covered only part of CMZRB's costs, which enabled use of the Bank's potential to increase support for small enterprises but with the result of diminishing profit. Creation of provisions for contributions to the Crisis Resolution Fund to be paid for the first time in 2016 also negatively impacted profit creation in the amount of CZK 110 million. The environment of historically low interest rates resulted in a decrease in net income from financial investments (CZK –35 million). Savings in net provisions creation and lower income taxes failed to fully offset the overall decline in income. The profit after tax amounting CZK 196 million was CZK 66 million lower than in 2014. There was a year-on-year gain in shareholder's equity from CZK 4.7 billion to CZK 4.9 billion arising especially from increase in retained earnings by CZK 119 million (after offsetting the value of transferred treasury shares) and inclusion of revaluation differences of CZK 127 million. The capital ratio stood at 18.5% as of 31 December 2015, which is 1.4 percentage points higher than at the close of the previous year.

* While using the Bank's own resources for financing preferential guarantees in programmes supporting small and medium-sized enterprises in the amount of CZK 208 million in 2012, CZK 743 million in 2013, CZK 566 million in 2014 and CZK 522 million in 2015.

Credit risk constituted the most significant type of risk impacting the Bank, and 87.2% of capital dedicated to risk coverage related to this type of risk. As of the end of 2015, all expected credit risk losses were fully covered by impairment allowances and provisions in an amount corresponding to Czech and international standards, and the total balance of impairment allowances and provisions for credit risk was CZK 5 billion (i.e. 21.7% of the value of the guarantee and loan portfolio). Credit risks for certain types of guarantee products were covered by funds for credit risks provided by the programme originators in a total value of CZK 2.7 billion. As of the end of the year, moreover, the Bank had at its disposal reserve funds in shareholder's equity of CZK 1.15 billion.

The overall balance sheet at the end of 2015 stood at only one-quarter of the previous year's value. This reduction related to optimisation of the balance sheet with a view to introduction of the contribution for the Crisis Resolution Fund. Short-term liabilities decreased in particular, and primarily those due to state institutions (CZK -92.2 billion) and banks (CZK -4.6 billion). On the assets side, there were in particular lower amounts due from banks (CZK -90.8 billion), values of bonds (CZK -2.7 billion), and amounts due from clients (CZK -2.5 billion). The balance sheet total does not include bank guarantees issued primarily for loans to small and medium-sized enterprises and which comprise a significant part of the Bank's business activities and credit exposure. Their value was CZK 19.9 billion as of the end of 2015.

On the assets side, the Bank had at its disposal a portfolio of financial investments amounting to CZK 21.4 billion (69.2% of net assets) and placed predominantly as state bonds and bonds of selected banks and companies (68.3 % of net assets). Loans provided to state institutions constituted an important net asset item (19.1% of net assets), as did loans to other clients (10.1% of net assets) reported in the item loans and advances to customers. Non-earning assets comprised 1.2% of the total balance sheet.

The funding sources on the liabilities and equity side were provided primarily by amounts due to customers (37.8% of liabilities and equity) and banks (31.4% of liabilities and equity), shareholder's equity (15.7% of liabilities and equity), provisions (10.1% of liabilities and equity), as well as temporary and other liabilities.

From a perspective of profit development, 2015 saw a planned decline in its creation in connection with an increase in the proportion of income from non-profit products, the provision of which the Bank had initiated in 2012. After correcting for costs from the Bank's own resources used for programmes supporting small and medium-sized enterprises in the interest of ensuring continuity in the provision of preferential guarantees (CZK 522 million), CMZRB would continue to display very good economic efficiency. The comparable profit figure would thus be CZK 718 million (CZK 828 million in 2014), which would represent a comparable return on shareholder's equity of 18.32% and profit per employee of CZK 3.4 million while administrative costs per employee of CZK 1.4 million. The weakening of the cost–income ratio from 31.1% to 35.9% is due primarily to a decline in revenues from the two aforementioned types of business activities. Administrative expenses were down by 2.2% in comparison to the previous year.

Determination of capital ratio and other additional indicators

Indikator	**Unit**	**2011**	**2012**	**2013**	**2014**	**2015**
Tier 1 (T1) capital	CZK '000	**4,821,166**	**3,775,768**	**3,876,104**	**3,867,425**	**4,012,794**
Common equity tier 1 (CET1) capital	CZK '000	**4,821,166**	**3,775,768**	**3,876,104**	**3,867,425**	**4,012,794**
Instruments eligible for CET1 capital	CZK '000	**2,131,550**	**237,810**	**237,810**	**1,355,628**	**2,131,550**
Paid-in CET1 instruments	CZK '000	2,131,550	2,131,550	2,131,550	2,131,550	2,131,550
Acquired own CET1 instruments	CZK '000	**0**	**-1,893,740**	**-1,893,740**	**-775,922**	**0**
Own CET1 instruments acquired directly	CZK '000	0	-1,893,740	-1,893,740	-775,922	0
Retained earnings/accumulated losses	CZK '000	**1,570,430**	**2,414,171**	**2,519,209**	**1,413,018**	**756,011**
Retained earnings/accumulated losses from previous years	CZK '000	1,570,430	2,414,171	2,519,209	1,413,018	756,011
Accumulated other comprehensive income	CZK '000	0	0	0	514,099	640,738
Other reserve funds	CZK '000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000

Indikator	Unit	2011	2012	2013	2014	2015
Adjustments to CET1 capital from use of prudential filters	CZK ‘000	0	0	0	-18,546	-1,425
Value adjustments pursuant to prudential revaluation requirements	CZK ‘000	0	0	0	-18,546	-1,425
Other intangible assets	CZK ‘000	**-30,814**	**-26,213**	**-30,915**	**-32,675**	**-23,342**
Other intangible assets – gross value	CZK ‘000	-30,814	-26,213	-30,915	-32,675	-23,342
Other transitional adjustments to CET1 capital	CZK ‘000	0	0	0	-514,099	-640,738
Tier 2 (T2) capital	CZK ‘000	0	0	0	0	0
Capital	CZK ‘000	**4,821,166**	**3,775,768**	**3,876,104**	**3,867,425**	**4,012,794**
Total risk exposure	CZK ‘000	**28,081,701**	**26,221,834**	**24,183,705**	**22,563,626**	**21,734,630**
Total risk-weighted exposure relating to credit risk pursuant to the Standardised Approach	CZK ‘000	**22,976,463**	**20,432,320**	**20,526,097**	**18,765,897**	**18,830,191**
Exposures to central governments and banks	CZK ‘000	60,041	182,699	89,147	31,084	0
Exposures to regional governments and local bodies	CZK ‘000	780,542	349,186	355,538	205,584	194,933
Exposures to public sector entities	CZK ‘000	0	0	0	0	0
Exposures to international development banks	CZK ‘000	0	0	0	0	0
Exposures to international organisations	CZK ‘000	0	0	0	0	0
Exposures to institutions	CZK ‘000	2,137,722	1,282,623	1,059,241	1,114,966	976,616
Exposures to enterprises	CZK ‘000	17,820,212	16,442,222	16,912,362	14,904,965	14,596,311
Exposures to retail	CZK ‘000	538,652	520,986	692,337	1,428,522	1,953,653
Exposures secured by property	CZK ‘000	91,361	95,616	89,595	156,394	130,822
Exposures in default	CZK ‘000	845,239	871,180	565,639	493,518	618,619
High-risk exposures	CZK ‘000	0	0	0	0	0
Exposures in covered bonds	CZK ‘000	382,885	578,004	671,612	144,034	62,779
Exposures to institutions and enterprises with short-term credit evaluation	CZK ‘000	133,916	41,343	26,379	77,467	98,978
Collective investment instruments	CZK ‘000	0	0	0	0	0
Equities	CZK ‘000	0	0	0	1,347	1,347
Other exposures	CZK ‘000	185,893	68,461	64,247	208,016	196,133
Risk exposure relating to position, foreign exchange and commodity risks pursuant to the Standardised Approach	CZK ‘000	**2,167,525**	**2,804,401**	**622,385**	**592,813**	**102,907**
Tradable debt instruments	CZK ‘000	2,167,525	2,804,401	622,385	592,813	102,907
Currency transactions	CZK ‘000	0	0	0	0	0
Total risk exposure relating to operational risk	CZK ‘000	**2,937,713**	**2,985,113**	**3,035,223**	**2,909,928**	**2,678,764**
Operational risk – basic indicator approach	CZK ‘000	2,937,713	2,985,113	3,035,223	2,909,928	2,678,764
Total risk exposure relating to revaluation adjustments to credit risk	CZK ‘000	**0**	**0**	**0**	**294,988**	**122,768**
Standardised Approach	CZK ‘000	0	0	0	294,988	122,768
Capital ratio for Tier 1 equity capital	%	17.17	14.40	16.03	17.14	18.46
Capital ratio for Tier 1 capital	%	17.17	14.40	16.03	17.14	18.46
Capital ratio for total capital	%	17.17	14.40	16.03	17.14	18.46
Return on average assets (ROAA)1	%	1.43	1.19	0.41	0.35	0.24
Return on average equity (ROAE)1	%	17.67	18.57	9.02	6.81	5.01
Assets per employee1	CZK ‘000	266,816	514,772	445,646	595,033	148,322
Administrative costs per employee1	CZK ‘000	1,397	1,399	1,356	1,455	1,438
Net profit per employee1	CZK ‘000	3,860	3,740	1,583	1,226	939

[1] Calculations were made pursuant to Decree No. 163/2014 Coll., on performing the activities of banks, credit unions and investment firms.

Reconciliation of regulatory and accounting capital

The following tables summarise the composition of regulatory and accounting capital as well as individual indicators as of 31 December 2015 and 31 December 2014, thus providing complete reconciliation of individual regulatory capital lines with the institution's capital and the balance sheet.

As of 31 December 2015	**Regulatory capital CZK mil.**	**Shareholder's equity CZK mil.**
Paid-in share capital entered in the Commercial Register	2,132	2,132
(–) Capital investments into own instruments	0	0
Retained earnings from previous periods	756,	756
Profit for the period	0	196
Accumulated other comprehensive income	641	641
Other reserve funds	1,150	1,150
(–) Value adjustments pursuant to prudential revaluation requirements (additional value adjustments)	-2	-
(–) Intangible assets other than goodwill	-23	-
(–) Adjustments relating to unrealised gains and losses	**-641**	-
Total capital eligible for inclusion into Tier 1	**4,013**	
Total shareholder's equity		**4,875**
Total Tier 2 capital	0	
Capital relevant for calculating large exposure limits, qualified participation limits and capital ratio	**4,013**	

As of 31 December 2014	**Regulatory capital CZK mil.**	**Shareholder's equity CZK mil.**
Paid-in share capital entered in the Commercial Register	2,132	2,132
(–) Capital investments into own instruments	-776	-776
Retained earnings from previous periods	1,413	1,413
Profit for the period	0	262
Accumulated other comprehensive income	514	514
Other reserve funds	1,150	1,150
(–) Value adjustments pursuant to prudential revaluation requirements (additional value adjustments)	-19	-
(–) Intangible assets other than goodwill	-33	-
(–) Adjustments relating to unrealised gains and losses	-514	-
Total capital eligible for inclusion into Tier 1	**3,867**	
Total shareholder's equity		**4,695**
Total Tier 2 capital	0	
Capital relevant for calculating large exposure limits, qualified participation limits and capital ratio	**3,867**	

1/ Product overview

During 2015, the Bank provided the following products:

a) Guarantees

- guarantees for bank loans provided by a simplified procedure and with a limited guaranteed amount for a portfolio of guaranteed loans (hereinafter just "portfolio guarantees") provided under the GUARANTEE 2015–2023 programme (guarantees for loans to small enterprises) for loans up to CZK 10 million and up to 70% of the loan principal;
- guarantees for bank loans to as much as 80% of the loan principal in the maximum guarantee amount of CZK 30 million (hereinafter referred to as "individual guarantees") provided to small enterprises within the GUARANTEE 2015–2023 programme; a guarantee for (small and medium-sized) social enterprises provided with a financial contribution of 10% of the guaranteed loan amount drawn for eligible costs up to CZK 500,000;
- guarantees for tender bids for small and medium-sized enterprises in amounts of CZK 100,000 to CZK 5 million; and
- preferential guarantees for bank loans under the INOSTART programme for entrepreneurs implementing projects anywhere in the whole territory of the Czech Republic for loans up to CZK 15 million and up to 60% of the loan principal.

b) Loans

- loans for small enterprises in the South Bohemian Region in amounts up to CZK 1 million, with a fixed interest rate of 4% p.a. and maturity up to 5 years under the Programme of Preferential Regional Loans for Small Enterprises and Municipalities in the South Bohemian Region;
- loans for municipalities in the South Bohemian Region in amounts up to CZK 2 million with a fixed interest rate that is continuously updated for new loans according to the development of market interest rates and maturity up to 10 years under the Programme of Preferential Regional Loans for Small Enterprises and Municipalities in the South Bohemian Region;
- loans for small enterprises, including start-up enterprises, within the Moravian–Silesian Region to implement projects increasing employment in amounts up to CZK 10 million, with interest rates of 1–5% p.a., maturity up to 7 years and the possibility of subsidies under the REVIT programme; applications accepted in 2014 were processed during 2015; and
- long-term loans funded by the Regional Development Fund for municipalities or associations of municipalities (with the exception of the Capital City of Prague) to co-finance projects for improving local infrastructure for business and non-business purposes in amounts up to CZK 30 million, with a preferential fixed or variable interest rate determined individually according to current market conditions, maturity up to 10 years and a grace period up to 3 years.

In 2015, the Bank also conducted commercial representation activities for the Czech Export Bank for two types of products which can be used by entrepreneurs with turnover for the most recently completed accounting period not exceeding the equivalent of EUR 50 million and at least a two-year history. These consisted of:

- guarantees for obtaining working capital loans to finance subcontracting for domestic exporters, usually in amounts up to CZK 30 million with the maturity up to 2 years, which can serve to secure fully an account receivable in an amount of up to 80% of the loan principal;
- loans for financing production for export in amounts up to 85% of the export contract's value with a variable interest rate and maturity up to 2 years; and
- direct export supplier loans with a variable interest rate in amounts up to 100% of the export contract's value enabling Czech exporters to finance accounts receivable from customers abroad with maturity up to 2 years.

Both types of loans may be provided in the currency of the export contract (usually CZK, EUR or USD).

2/ Support to small and medium-sized enterprises

a) Overall results

CMZRB provided support to small and medium-sized enterprises (hereinafter just SMEs) especially on the basis of agreements concluded with the Ministry of Industry and Trade.

Guarantees for investment loans and loans for the purchase of inventory were provided only in the programme financed by national resources. The outcome from implementing this programme, which was designated primarily for small enterprises, confirms their growing interest in using guarantees, and especially in the area of obtaining loans to finance inventory. An increase in the proportion of supported investment loans was also apparent. Despite a gradual gain in resources for financing the programme, it became necessary during the second half of 2015 to adjust some of its conditions so as to be able to ensure its further continuation as well as optimal use of the capacity of the counter-guarantee which the Bank obtained from the EIF. Despite these measures, enterprises' strong interest in guarantees continued, and so the call for applications was closed in September 2015.

Provision of guarantees for loans to start-up enterprises for innovative projects within the INOSTART programme continued in 2015. The INOSTART programme had been expanded in 2014 to take in the whole territory of the Czech Republic. Loans supported by guarantees from CMZRB were provided by Česká spořitelna, a.s.

Based on an agreement with the South Bohemian Region, preferential loans were provided to small enterprises. Within the REVIT programme, the assessment of applications accepted in 2014 was completed in 2015. Applications were no longer accepted within this programme during 2015.

In 2015, SMEs submitted a total of 3,275 applications for support in the forms of loan guarantees and loans (see Table 3). Of this number, 2,688 applications were approved and 347 applications were rejected. Another 234 applications were withdrawn by the applicants during processing. The remaining 6 applications were not resolved in 2015 and will carry over into 2016.

Applications for support and their settlement — Table 3

Indicator		**2011**	**2012**	**2013**	**2014**	**2015**
Total applications submitted	Number	487	1,095	1,903	2,423	3,275
Approved	Number	241	793	1,563	1,988	2,688
Rejected or withdrawn	Number	109	125	229	210	581
Carried into following year	Number	137	177	111	225	6

The loans and guarantees provided were directed to small enterprises with up to 49 employees (see Table 4).

Supported projects divided according to sizes of enterprises — Table 4

	Guarantees (excluding bids to public tenders)				Loans			
	Number		Amount		Number		Amount	
Number of employees		**(%)**	**CZK mil.**	**(%)**		**(%)**	**CZK mil.**	**(%)**
0 to 9	1,519	57.1	2,990.7	43.3	15	55.6	34.7	53.2
10 to 49	1,135	42.7	3,888.6	56.2	12	44.4	30.6	46.8
50 to 249	7	0.2	33.9	0.5	0	0.0	0.0	0.0
Total	**2,661**	**100.0**	**6,913.2**	**100.0**	**27**	**100.0**	**65.3**	**100.0**

b) Guarantees

Based on guarantee contracts concluded in 2015, the Bank provided 2,661 loan guarantees in a total amount of CZK 6,913 million. The guarantees supported loans of CZK 9,947 million (see Table 5).

Guarantees issued (excluding bids to public tenders) and loans guaranteed — Table 5

Indicator		2011	2012	2013	2014	2015
Guarantees issued	Number	111	697	1,546	1,952	2,661
Amount of guarantees issued	CZK mil.	472	1,534	3,251	4,010	6,913
Amount of loans guaranteed	CZK mil.	630	2,215	4,616	5,711	9,947
Average guarantee coverage	%	75	69	70	70	70

In the national programme, small enterprises obtained guarantees in the amount of CZK 6,848 million. These guarantees were used as a security for 2,648 in amounts totalling CZK 9,782 million.

Start-up enterprises were provided with 13 guarantees in total volume CZK 65 million within the INOSTART programme.

The largest proportions of guarantees presented in Table 5 were used to support projects in the Moravian–Silesian Region, the South Moravian Region, and the Capital City of Prague (see Table 6).

Regional structure of guarantees provided
(in % of contracted value of guarantees issued) — Table 6

Region		2011	2012	2013	2014	2015
Praha (Capital City of Prague)	%	4.3	8.1	11.2	14.2	14.7
Středočeský (Central Bohemia)	%	13.0	4.8	8.2	10.6	10.2
Jihočeský (South Bohemia)	%	2.6	7.5	5.5	5.9	7.5
Plzeňský (Pilsen)	%	6.3	4.3	4.6	4.7	5.6
Karlovarský (Karlovy Vary)	%	1.2	2.2	1.5	1.1	1.4
Ústecký (Ústí nad Labem)	%	1.9	3.0	3.7	2.8	3.3
Liberecký (Liberec)	%	11.3	5.1	3.9	3.3	3.1
Královéhradecký (Hradec Králové)	%	1.2	5.1	4.6	4.6	6.2
Pardubický (Pardubice)	%	13.7	5.2	4.7	4.1	4.1
Vysočina (Bohemian–Moravian Highlands)	%	1.5	5.4	3.1	3.1	3.2
Jihomoravský (South Moravia)	%	4.6	8.4	14.0	13.1	12.8
Olomoucký (Olomouc)	%	19.9	15.4	6.8	8.0	7.3
Zlínský (Zlín)	%	1.3	4.5	6.0	4.7	5.2
Moravskoslezský (Moravia–Silesia)	%	17.1	20.8	22.2	19.8	15.4
Total	%	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Based on a commitment to extend the guarantee period, the Bank prolonged this period through amendments to guarantee contracts for 1,646 guarantees summing to CZK 3,981 million. This enabled entrepreneurs to draw additional credit to finance working capital needs.

In addition to guarantees for bank loans, 305 guarantees were provided for bids to public tenders totalling CZK 119 million.

The largest proportion of guarantees was provided to projects in wholesale and retail, followed by manufacturing (see Table 7).

Sector structure of guarantees provided in 2013
(in % of contracted values of newly issued guarantees) Table 7

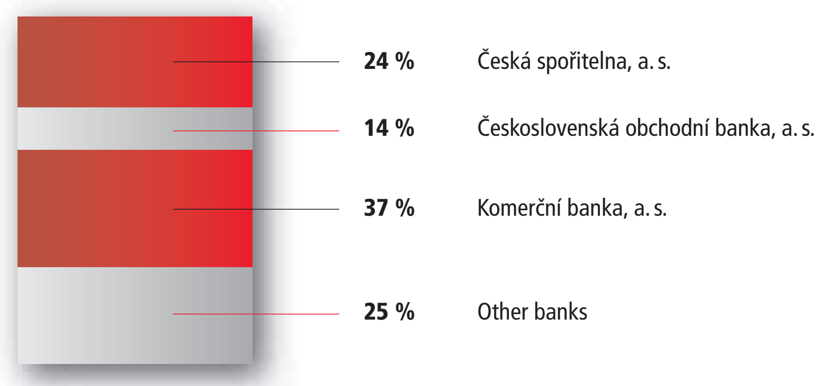
Sector		
Manufacturing (CZ NACE 10-33)	%	27.9
Electricity, gas, steam and air conditioning supply (CZ NACE 35)	%	0.0
Construction (CZ NACE 41-43)	%	11.8
Wholesale and retail trade; repair and maintenance of motor vehicles (CZ NACE 45-47)	%	49.5
Accommodation and food service activities (CZ NACE 55-56)	%	1.7
Other service activities (CZ NACE 05-09, 36-39, 49-53, 58-75, 77-82, 84-88, 90-99)	%	9.1
Total	%	**100.0**

During 2015, the majority of guaranteed transactions were concluded with Komerční banka, a.s., Česká spořitelna, a.s., and Československá obchodní banka, a.s. (see Graph 1).

Among other banks, Raiffeisenbank, a.s. (9.5%), UniCredit Bank Czech Republic, a.s. (8.6%), and GE Money Bank, a.s. (4.2%) had the greatest participation in guarantee transactions.

Graph 1

Percentage breakdown of guarantee transactions by lending banks (2015)



c) Loans

In 2015, the Bank provided a total of 27 loans for small enterprises in total amount of CZK 65 million (see Table 8).

These consisted of:

- preferential loans for small enterprises within the REVIT programme, with 9 loans provided and amounting to CZK 46 million; and
- reduced-interest loans under the South Bohemian Regional Programme, with 18 loans provided in total amount of CZK 19 million, of which 5 loans amounting to CZK 9 million were for municipalities.

Preferential loans provided Table 8

Indicator		2011	2012	2013	2014	2015
Loans provided	Number	136	96	17	36	27
Amount of loans provided	CZK mil.	1,090	782	101.3	86.3	65.3
Average loan amount	CZK mil.	8.0	8.1	6.0	2.3	2.4

Pursuant to the conditions of implemented programmes, loans were provided in 2015 only within the Moravian–Silesian and South Bohemian regions.

The largest proportion of provided loans supported projects in wholesale and retail and in manufacturing (See Table 9).

Sector structure of loans provided
(in % of contracted value of newly issued loans)

Table 9

Sector		
Manufacturing (CZ NACE 10-33)	%	31.5
Wholesale and retail trade; repair and maintenance of motor vehicles (CZ NACE 45-47)	%	37.0
Accommodation and food service activities (CZ NACE 55-56)	%	2.3
Other service activities (CZ NACE 05-09, 36-39, 49-53, 58-75, 77-82, 84-88, 90-99)	%	29.2
Total	%	**100.0**

Based on a Contract on Commercial Representation concluded with the Czech Export Bank, that bank provided in 2015 a pro-export loan in the amount of CZK 5.4 million.

3/ Support for reconstructing apartment houses

In 2015, the Bank administered a total of 9,240 active Contracts on Providing Grants to Cover Loan Interest (of the original 10,122 contracts concluded). On the basis of these, it paid out more than CZK 802 million. From the start of the programme in support of apartment house reconstruction until the end of 2015, grant recipients were collectively paid a total of CZK 7,870 million, which comprises 57.6% of the total volume of concluded Contracts on Providing Grants to Cover Loan Interest (CZK 13,664 million).

The Bank also administered a portfolio of bank loan guarantees during 2015 which enabled owners or co-owners of apartment houses to obtain loans for their repair. As of the end of 2015, this portfolio consisted of 1,466 bank loan guarantees (of which 110 were portfolio guarantees), and the unpaid principal of the guaranteed loans amounted to CZK 4,133 million.

4/ Financing municipal infrastructure

a) Loans from the Regional Development Fund

Loans from the Regional Development Fund are designated for projects aimed at transportation and technical infrastructure, construction of real estates for business activities, as well as sport, cultural and educational facilities. Issuance of these loans is dependent on the generation of sufficient funds from repayment of loans from previous years. In 2015, the Bank provided 3 loans totalling CZK 31.4 million. Since announcing the programme with new conditions in 2008, 39 loans have been issued amounting to CZK 364 million.

b) Loans from the Programme of Preferential Regional Loans for Small Enterprises and Municipalities in the South Bohemian Region

Loans from the Programme of Preferential Regional Loans for Small Enterprises and Municipalities in the South Bohemian Region are designated for projects focused on preserving and developing non-commercial technical infrastructure owned by municipalities within the South Bohemian Region. From 2015, municipalities located in less economically developed areas of the South Bohemian Region can receive interest rate subsidies.

In 2015, the Bank provided 5 loans totalling CZK 9 million, of which 4 were loans with financial subsidies against interest rate subsidies (loans totalling CZK 7 million, pledged funds amounting to CZK 165,000). In total, 8 loans summing to CZK 14 million were provided.

5/ Trading on financial markets

In 2015, the Bank concluded transactions on the money and capital markets. The main purposes were to manage its liquidity, administer its portfolios of bonds and money market instruments, manage interest-rate and currency risks, and refinance the lending programme for supporting SMEs. In administering its portfolio of bonds and money market instruments, the Bank maintained its conservative investment strategy and was oriented exclusively to purchasing government bonds, treasury bills and bonds of a selected group of issuers with high credit ratings.

6/ Other lending activities

As a financial manager for infrastructure programmes, the Bank secured financing for these programmes totalling CZK 1,747 million during 2015. Said financing comprised resources from the State Fund for Transport Infrastructure and was designated for Czech Motorways Project B, which takes in construction of the Lovosice–Ústí nad Labem section of the D8 motorway and the Osičky–Hradec Králové section of the D11 motorway.

In 2015, the Bank continued administering interest rate subsidies for participants in the Project for Construction and Renovation of Water Supply and Sewerage Infrastructure, paying out more than CZK 25 million to 100 recipients.

External Communication and International Co-operation

The main partners with which the Bank had close relationships during 2015 in providing support or preparing systemic and material measures for further developing the Bank's business activities were the shareholder's representatives, the governing bodies of operational programmes, the National Coordination Authority for structural funds, the Czech National Bank, the Czech Statistical Office, the Czech Banking Association as well as individual co-operating commercial banks, the State Housing Development Fund, and the Czech Export Bank. The activity and diversity of the practical co-operation in 2015 was above average in comparison to preceding years and was absolutely crucial for the CMZRB's further development.

The Bank was actively involved in preparing the documents for government deliberations on centralised administration of financial instruments and on the gradual transformation of CMZRB into a national development bank which were prepared by the Ministry of Finance, Ministry of Regional Development and Ministry of Industry and Trade. The amendment of the Act on Budgetary Rules and the conclusion of a long-lasting discussion on the conditions under which contracting authorities can use the Bank's services without a tender process are the first two very important partial outcomes related to the aforementioned conceptual documents that will crucially influence the Bank's activities in the years to come.

Transfer of the remaining shares to the state and the transformation to corporate governance under the conditions of a single shareholder required very intensive co-operation between the Bank's management and its shareholders. The process of transferring the remaining shares to the state was completed in May 2015, while changes in the methods of corporate governance have not yet been finalised. A process of natural change in the Bank's management began successfully, with the appointment of a new Chairman of the Board of Directors from January 2016.

The main areas of the Bank's co-operation with the Ministry of Industry and Trade were preparations of financial instruments for the Operational Programme Enterprise and Innovations for Competitiveness, and in particular agreements on financing and individual calls, the use of financial instruments for energy savings, increasing the resources for the national guarantee programme, and further orientation of the INOSTART guarantee programme.

A unified information system administered by the Ministry of Regional Development is a necessary functional component for administration of financial resources from structural funds. The system will also include financial instruments monitoring. The new approach of this phase of their administration requires appropriate technical and methodical set-up. Among other topics, this area was the subject of a number of the Bank's meetings and consultations with the National Coordination Authority.

The Czech Banking Association's Working Group for Cohesion Policy was the main platform for CMZRB's co-operation with the headquarters of commercial banks in methodological and organisational preparations for co-financing projects supported by financial instruments from EU structural funds. Expanded use of the CMZRB web portal for transferring documents from banks and integration of banks as sub-intermediaries for use of CMZRB guarantees supported by the EIF's counter-guarantee required detailed clarification of procedures and conditions from both sides. Intensive working contacts between CMZRB and the banks proceeded also at the regional level and contributed substantially to the very good results in providing guarantees.

Co-operation with trade associations and other entities was ongoing and in various forms, thereby broadening the interested parties' awareness as to the individual types of support. Through this channel, too, knowledge was acquired as to the current needs and problems of the individual target groups of applicants and recipients of support. The Bank used the knowledge so obtained in order to improve the services it already provides and passed this information on to those partners responsible for establishing the conditions of the provided support.

Last year was also demanding from the perspective of international co-operation. CMZRB was involved in the activities of a working sub-group which prepared suggestions for the European Commission regarding changes that would contribute to involving development banks more efficiently in the use of resources from the European Fund for Strategic Investments while supporting improved loan accessibility to enterprises. CMZRB representatives participated, too, in a number of joint negotiations within three Europe-wide interest associations: the Network of European Financial Institutions for SMEs (NEFI), the European Association of Guarantee Institutions (AECM), and the European Long-Term Investors Association (ELTI). Although these associations operate individually, their common goal is to increase visibility and influence when negotiating with the bodies of the European Union. This includes establishing conditions for the operations of financial instruments during this programme period. These associations also attach no less importance to improve co-ordination of national and Europe-wide support instruments in individual member states during which the greater involvement of national development banks and local guarantee institutions should play a positive role in implementing structural and investment funds from the European Union.

The framework loan contract with the Council of Europe Development Bank – into which CMZRB entered during October 2015 – is the fourth such contract the Bank has signed with this renowned financial institution. The newly provided loan amounting to EUR 20 million will be used to provide loans to cities and municipalities for developing municipal infrastructure and conserving and improving the quality of their environment.

As part of bilateral co-operation, a working meeting with the management of the Korea Credit Guarantee Fund (KODIT) was held in Prague, as well as working visit by representatives of Finnvera, a partner Finnish development institution, directed to sharing experience concerning activities of the Export Guarantee and Insurance Corporation, the Czech Export Bank, and CMZRB.

Goals for further development

Ongoing development of the Bank's activities will build upon the fact that the past year saw further progress in implementing changes and creating external conditions for its broadest possible involvement in administering financial instruments in relation to structural funds and for expanding the range of their products and activities in future. Conditions were created enabling CMZRB to provide services without a tender procedure to bodies representing the Czech Republic as CMZRB's shareholder. No less important to transparently and efficiently establishing mechanisms for administering financial instruments is the proposed change in budgetary rules which concerns the forms of transferring state funds into financial instruments created in operational programmes during the current programme period.

The most important operational task in 2016 will be to initiate the administration of financial instruments in structural funds within the Operational Programme Enterprise and Innovations for Competitiveness (OP EIC). Loan and guarantee products should support the obtaining of banking loans for co-financing initial investments for starting up and developing enterprises, modernisation projects, and financing of working capital for enterprises the investments of which were supported by this operational programme.

The use of preferential loans in combination with interest rate subsidies to support energy savings and installation of highly efficient gas cogeneration units in heating systems will be an entirely new area into which the Bank will enter in administering structural fund financing. In implementing these financial instruments, it will be necessary to respond in a timely and most expeditious manner to the challenging external conditions under which provision of such support will occur. This will entail in particular to direct certain grant programme calls to the same target groups to which financial instruments are to be offered, more strict conditions for the support of recipients resulting from associated increased risk of their financing, and increasing administrative demands on the management of financial instruments: An important step in the process of the implementation of financial instruments will be the incorporation of requirements resulting from methodical guidances of the European Commission, which are still missing.

The national guarantee programme will be tasked with providing an offer of preferential guarantees for small enterprises in Prague and in those business sectors which in other regions cannot be supported by guarantee products from OP EIC. At the same time, this will be the space in which the Bank will continue its involvement in the EU's COSME programme supported from the European Fund for Strategic Investments (EFSI). The Bank's objective will be to provide in 2016 the highest volumes of guarantees possible in this programme and thereby to utilise optimally the capacity of the counter-guarantee from the European Investment Fund.

The main strategic challenges for the Bank's operations lay in its intentions to further expand CMZRB's activities and extend its operations in managing financial instruments supported from structural funds. In accordance with the shareholder's instruction, the Bank will focus in 2016 on elaborating in more detail the ideas for measures which must be taken so that it can further expand its activities. A very important knowledge for further considered capital strengthening of the Bank should be taken from the experience in the first increase of the Bank's share capital by CZK 0.5 billion approved by the government in November 2015.

In 2016, EFSI should further expand its offer of support and the Bank should examine the possibilities for taking part in their intermediation in the Czech Republic. Special advisory and consulting activities supporting the development of financial instruments using EFSI resources in which the Bank will be involved should also continue.

At the end of 2016, the current manner of administering resources for the INOSTART programme will end and the Bank will participate in preparations for its possible continuation in the following years. Renewed call for applications in the regional programme of preferential loans for enterprises and municipalities will be prepared in co-operation with the South Bohemian Region. The payment of grants provided for apartment block repair will continue. The Operational Programme Enterprise and Innovations (OPPI), which begun in 2007, is also drawing to a close. It will therefore be necessary to begin preparing detailed documentation for winding-up these financial instruments generated from OPPI resources and ensure funds revolved in these instruments are put to further use in supporting small and medium-sized enterprises.

The Bank will continue providing products with objectives other than the creation of profit and will participate in co-financing the national guarantee programme. To meet the growing demands of providing data to the state administration and EU institutions, the Bank will continue to develop its information system, maintain the system's high level of security, and implement changes and amendments to business processes as required by generally binding regulations.

Report of the Supervisory Board of Českomoravské záruční a rozvojové banky, a. s.

The Supervisory Board regularly carried out its duties during 2015 as defined by law and the Articles of Association of Českomoravská záruční a rozvojová banka, a.s. In its capacity as the Bank's oversight body, the Supervisory Board monitored the work of the Board of Directors in discharging its duties, conducting the Bank's business activities and financial management, and executing is strategic policy. The Supervisory Board was regularly informed about the Bank's activities, its financial situation and other essential matters.

Having examined the financial statements for the year ended 31 December 2015, and on the basis of the external auditor's report, the Supervisory Board states that the accounting records and books were kept in a transparent manner and in compliance with the generally binding accounting regulations for banks as well as with the Articles of Association of the Bank. The accounting records and books reflect the Bank's actual financial situation in all important respects.

KPMG Česká republika Audit, s.r.o., performed an audit of the financial statements and confirmed that the financial statements provide a true and fair view of the financial position of Českomoravská záruční a rozvojová banka, a.s., as of 31 December 2015 and of its operations for that year in accordance with Czech accounting standards. The Supervisory Board acknowledged the auditor's report by consent.

The Supervisory Board reviewed without comment the Report of the Board of Directors on the Bank's Business Activities and Financial Situation for 2015. It likewise examined the Report of the Board of Directors on Relations between Related Entities for 2015.

Based upon the facts stated above and pursuant to the Articles of Association of Českomoravská záruční a rozvojová banka, a.s., the Supervisory Board recommended that the following be approved at the meeting of the single shareholder within the powers of the General Meeting as presented by the Bank's Board of Directors: Report of the Board of Directors on the Bank's Business Activities and Financial Situation for 2015, Report of the Board of Directors on Relations between Related Entities for 2015, the financial statements of Českomoravská záruční a rozvojová banka, a.s. for 2015, and the updated Concept for Performance of Activities of the Bank's Supervisory Board.

The Supervisory Board also reviewed the following proposals presented by the Bank's Board of Directors: the profit distribution for 2015, the increase in the Bank's participation in co-financing support for enterprises and municipal development, the change of the Articles of Association of Českomoravská záruční a rozvojová banka, a.s., the increase in the Bank's share capital, the financial and business plan for 2016, the proposal for the Bank's external auditor for 2016–2019, remuneration of the members of the Bank's bodies for 2015 (Supervisory Board and Audit Committee), and the policies for remunerating members of the Bank's bodies (Supervisory Board and Audit Committee) in the following period and recommended their approval at the meeting of the single shareholder within the powers of the General Meeting.

The Supervisory Board also approved two changes in the composition of the Bank's Board of Directors.

Prague, 15 March 2016

On behalf of the Audit Committee of Českomoravská záruční a rozvojová banka, a. s.:

Robert Szurman
Chairman of the Supervisory Board

Report of the Audit Committee of Českomoravské záruční a rozvojové banky, a. s.

During 2015, the Audit Committee fulfilled its responsibilities and carried out its duties as defined by Act No. 93/2009 Coll., on Auditors; by Decree of the Czech National Bank No. 163/2014 Coll., on the performance of the activity of banks, credit unions and investment firms; and by the Articles of Association of Českomoravská záruční a rozvojová banka, a.s. (hereinafter referred to as the "Bank").

Within its competence, the Audit Committee oversaw in 2015 the process of compiling the Bank's financial statements for 2014 and that of their mandatory audit as executed by the auditor KPMG Česká republika Audit, s.r.o. It further appraised the independence of the audit firm KPMG Česká republika Audit, s.r.o., and the character of additional services provided by the external auditor, concluding that on the basis of the presented documents the external auditor may be regarded as independent. The external auditor also submitted to the Audit Committee for appraisal the report on verifying the adequacy of measures adopted to protect customers' property for 2014 and information for the mandatory rotation of the external auditor. Last year's co-operation with the external auditor proceeded without issue.

At its regular meetings, the Audit Committee discussed evaluations as to the effectiveness of the Bank's management and control systems and the activities of the Bank's Internal Audit Unit. The Audit Committee states that the systems established within the Bank are functional and efficient and that the measures adopted in relation to the audit findings were satisfactorily followed.

The Audit Committee also reviewed the Report on the Information Systems Audit, which was conducted by the audit firm Deloitte Advisory s.r.o., as well as the report on the course and outcome of the external audit performed by the Ministry of Finance of the Czech Republic.

In 2015, the Audit Committee updated its statutes and rules of procedure and acknowledged the Bank's requirements for trustworthiness, knowledge and experience from people who are candidates for or members of the Audit Committee. Members of the Audit Committee presented the Bank with the required documents relating to their expertise, trustworthiness and independence.

The Audit Committee in 2015 also fulfilled its responsibilities and carried out its duties as established for the Risk Committee, which had been added into the Audit Committee's competence in October 2014. The Audit Committee determined the nature, extent, format and frequency of information in relation to risks which must be obtained to exercise the function of the Risk Committee. In exercising the function of the Risk Committee, the Audit Committee evaluated the Bank's system of financial risk management; the report on valuing assets, liabilities and off-balance sheet items and their reflection in the offer to clients, which took into account the business model and strategies of risk; and information about the risks, capital, liquidity and probability and timing of expected profit and their reflection in the overall system of remuneration.

The Chairman of the Audit Committee regularly informed the Bank's Supervisory Board as to the results of the Audit Committee's meetings.

Prague, 15 March 2016

On behalf of the Audit Committee of Českomoravská záruční a rozvojová banka, a.s.:

Milan Novák
Chairman of the Audit Committee

Independent auditor's report to shareholders of Českomoravská záruční a rozvojová banka, a. s.

2015

annual review

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Independent Auditor's Report to the Shareholders of Českomoravská záruční a rozvojová banka, a.s.

We have audited the accompanying financial statements of Českomoravská záruční a rozvojová banka, a.s., prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as of 31 December 2015, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about Českomoravská záruční a rozvojová banka, a.s. is set out in Note 1 to these financial statements.

Statutory Body's Responsibility for the Financial Statements

The statutory body of Českomoravská záruční a rozvojová banka, a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Prague
24 March 2016

KPMG Česká republika Audit
KPMG Česká republika Audit, s.r.o.
Registration number 71

Veronika Strolená
Director
Registration number 2195

Financial statements for the year ended 31 December 2015
prepared in accordance with IFRS as adopted by the EU

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Income statement

	Note	Year ended 31 December 2015 CZKm	Year ended 31 December 2014 CZKm
Interest and similar income		830	994
Interest and similar expenses		(373)	(483)
Net interest income	**3.1**	**457**	**511**
Fee and commission income		388	456
Fee and commission expenses		(3)	(4)
Net fee and commission income	**3.2**	**385**	**452**
Gains from financial operations	3.3	114	102
Losses on financial operations	3.3	(80)	(72)
Administrative expenses	3.4	(340)	(338)
Increase in loan impairment and write-offs	3.5	(116)	32
(Increase)/decrease in provisions for guarantees and other provisions	3.6	(161)	(341)
Other operating income		-	(1)
Operating profit		**259**	**345**
Share of earnings in associates accounted for using the equity method	3.15	3	-
Profit before income tax		**262**	**345**
Income tax expense	3.7	(70)	(89)
Profit for the year		**192**	**256**

Statement of comprehensive income

	Note	Year ended 31 December 2015 CZKm	Year ended 31 December 2014 CZKm
Profit for the year		**192**	**256**
Other comprehensive income			
Valuation gains/(losses) on available-for-sale financial assets		202	445
Net gains/(losses) on available-for-sale financial assets transferred to income statement on disposal	3.3	(46)	(52)
Deferred income tax relating to components of the comprehensive income	3.7	(29)	(75)
Other comprehensive income for the year, net of tax		127	318
Total comprehensive income		**319**	**574**

Statement of financial position

	Note	31 December 2015 CZKm	31 December 2014 CZKm
Assets			
Cash and balances with central banks	3.8	120	91,234
Loans and advances to banks	3.9	261	180
Financial assets held for trading			
- Debt securities	3.10	113	415
- Derivatives	4.2.2	103	169
Debt securities designated at fair value	3.10	965	1,091
Loans and advances to customers	3.11	9,057	11,590
Financial assets available for sale	3.12	14,912	16,610
of which: assets pledged as collateral		6,245	8,550
Financial assets held to maturity	3.13	5,188	5,760
of which: assets pledged as collateral		917	1,546
Current income tax assets	3.7	62	49
Investment in associate	3.15	108	106
Intangible assets		23	33
Property, plant and equipment	3.16	131	135
Other assets	3.14	64	71
Total assets		**31,107**	**127,443**
Liabilities			
Deposits from banks	3.17	9,742	14,315
Deposits from customers	3.18	11,706	103,952
Financial liabilities held for trading - derivatives	4.2	208	221
Hedging derivatives	4.2.2	36	41
Current income tax liabilities	3.7	-	-
Deferred tax liabilities	3.7	35	33
Provisions	3.6	3,124	2,909
Other liabilities	3.19	1,281	1,179
Total liabilities		**26,132**	**122,650**
Shareholders' equity			
Share capital	3.20	2,132	2,132
Statutory and other reserves		1,150	1,150
Own treasury shares		-	(776)
Revaluation reserve for AFS securities		641	514
Retained earnings		1,052	1,773
Total shareholders' equity		**4,975**	**4,793**
Total liabilities and shareholders' equity		**31,107**	**127,443**

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

These financial statements were prepared by the Bank and approved by the Board of Directors of the Bank on 24 March 2016.

Jiří Jirásek
Chairman of the Board

Jan Ulip
Member of the Board

Statement of changes in equity

	Share capital CZKm	Statutory and other reserves CZKm	Own treasury shares CZKm	Revaluation reserve for AFS securities CZKm	Retained earnings CZKm	Total CZKm
Balance at 1 January 2014	**2,132**	**1,150**	**(1,894)**	**196**	**2,965**	**4,549**
Profit for the period	-	-	-	-	256	256
Net fair value gains on AFS securities	-	-	-	445	-	445
Net gains on AFS securities transferred to income statement	-	-	-	(52)	-	(52)
Deferred income tax relating to components of other comprehensive income	-	-	-	(75)	-	(75)
Total comprehensive income	-	-	-	318	256	574
Dividends relating to 2013	-	-	737	-	(1,067)	(330)
Other changes	-	-	381	-	(381)	-
Balance at 31 December 2014	**2,132**	**1,150**	**(776)**	**514**	**1,773**	**4,793**
Profit for the period	-	-	-	-	192	192
Net fair value gains on AFS securities	-	-	-	202	-	202
Net gains on AFS securities transferred to income statement	-	-	-	(46)	-	(46)
Deferred income tax relating to components of other comprehensive income	-	-	-	(29)	-	(29)
Total comprehensive income	-	-	-	127	192	319
Dividends relating to 2014	-	-	776	-	(913)	(137)
Balance at 31 December 2015	**2,132**	**1,150**	**-**	**641**	**1,052**	**4,975**

Statement of cash flows

	Note	2015 CZKm	2014 CZKm
Profit before income tax		262	345
Adjustments for non-cash transactions			
Loans impairment and write-offs and provisions for guarantees		277	309
Depreciation and amortisation'		33	24
Share of profit of associates		(3)	-
Change in fair values and foreign exchange differences		(64)	(34)
Other non-cash items		16	35
Net interest income		(457)	(511)
Fee and commission income		(388)	(456)
		(324)	(288)
(Increase)/decrease in operating assets			
Loans and advances to banks		(42)	(21)
Loans and advances to customers		2,837	2,911
Other assets		469	317
Increase/(decrease) in operating liabilities			
Deposits from banks		(4,559)	(1,570)
Deposits from customers		(92,243)	30,434
Other liabilities		431	95
Interest received		901	987
Interest paid		(337)	(422)
Fee and commission received		139	243
Net cash flow from operating activities before income tax and payments under guarantee calls		(92,728)	32,686
Payments made under guarantee calls		(368)	(236)
Income taxes paid		(159)	(195)
Net cash flow from operating activities		**(93,255)**	**32,255**
Cash flows from investing activities			
Purchases of securities		(3,906)	(8,607)
Sales of securities and proceeds from matured securities		6,258	3,841
Purchase of tangible and intangible assets		(34)	(58)
Net cash flow from investing activities		**(90,937)**	**(4,824)**
Cash flows from financing activities			
Dividends paid		(137)	(330)
Net cash flow from financing activities		**(137)**	**(330)**
Net increase/ (decrease) in cash and cash equivalents		**(91,074)**	**27,101**
Cash and cash equivalents at the beginning of the year	**3.21**	**91,261**	**64,160**
Cash and cash equivalents at the end of the year	**3.21**	**187**	**91,261**

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Notes to the financial statements

1/ General information

Českomoravská záruční a rozvojová banka, akciová společnost (henceforth the "Bank" or "ČMZRB") was formed as a joint stock company pursuant to the Czech Commercial Code and was incorporated in 1992. The Bank's registered office is located at Jeruzalémská 964/4, Prague 1, Czech Republic. The Bank has five branches in the Czech Republic (in Brno, Hradec Králové, Ostrava, Plzeň and Prague) and one regional office in České Budějovice.

The Bank's activities are focused on supporting small and medium-sized businesses in the Czech Republic by providing preferential loans (Note 2 d), preferential guarantees (Note 2 j) and issuing infrastructure loans to municipalities and their legal associations, as well as water sector entities with municipal equity participations (Note 2 b). The Bank's loan portfolio includes also loans to the Ministry of Finance provided in connection with infrastructure programs (Note 3.11). The Bank also acts as an agent disbursing Czech government agency's funds as subsidy of interest costs to the block of flats' owners that meet specified criteria (Note 2 f). The purpose-bound funds are made available to Bank by the Czech state and international financial institutions. In some cases the Bank participates on program funding.

These financial statements include the Bank and its associated undertaking MUFIS a.s. (see Note 3.15) (together the "Group").

Use of Bank's resources for financing subsidies of SMEs ("Small and medium enterprises") in 2015

Because of the delay in commencement of providing financial instruments in Operational programme Enterprise and innovation for competiveness Bank used own resources for co-financing guarantees for SMEs in national guarantees' programme. Bank used for this purpose CZK 522 million (CZK 566 million in 2014 with effect to profit) which resulted in lower reported profit for 2015.

This enabled maintaining continuity in support for SMEs in 2015.

2/ Summary of significant accounting policies

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). The financial statements comprise the income statement and statement of comprehensive income presented as two separate statements, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held at fair value through profit or loss and all derivative contracts that have been measured at fair value.

The accompanying financial statements are based on the accounting records, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

The financial statements are presented in CZK, which is the Bank's functional and presentation currency. The figures shown in the financial statements are stated in CZK million.

Cash and cash equivalents in the statement of cash flows include highly liquid investments. Note 3.21 shows in which item of the statement of financial position cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Profit before tax in the statement of cash flows is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid is classified as operating cash flows.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(p).

New Standards, Amendments and Interpretations adopted since 1 January 2015

The following revised standards effective from 1 January 2015 are mandatory and relevant for the Bank and have been applied by the Bank since 1 January 2015.

IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014). The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognizing a liability to pay a levy imposed by government.

In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognized when this event occurs.

The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time.

If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognized when that minimum activity threshold is reached.

The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Company's financial statements

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2015, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's operations. The Bank plans to adopt this pronouncement when it becomes effective. The Bank is in the process of analyzing the likely impact on its financial statements.

Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016). These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

It is expected that the Amendments, when initially applied, will not have a material impact on the Entity's financial statements because the Entity has an existing accounting policy to account for acquisitions of joint operations in a manner consistent with that set out in the Amendments.

Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016).The Amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that:

- Immaterial information can detract from useful information.
- Materiality applies to the whole of the financial statements.
- Materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) have been amended, to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Bank.

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).

Revenue-based depreciation banned for property, plant and equipment

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

New restrictive test for intangible assets

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

It is expected that the Amendments, when initially applied, will not have material impact on the Bank's financial statements as the Bank does not apply revenue-based methods of amortization/depreciation.

Property Plant and Equipment and IAS 41 Agriculture (effective for annual periods beginning on or after 1 January 2016). These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing.

Bank does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Bank has no bearer plants.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015). The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognize them as a reduction of the service cost in the period in which the related service is rendered.

Bank does not expect the Amendment to have any impact on the financial statements since it does have any defined benefit plans that involve contributions from employees or third parties.

Amendments to IAS 27 - Equity method in the separate financial statements (effective for annual periods beginning on or after 1 January 2016).

The amendments to IAS 27 allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.

The Bank does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Bank intends to continue to carry its investments in subsidiaries, associates or joint ventures at cost/in accordance with IAS 39.

Annual Improvements to IFRSs

The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Bank.

(b) Treatment of associated undertakings

Investments in associated undertakings are accounted for using the equity method of accounting and are initially recognized at cost. These are undertakings in which the Bank has between 20 percent and 50 percent of the voting rights, and over which the Bank exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Equity accounting involves recognizing the Bank's share of the associate's profit or loss for the period in the profit or loss. The Bank's interest in the associate is carried in the statement of financial position at an amount that reflects its share of net assets of the associate.

For summarized financial information on the associate MUFIS a.s. accounted for using the equity method, see Note 3.15.

(c) Foreign Currencies

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (Czech National Bank official rate).

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities are recognized in the income statement.

All foreign exchange gains and losses recognized in the income statement are presented net in the income statement within 'Income from financial operations' or 'Expense on financial operations'.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount, except impairment, are recognized in other comprehensive income.

(d) Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognized in the statement of financial position and measured in accordance with their assigned category.

Financial assets

The Bank allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Bank's financial assets held for trading consist of debt instruments. These financial assets are recognized in the statement of financial position as 'Financial assets held for trading'.

Financial instruments included in this category are recognized initially at fair value; transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as 'Income from financial operations' or 'Expense on financial operations'. Interest income on financial assets held for trading are included in 'Interest and similar income'. The instruments are derecognized when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognizing.

The Bank designates certain financial assets upon initial recognition at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis, or
- the financial assets consists of debt host and an embedded derivative that must otherwise be separated.

To reduce accounting mismatch, the fair value option is applied to certain debt securities that are hedged with cross-currency interest rate swaps but for which the hedge accounting conditions of IAS 39 are not fulfilled. The aim is to recognize the changes in the fair value of the securities together with change in the fair value of the derivatives in the income statement.

Debt securities for which the fair value option is applied are recognized in the statement of financial position as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in 'Gains and (losses) on securities – changes in fair value of the securities designated at fair value through profit or loss'.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Bank includes in this category principally Loans originated by the Bank by providing money directly to a borrower.

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or as investment securities available for sale or held to maturity.

Interest on loans is included in the income statement and is reported as 'Interest and similar income'.

Preferential loans provided by the Bank

The Czech government and the Bank created various schemes to provide zero interest, low interest rate and subordinated loans to Czech enterprises that meet specified conditions (economic sectors supported by the Czech government or the European Union). The Bank participates partially on the funding of these loans, however, recognizes the full amount due from final recipient on its statement of financial position in Loans and advances to customers. To compensate to the Bank for the below-market interest rate, the Bank receives from the funding partner the fees for managing the scheme, credit risk fee and the market interest rate agreed on a yearly basis for the Bank's share on funding. Overall amount of these fees is recognized as interest and similar income.

Based on the arrangements, the Bank is effectively able to transfer part of credit risk on these loans to the government (subject to certain limits). Such arrangements represent in substance a guarantee issued by the government. Once the loans are written-off due to credit quality deterioration in accordance with the Bank's rules, the funds deposited by the government for the provision of these loans (included in Amounts due to state institutions - see Note 3.18) are settled against these amounts. The financial guarantee received is not separately recognized as a receivable and is being effectively part of the funds provided by the government.

Following collection of the receivable or its settlement against the program funding when deemed uncollectible, the receivable is derecognized, the loss exceeding the contractually agreed portion of credit risk, if any, covered by the government in respect of loans with the program would be settled by the Bank.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than those that the Bank designates as available for sale and those that meet the definition of loans and receivables.

These financial assets are initially recognized at fair value including directly attributable and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method.

Interest on held-to-maturity investments is included in the income statement and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognized in the income statement as 'Net gains/(losses) on financial operations'. No provisions on held-to-maturity investments had to be recognized either in 2015 or 2014.

(d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs and measured subsequently at fair value with gains and losses being recognized in the statement of comprehensive income, except for impairment losses, until the financial asset is derecognized. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized in the income statement.

However, interest calculated using the effective interest method, and foreign currency gains and losses on Bank's bonds classified as available for sale are recognized in the income statement.

(e) Recognition

The Bank uses settlement date accounting for regular way contracts when recording financial asset transactions. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment). When settlement date accounting is applied, the financial asset is recognized on the day of receipt of a financial instrument (sending of cash) and derecognized on the day of its provision (collection of cash). In case of a portfolio of financial assets measured at fair value, changes in the fair value of the financial assets are recognized from the purchase trade date to the sale trade date. Accrued interest on debt financial assets is recognized from the purchase settlement date to the sale settlement date.

All loans and receivables are recognized when funds are provided to customers. Loans and receivables are derecognized when fully repaid by the borrower or written-off.

The Bank settles and derecognizes financial liabilities at the date on which all related risks and costs attributable to the specific liability are transferred or settled.

Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

Financial liabilities

The Bank's holding in financial liabilities is comprised by financial liabilities at fair value through profit or loss (financial liabilities held for trading, i.e. financial derivatives and short sales), financial liabilities at amortized cost and hedging derivatives.

(a) Financial liabilities at fair value through profit or loss

In the Bank's case, this category comprises only financial derivatives held for trading and short sales. The Bank recognizes its financial derivatives in the category held for trading unless they are designated and effective as hedging instruments. These instruments are recognized in the statement of financial position as 'Financial liabilities held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the income statement and are reported as 'Net gains/(losses) on financial operations'.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost are principally deposits and loans from banks or customers.

Determination of fair value

The best evidence of fair value are quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes the fair value by using a valuation technique.

The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on any available observable market data.

For more complex instruments, the Bank uses developed valuation models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market. All the inputs to these models are market observable. The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

For the categorization of the financial instruments carried at fair value see Note 5.

Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

Collateral (bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Reclassification of the financial assets

The Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. The Bank has not performed any of the reclassification or any type of other reclassifications between categories of the financial assets in 2015 or 2014.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(f) Interest and fee income and expenses

Interest income and expense are recognized in the profit and loss account for all interest bearing instruments on an accruals basis using the effective interest rate. Loan origination fees are included in the effective interest rate and are therefore reported in 'Interest income'. Other fees and commissions are recognized in the period to which they relate on an accruals basis. Interest income includes interest income for all fixed income instruments.

As part of its activities, the Bank acts as an agent disbursing government's funds as subsidy of interest costs of the loans provided by the Czech state agency to the debtors that meet specified criteria. Therefore, the grant is not recognized on the statement of financial position of the Bank. The Bank's services are: (i) it is a payment agent and (ii) the Bank processes paperwork, e.g. subsidy agreements on behalf of the government. The Bank obtains remuneration for the services provided of the agreed percentage of funds disbursed. This remuneration from the government partner is recognized as earned as it is calculated on annual basis based on the agreed contract with the provider of the assistance.

(g) Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank regularly assesses its loan portfolio for impairment. As part of this analysis, the Bank splits all loans into two categories: non-performing loans, i.e., a larger than insignificant part of the principal and interest is past due for more than 90 days, and performing loans. If there is any objective evidence that a loan may be impaired (deterioration of a debtor's financial health, payment default, etc), the amortized cost of the loan is reduced through a provision to its estimated recoverable value. The recognition, use and release of provisions are accounted for on a monthly basis always by reference to the loan balances at the month-end. The provision is reduced if objective reasons for loan impairment cease to exist. In such cases, the original amount is reversed and a required provision is released.

Provisions are used when loans are sold or written off. Provisions are released to income when the reasons for maintaining the provision cease to exist (for example, when the loan is repaid).

The Bank makes an estimate of realized losses on an individual basis for individually significant loans and on a portfolio basis for individually insignificant loans by reference to historical experience.

Management of the Bank uses estimates based on historical experience of losses on loans that have similar risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The methods and assumptions adopted in estimating amounts and the timing of future cash flows are regularly reviewed to reduce differences between the estimated and actual data.

The Bank writes off loss loans when it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank in respect of these loans. Subsequent recoveries are credited to the income statement in the line 'Decrease/ increase in loan impairment and write-offs'.

For further information on credit risk refer to Note 4.1.

(b) Available for sale financial assets

The Bank performs regular assessments to determine whether available for sale financial assets suffered impairment. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the carrying amount of the impaired security is decreased directly and at the same time the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss line 'Net gains/ (losses) on financial operations' as a reclassification adjustment even though the financial asset has not been derecognized. The amount of this loss reflects the difference between the cost (less the repayments of principal and amortization, if any) and the current fair value, reflecting previous impairment losses recognized in expenses.

(h) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in Due to banks or Due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(i) Derivative financial instruments and hedging

In the normal course of business, the Bank enters into contracts for derivative financial instruments which represent a financial instrument that requires none or a very low initial investment. The derivative financial instruments used include interest rate and currency forwards and swaps. These financial instruments are held by the Bank in order to hedge interest rate risk and currency exposures associated with its transactions.

Derivative financial instruments are initially recognized at fair value and are subsequently remeasured to their fair value. Fair values are obtained from the discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

On the date a derivative contract is entered into, the Bank designates certain derivatives as an accounting hedge of the fair value of a recognized asset or liability (fair value hedge). Hedge accounting is used for derivatives and the hedged items designated in this way provided that certain criteria are met.

The Bank's criteria for a derivative instrument to be accounted for as an accounting hedge include:

(a) They meet the Bank's risk management strategy,
(b) At the inception of the hedge, the hedging relationship is formally documented, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing and documenting whether the hedge is effective, and
(c) The hedge is effective, that is, if, at inception and throughout the period, changes in the fair value of the hedged item are almost fully offset by changes in the fair value of the hedging instrument and the results are within a range of 80 percent to 125 percent.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk are recorded in profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to profit or loss in line 'Income from financial operations' or 'Expense on financial operations'.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the income statement under 'Income from financial operations' or 'Expense on financial operations'.

(j) Provisions and financial guarantees obligations

Provisions for legal claims are recognized when the Bank has a present legal 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts

Bank provides two main types of financial guarantees:

- the financial guarantees to the small and medium enterprises in various preferential guarantee programs in cooperation with the Czech state, and
- the financial guarantees in PANEL program launched by the State Fund of Housing Development ("SFRB") in support of reconstruction and refurbishment of specific block of flats with the aim to improve their quality and lifetime.

Under the agreements concluded between the Bank and the Czech state or the Bank and SFRB, the Bank issues preferential financial guarantees for loans provided by third party banks. The difference between the full market price of the guarantee and the fee paid by client is funded by the Czech state (intermediating in some cases the programs of the European Union) or by SFRB. The Bank immediately deducts such support funded by the Czech state whole in advance from the customer's bank account as its fee for the issued financial guarantee and these fees received are recognized in the income statement over the life of the guarantee. From 2015 the Bank is remunerated for new guarantees directly by the Czech state on annual basis. The terms and conditions of the financial guarantee contracts with related parties are described in Note 3.24.

In addition, the government refunds to the Bank losses on financial guarantees issued under the schemes up to the amount agreed in the contract between the Bank and the Czech state. For these purposes the amounts are deposited within special bank account for each guarantee provided and recognized as Amounts due to state institutions (see Note 3.18).

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for future premiums is recognized. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee (i.e. the amount determined in accordance with IAS 37 Provisions, Contingent liabilities and Contingent assets). Provisions for guarantees are made for estimated losses above the amounts deposited by the Czech state. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of the Bank's management. Risk category method applied by the Bank is considering the likelihood that an outflow will be required in settlement by considering the class of obligations (i.e. those arising from a certain type of the financial guarantees) as a whole. A provision is therefore recognized even if the likelihood of an outflow with respect to any specific item included in the same class of obligations may be small.

(k) Property, plant and equipment and intangible assets

Tangible and intangible assets are stated at historical cost less the accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated through the accumulated depreciation charge. Depreciation is calculated on a straight line basis in order to write off the cost of each asset to their residual value over its estimated useful economic life. Assets in the course of construction are not depreciated.

The estimated useful economic lives are set out below:

Machinery and equipment, computers, vehicles, software	4 years
Fixtures, fittings and equipment	10 years
Buildings and structures	30 years

The Bank periodically tests its assets for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where assets are identified as being surplus to the Bank's requirements, management of the Bank determines a provision for asset impairment. In respect of the assets owned by the Bank, the provision is assessed by reference to a fair value based on third party valuation reports adjusted downwards for an estimate of associated sale costs.

Repairs and renewals are charged directly to the income statement when the expenditure is incurred.

(l) Employee benefits

The Bank governs through internal guidelines provision of employee benefits. Some benefits are provided regularly to all employees (e.g. additional pension insurance); others are provided in relation to the actual need of an employee (e.g. loans).

Contributions are made to the government's retirement benefit scheme at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

(m) Current and deferred income tax

Tax is calculated in accordance with the provisions of the relevant legislation of the Czech Republic based on the profit determined in accordance with the Czech Accounting Standards.

Deferred tax is provided using the statement of financial position liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is determined using tax rates effective in the periods in which the temporary tax difference is expected to be realized. The principal temporary differences arise from specific allowances for loan losses and provisions for the guarantees and unrealized gains and losses from available for sale financial assets. Deferred tax assets in respect of tax losses carried forward and other temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the tax assets can be utilized.

Current and deferred tax are recognized as an expense or income in the income statement, except for the deferred tax effects related to fair value re-measurement of available-for-sale investments. As the fair value re-measurement is recognized in other comprehensive income, deferred tax is also recognized in the other comprehensive income and subsequently reclassified to the income statement together with the gain or loss on derecognition.

(n) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Own shares held by the Bank are recognized as a deduction in equity until they are cancelled or resold. When such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity.

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's general meeting of shareholders. Dividends for the year that are proposed or declared after the statement of financial position date are disclosed in the subsequent events note.

(o) Subsequent Events

The effects of events which occurred between the statement of financial position date and the date when the financial statements were authorized for issue are reflected in the financial statements in the event that these events provide further evidence of conditions which existed at the statement of financial position date.

Where significant events occur subsequent to the statement of financial position date prior to authorizing the financial statements for issue which are indicative of conditions which arose subsequent to the statement of financial position date, the effects of these events are disclosed but do not result in adjustments in the financial statements.

(p) Key Bank's management judgments and estimates

The presentation of financial statements in conformity with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the reporting date and the reported amounts of revenues and expenses during the reporting period. These estimates, which specifically relate to the impairment of financial assets and provisions arising from the provided financial guarantees, are based on the information available as of the date of preparation of the financial statements and actual results could differ from those estimates.

Impairment losses on loans to customers and provisions for financial guarantees

Management uses estimates based on historical loss experience for assets and financial guarantees with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Should the estimated percentages of the impairment provisions divert from the current management estimate by +/-1%, the impairment loss is to be estimated CZK 51 million higher/lower.

3/ Additional information to statement of financial position and income statement items

3.1. Interest income

CZKm	2015	2014
Interest income on loans and advances to banks	10	14
Interest income on loans and advances to customers	217	269
Interest on loans granted to the government institutions	238	299
Interest on debt securities	365	412
- held for trading	1	3
- designated at fair value through profit or loss	36	46
- available for sale	177	202
- held to maturity	151	161
Interest income	**830**	**994**
Interest on amounts due to banks	(234)	(296)
Interest on deposits due to customers	(11)	(17)
Interest on deposits from government institutions	(74)	(97)
Interest from unwinding discounts on provisions (Note 3.6)	(54)	(73)
Interest expenses	**(373)**	**(483)**
Net interest income	**457**	**511**

Interest income includes CZK 191 million (2014: CZK 238 million) of interest income on impaired financial assets.

3.2. Fee and commission income

CZKm	2015	2014
Fees from financial guarantees	317	386
Credit related fees and commissions	33	35
Fees and commissions from payment transactions	38	35
Fee and commission income	**388**	**456**
Fee and commission expense from trading activities	(3)	(4)
Fee and commission expense	**(3)**	**(4)**
Net fee and commission income	**385**	**452**

3.3. Gains and losses from financial operationss

CZKm	2015	2014
Gains and (losses) on securities	45	80
- available for sale	46	52
- amounts reclassified from other comprehensive income on disposal	46	52
- changes in fair value of securities held for trading	20	31
- changes in fair value of securities designated at fair value through profit or loss	(21)	(3)
Net gains/ (losses) on derivatives held for trading	(80)	(72)
Net gains/ (losses) on hedging derivatives	1	5
Exchange differences (including exchange differences on available for sale and held to maturity debt securities)	68	17
Total income and expenses on financial operations	**34**	**30**

Net gains/ (losses) on hedging derivatives are due to high hedge accounting effectiveness almost fully compensated in the income statement in lines “Exchange differences“ in case of the foreign currency risk hedging and in “Interest income“ and “Interest expense“ in case of interest rate risk hedging. The overall accounting hedge ineffectiveness amounts to CZK 1 million in 2015 (2014: CZK 1 million).

3.4. Administrative expenses

CZKm	2015	2014
Wages, salaries and bonuses	(177)	(174)
Social security costs	(51)	(51)
of which: state pension scheme contributions	(35)	(34)
Total personnel expenses	**228**	**(225)**
General administrative expenses	(112)	(113)
Total administrative expenses	**(340)**	**(338)**

Wages, salaries and key management compensations:

CZKm	2015	2014
Wages and salaries of the Bank’s employees	(111)	(110)
Key management personnel compensation	(50)	(47)
- wages and salaries of the Bank’s management	(28)	(27)
- compensations to Board of Directors members	(20)	(18)
- compensations to Supervisory Board members	(1)	(1)
- compensation to Audit Committee members	(1)	(1)
Other employees' expenses	(9)	(10)
Social fund expenditures	(7)	(7)
Total wages, salaries and bonuses	**(177)**	**(174)**

Staff Analysis

	2015	2014
Number of members of the Board of Directors	5	5
Number of members of the Supervisory Board	8	9
Number of members of the Audit Committee	3	3
Average number of the Bank's management	17	17
Average number of Bank's employees (excl. above listed)	192	194

Other administrative expenses comprise:

CZKm	2015	2014
General administrative expenses	(69)	(71)
Rental charges	(5)	(12)
Audit, legal, tax and other professional services	(5)	(6)
Depreciation and amortization	(33)	(24)
Total other administrative expenses	**(112)**	**(113)**

3.5. Increase in loan impairment and write-offs

Overall charge for the loan impairment can be analyzed as follows:

31 December 2015

CZKm	Loans to private legal entities and individuals	Loans to municipalities	Total
Additions/Disposals to loan impairment allowances	(124)	9	(115)
Receivables written-off during the year not fully provided for	-	-	-
Additions to allowances to other assets	(1)	-	(1)
Total increase in loan impairment allowances and write-offs	**(125)**	**9**	**(116)**

31 December 2014

CZKm	Loans to private legal entities and individuals	Loans to municipalities	Total
Additions/Disposals to loan impairment allowances	(6)	39	33
Receivables written-off during the yearnot fully provided for	-	-	-
Additions to allowances to other assets	(1)	-	(1)
Total increase in loan impairment allowances and write-offs	**(7)**	**39**	**32**

Reconciliation of the allowance account for impairment:

Year ended 31 December 2015

CZKm	Loans to private legal entities and individuals	Loans to municipalities	Total
Balance at 1 January 2015	**1,771**	**107**	**1,878**
Additions/Disposals to impairment allowances	124	(9)	115
Use of the allowances for write-offs	(87)	-	(87)
Balance at 31 December 2015	**1,808**	**98**	**1,906**

Year ended 31 December 2014

CZKm	Loans to private legal entities and individuals	Loans to municipalities	Total
Balance at 1 January 2014	**1,811**	**146**	**1,957**
Additions/Disposals to impairment allowances	6	(39)	(33)
Use of the allowances for write-offs	(46)	-	(46)
Balance at 31 December 2014	**1,771**	**107**	**1,878**

3.6. Provisions for guarantees and other provisions

The balance of provisions for guarantees and other provisions comprises:

CZKm	31 December 2015	31 December 2014
Provisions for guarantees (Note 3.22)	2,557	2,457
Provisions for loan commitments (Note 3.22)	2	27
Other provisions	565	425
Total provisions	**3,124**	**2,909**

Reconciliation of the provisions for guarantees and other provisions:

CZKm	2015	2014
Balance at 1 January	2,909	2,495
Increase/(decrease) in provisions for guarantees and loan commitments	161	341
Interest expense from unwinding discounts (Note 3.1)	54	73
Balance at 31 December	**3,124**	**2,909**

3.7. Income taxes

CZKm	2015	2014
Profit before income tax	262	345
Theoretical tax calculated at a statutory income tax rate 2015: 19% (2014: 19%)	50	66
Non-taxable income from securities –permanent difference	(4)	(5)
Effect of non-recognized contingent deferred tax asset	24	24
Other permanent items	-	2
Income tax expense as reported in income statement	70	89
- current	97	146
- deferred	(27)	(57)
Income tax paid during the year	159	195
Current income tax assets at 31 December	62	49
Current income tax liabilities at 31 December	-	-
Effective tax rate	**27%**	**26%**

Deferred taxation

The recognized deferred tax can be analysed as follows:

CZKm	31 December 2015	31 December 2014
Other provisions	115	88
Deferred tax recognized in other comprehensive income for revaluation of available for sale securities	(150)	(121)
Total deferred tax	**(35)**	**(33)**

CZKm	31 December 2015	31 December 2014
Deferred tax reported in the statement of financial position		
- to be recovered after more than 12 months	87	81
- to be recovered within 12 months	28	7
Deferred tax recognized in other comprehensive income for revaluation of available for sale securities		
- to be recovered within 12 months	(150)	(121)
Total deferred tax	**(35)**	**(33)**

Potential deferred tax asset of CZK 293 million as at 31 December 2015 (2014: CZK 269 million) arising from differences between accounting and tax values of impairment allowances and provisions has not been recognized as it is not probable that this difference will become tax deductible in the foreseeable future.

CZKm	2015	2014
Deferred tax balance at 1 January	(33)	(15)
Movement through income statement	27	57
Movement in deferred tax recognized in other comprehensive income for revaluation of available for sale securities	(29)	(75)
Deferred tax balance at 31 December	**(35)**	**(33)**

The deferred tax is calculated at the statutory income tax rate of 19% (31 December 2014: 19%), which is a statutory income tax rate enacted for the period, when the Bank anticipates realising the temporary differences.

3.8. Cash and balances with central banks

CZKm	31 December 2015	31 December 2014
Obligatory minimum reserves	111	347
Cash in hand	9	7
Amounts due under reverse repo transactions	-	90,880
Total cash in hand and balances with central banks	**120**	**91,234**

Obligatory minimum reserves represent mandatory deposits with the Czech National Bank.

3.9. Loans and advances to banks

CZKm	31 December 2015	31 December 2014
Current accounts with other banks	67	27
Included in cash and cash equivalents (Note 3.21.)	67	27
Other amounts due from banks	**194**	**153**
Total loans and advances to banks	**261**	**180**

All the amounts due from banks are unimpaired exposures before due date and no provisions are recognized.

3.10. Securities at fair value through profit or loss

CZKm	31 December 2015	31 December 2014
Government bonds – domestic	113	415
Securities held for trading	113	415
Government bonds – domestic	350	359
Government bonds – foreign	332	349
Bonds issued by Czech financial institutions	283	266
Bonds issued by other Czech entities	-	117
Securities designated at fair value through profit or loss	965	1,091
Total securities at fair value through profit or loss	**1,078**	**1,506**

3.11. Loans and advances to customers

CZKm	31 December 2015	31 December 2014
Loans to private legal entities and individuals	4,367	5,040
Loans to the Ministry of Finance and other government entities	5,931	7,693
Loans to municipalities	665	735
Gross amounts due from customers	**10,963**	**13,468**
Provisions for loans to customers (Note 3.5)	(1,906)	(1,878)
Net amounts due from customers	**9,057**	**11,590**

Loans to the Ministry of Finance represent principally the loans provided in connection with infrastructure programs which were transferred to the Bank from Konsolidační banka Praha in 2000. These programs are principally targeted at funding the construction of the highway network, repairs of international roads, removal of flood damage and water sector investments. The funding of these programs was provided by the European Investment Bank (Note 3.17) and is denominated also in EUR.

Set out below is the currency structure of the outstanding infrastructure loan principal amounts on the side of assets and liabilities (Note 3.17):

	31 December 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
	CZKm	CZKm	CZKm	CZKm
CZK – principal	2,575	2,575	3,344	3,344
CZK – accrued interest	1	1	1	1
EUR – principal	3,313	3,313	4,292	4,292
EUR – accrued interest	42	42	56	56
Total	**5,931**	**5,931**	**7,693**	**7,693**

The disclosures per classes of the loans and advances to customers are made in the credit risk section in Note 4.1 and reconciliation of changes in the allowance account during the period for each class of the loans and advances to customers is disclosed in Note 3.5.

3.12. Financial assets available for sale

Available for sale ("AFS") securities comprise debt securities as follows:

CZKm	31 December 2015	31 December 2014
Fixed income debt securities	4,765	6,663
Variable yield debt securities	10,147	9,947
Total debt securities available for sale	**14,912**	**16,610**

All AFS securities as at 31 December 2015 and 2014 were publicly traded on stock exchanges. They are denominated in various currencies and the currency risk is hedged (see Note 4.3).

AFS securities of CZK 6,245 million (2014: CZK 8,550 million) were pledged as collateral to third parties in sale and repurchase agreements to provide security over the money borrowed. These assets have been reclassified as pledged assets on the face of the statement of financial position as the borrower possessing the collateral has the right to re-pledge it or sell, however also has an obligation to return it.

AFS securities have been issued by the following issuers:

CZKm	31 December 2015	31 December 2014
- Czech state institutions	11,986	13,508
- Czech local government institutions	523	526
- Czech financial institutions	993	1,501
- Other Czech entities	186	183
- Foreign state institutions	-	67
- Foreign financial institutions	1,106	807
- Other foreign entities	118	18
Total debt securities available for sale	**14,912**	**16,610**

3.13. Financial assets held to maturity

Held to maturity (“HTM”) securities have been issued by the following issuers:

CZKm	31 December 2015	31 December 2014
Czech state institutions	5,188	5,760
Total debt securities held to maturity	**5,188**	**5,760**

HTM securities are denominated in various currencies (see also Note 4.3). HTM securities comprise only securities generating fixed income.

HTM securities of CZK 917 million (2014: CZK 1,546 million) were pledged as collateral to third parties in sale and repurchase agreements to provide security over the money borrowed. These assets have been reclassified as pledged assets on the face of the statement of financial position as the borrower possessing the collateral has the right to re-pledge it or sell, however he also has an obligation to return it.

3.14. Other assets

CZKm	31 December 2015	31 December 2014
Financial assets		
Accrued income	41	45
Non-financial assets		
Prepaid expenses	12	11
Other	19	23
Total other assets, gross	72	79
Impairment provisions	(8)	(8)
Total other assets, net	**64**	**71**

3.15. Investments in associate

The financial statements include an at equity measured investment in associate, MUFIS a.s., with its registered office address at Jeruzalémská 964/4, Prague 1 (‘MUFIS’), key details of which are set out below.

The Bank formed MUFIS, with share capital of CZK 1 million in 1994. In 1995, the Bank disposed of 51 percent of the issued share capital, and holds a 49 percent investment in MUFIS at 31 December 2015 and 2014. In 2014, the share capital was increased to CZK 2 million.

Shareholders' structure	31 December 2015	31 December 2014
ČMZRB	49%	49%
Ministry of Finance	49%	49%
Association of Czech Municipalities	2%	2%

The Bank signed on 27 August 2009 with MUFIS an agreement on cooperation within the area of financing infrastructure projects for municipalities in the Czech Republic. MUFIS is currently involved in providing loans to municipalities and clusters of municipalities through the Joint credit fund created along with ČMZRB.

Summary financial information in CZKm	Equity	The Bank's share on equity	Total assets	Profit after tax	The Bank's share on profit
At 31 December 2015 and for the year then ended	221	108	223	6	3
At 31 December 2014 and for the year then ended	216	106	216	0,5	0,2

3.16. Property, plant and equipmen

CZKm	Land	Buildings	Equipment and fittings	Total
At 1 January 2014				
Acquisition cost	10	304	123	437
Accumulated depreciation	-	(183)	(116)	299
Net book value	**10**	**121**	**7**	**138**
Year ended 31 December 2014				
Opening net book value	10	121	7	138
Additions	-	4	19	23
Disposals	-	-	(13)	(13)
Depreciation charge	-	(9)	(4)	(13)
Closing net book value	**10**	**116**	**9**	**135**
At 31 December 2014				
Acquisition cost	10	308	126	444
Accumulated depreciation	-	(192)	(117)	(309)
Net book value	**10**	**116**	**9**	**135**
Year ended 31 December 2015				
Opening net book value	10	116	9	135
Additions	-	-	20	20
Disposals	-	-	(8)	(8)
Depreciation charge	-	(8)	(8)	(16)
Closing net book value	**10**	**108**	**13**	**131**
At 31 December 2015				
Acquisition cost	10	309	83	402
Accumulated depreciation	-	(201)	(70)	(271)
Net book value	**10**	**108**	**13**	**131**

3.17. Deposits from bank

CZKm	31 December 2015	31 December 2014
Due to other banks	9,500	13,715
Received term deposits from other banks	242	600
Amounts due to banks	**9,742**	**14,315**

Amounts due to other banks include principally the payables to the development banks (European Investment Bank, Kreditanstalt für Wiederaufbau, Nordic Investment Bank and Council of Europe Development Bank) of CZK 7,677 million at 31 December 2015 (31 December 2014: CZK 9,850 million), majority of which represents a funding for infrastructure loans described in Note 3.11.

3.18. Deposits from customers

Amounts due to customers, by type of deposit, comprise:

CZKm	31 December 2015	31 December 2014
Current accounts	4,020	4,932
Term deposits	2,456	25,047
Repo operations with the Ministry of Finance	-	71,260
Loans received	44	36
Guarantee deposits	2,513	714
Other payables to clients	2,673	1,963
Total	**11,706**	**103,952**

Amounts due to customers, by type of customer, comprise:

CZKm	31 December 2015	31 December 2014
Amounts due to state institutions	5,830	99,280
Amounts due to municipalities	57	60
Amounts due to other customers	5,819	4,612
Total amounts due to customers	**11,706**	**103,952**

The 'Amounts due to state institutions' line includes, inter alia, payables comprising funding and funds to cover risks attached to the guarantee support programs provided by the Bank (Note 2 d and 2 j):

CZKm	31 December 2015	31 December 2014
Funding from the providers of the individual support programs not yet returned	3,429	2,597
Funds deposited by the program partners to cover risks attached to providing the financial guarantees *	2,659	2,341

* Risk coverage funds for programmes Panel and Nový Panel in the amount of CZK 975 million (2014: CZK 976 million) are booked in off balance.

3.19. Other liabilities

CZKm	31 December 2015	31 December 2014
Payable to employees	33	33
Deferred income	637	886
- financial guarantees premium deferred income	612	861
- other deferred income	25	25
Accrued expenses (financial liability)	40	36
Amount payable to Ministry of Regional Development in respect to intermediation of the support program (financial liability)	190	201
Other	381	23
Total accruals and other liabilities	**1,281**	**1,179**

3.20. Equity and profit allocation

Share capital

	31 December 2015	31 December 2014
8,900 shares with a nominal value of CZK 239,500	2,132	2,132

The shares are registered and issued in book-entry form. All issued shares are fully paid.

Shares owned by the Czech Republic are recorded by Central Securities Depository Prague on asset accounts of Ministry of Industry and Trade, Ministry of Regional Development and Ministry of Finance.

The Bank's Shareholders as of 31 December 2015 and 2014 can by analyzed as follows:

	2015	2014
Shareholder	%	%
Czech Republic	100.000	85.809
Českomoravská záruční a rozvojová banka, a.s. *)	-	14.191
Total	**100.000**	**100.000**

*) According to paragraph 309 clause 1 of the Business Corporations Act („Zákon o obchodních korporacích“) the Bank does not have any voting rights related to its own treasury shares.

Evidence of the Czech state's shares by Central Securities Depository Prague on Ministries' asset accounts

	2015	2014
	%	%
Ministry of Industry and Trade	33.528	28.764
Ministry of Regional Development	33.528	28.764
Ministry of Finance	32.944	28.281
Total	**100.000**	**85.809**

Dividends

The General Meeting of the Bank decided to distribute dividend in the amount of CZK 160 million, of which CZK 23 million was assigned to Bank s own treasury shares. According to paragraph 309 clause 2 of the Business Corporations Act („Zákon o obchodních korporacích“) the right to dividend associated with own treasury shares expires with its due date. In accordance with this Act, the Bank transferred unpaid dividend to retained earnings.

In accordance with the decision of General Meeting 1,263 shares held by Bank were transferred to Czech Republic. As at 31 December 2015 Bank holds no own treasury shares.

Profit Allocation

The statutory net profit of the Bank as recognized in accordance with Czech accounting standards for the year ended 31 December 2015 is proposed to be allocated and net profit for 2014 of the Bank was allocated as follows:

CZKm	2015	2014
Allocated to retained earnings	192	96
Dividend *)	-	160
Net profit per statutory financial statements	**192**	**256**

*) from the planned amount of dividend for 2015 the amount of CZK 0 (in 2014: CZK 23 million) relates to shares held by the Bank. The right to dividend payment expires according to § 309 paragraph 2 of the Corporations Law („Zákon o obchodních korporacích“) on their due date. The actual change of retained earnings was CZK 119 million in 2014.

Following the decision of the general meeting of the Bank, dividends payable to the Ministry of Industry and Trade, Ministry of Regional Development and Ministry of Finance from the 2014's net profit in the total amount of CZK 137 million was used for settlement of withholding tax from financial and non-financial dividend (transfer of own shares on Czech Republic).

Revaluation reserve

The revaluation reserve shows the effects from the fair value measurement of available for sale securities after deduction of deferred taxes. No gains or losses other than foreign exchange are recognized in the income statement until the asset has been disposed or impaired.

Retained earnings and statutory and other reserves

Retained earnings consist of undistributed profits from previous years. Statutory reserve consists of CZK 800 million provided by the Czech State, which has to be set aside in accordance with national law and internally allocated revenue reserve of CZK 350 million.

3.21. Cash and cash equivalents

CZKm	31 December 2015	31 December 2014
Cash and balances with central banks (Note 3.8.)	120	91,234
Loans and advances to banks (Note 3.9.)	67	27
Total	**187**	**91,261**

Cash and cash equivalents comprise balances with less than three months' original maturity, including cash in hand, deposits held at call with banks and other short-term highly liquid investments.

3.22. Financial guarantees and loan commitments

Commitments to extend loans and financial guarantees for loans to third parties expose the Bank to credit risk and loss in the event that the client fails to comply with contractual conditions.

CZKm	31 December 2015	31 December 2014
Total issued financial guarantees	19,926	17,900
Loan commitments issued to clients	514	1,428
Total financial guarantees and loan commitments	**20,440**	**19,328**

In conducting repo and reverse repo transactions, the Bank uses government bonds. Receivables from reverse repo transactions are included in amounts of Cash and balances with central banks (Note 3.8). Payables from repo transactions are included in amounts due to customers (Note 3.18). The securities received under reverse repo transactions are not recognized on statement of financial position, but the Bank has the right to re-pledge it or sell, however it also has an obligation to return it. Fair value of the securities held under reverse repo transactions was CZK 0 at 31 December 2015 (2014: CZK 69,580 million).

3.23. Legal contingencies

On 21 February 2002, the Bank was named as a defendant in a legal dispute initiated by AO Invest, spol. s r.o., in respect of compensation of a damage of CZK 238 million. The plaintiff alleges that the claimed damage was incurred with regard to the mediated purchase of 1,050 bonds of ZPS, a.s. The legal dispute was halted due to AO Invest, spol. s r.o., being declared bankrupt. The legal dispute is currently being conducted against the bankruptcy trustee of AO Invest. During 2008, the litigated amount decreased to CZK 137 million as a result of the plaintiff withdrawing the claim for compensation of CZK 100 million. At the end of 2008, the bankruptcy trustee sold the receivable, which is subject to the legal dispute, to MISORA HOLDINGS Limited, incorporated in British Virgin Islands.

Court afterwards allowed the change in plaintiff and the successor of the original plaintiff became cedant MISORA HOLDINGS LIMITED.

On 7 October 2015 the Prague Municipal Court issued a judgment by which it dismissed the action. The judgment will become enforceable after expiration of 15 days period from the delivery to the plaintiff. This is expected to happen in the course of 2016. Only after this the legal dispute can be considered as finished in case that no other circumstances occur.

3.24. Related party disclosures

Related parties of the Bank comprise:

1/ the Czech state. Dividends allocations are described in Note 3.20 and income taxes in Note 3.7.
2/ the associated undertaking MUFIS;
3/ key management personnel (being defined as Board of Directors, Supervisory Board and Audit Committee) – for the detail of the expenses see Note 3.4; and
4/ entities controlled by the same controlling entity, i.e. by the Czech state.

The balances from related-party transactions with the Czech state and entities controlled by the same controlling entity (in the table below - “Other related parties”) at the period-end date, related expense and income for the year (except for the income taxes and dividends) and off-balance sheet exposures are as follows:

CZKm	31 December 2015	31 December 2014
Assets	**24,490**	**28,872**
Czech state	23,568	27,734
Associates	-	-
Key management	-	-
Other related parties	922	1,138
Liabilities	**6,050**	**99,495**
Czech state	5,470	98,872
Associates	208	203
Key management	12	12
Other related parties	360	408
Revenues	**651**	**758**
Czech state	552	639
Associates	-	-
Key management	-	-
Other related parties	99	119
Expenses	**33**	**42**
Czech state	12	21
Associates	-	1
Key management	21	20
Other related parties	-	-
Collaterals provided under repo transactions and other off-balance sheet assets in the normal course of business	**-**	**71,275**
Czech state	-	71,275
Other related parties	-	-
Collaterals received under reverse repo transactions and other off-balance sheet liabilities in the normal course of business	**1,689**	**1,700**
Czech state	707	717
Other related parties	982	983

In the opinion of management all transactions entered into with related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not involve higher than normal credit risk or present other unfavorable features. These include current accounts, loans, deposits and securities issued by these entities and provided collaterals and loan commitments.

In PANEL guarantee program the Bank receives from Státní fond rozvoje bydlení ("SFRB") a fee of 1.3% p.a. of the guaranteed balance amount which is included in Fee and commission income of CZK 51 million (2014: 64 million).

Revenues from the Czech state include also interest income (see Note 3.1) from the infrastructure loans taken over from the Ministry of Finance. For details of the transaction see Note 3.11.

Terms and conditions of the related party transactions - average effective interest rates

The table below provides average interest rates of significant items of related parties assets and liabilities as of 31 December 2015 and 2014.

	31 December 2015	31 December 2014
Assets		
Amounts due from banks	0.06%	0.00%
Loans to customers	3.23%	3.19%
Available for sale securities	1.54%	1.83%
Securities at fair value through profit or loss	4.39%	4.12%
Securities held to maturity	4.58%	3.85%
Liabilities		
Amounts due to banks	0.04%	0.00%
Amounts due to customers	0.04%	0.09%
Repo operations with the Ministry of Finance	0.02%	0.04%

4/ Risk management and financial instruments

4.1. Credit risk

4.1.1. Risk management method

Credit rating of amounts due from customers and banks

The credit rating of the enterprises that are small and medium-sized businesses, municipalities, water management enterprises, housing associations and associations of owners of housing units, and non-profit organizations is undertaken in accordance with the Bank's internal regulations and involves assessing the borrower's credit worthiness on the basis of an analysis of economic and other aspects. The assessment of other than economic aspects involves analyzing external and internal factors that impact the client's activities and operations. The economic assessment focuses on undertaking a financial analysis of economic indicators and additional information. Credit worthiness is evaluated in relation to each transaction that carries an element of credit risk; credit risk exposure and the ratings are periodically assessed over the whole life of the loan transaction. Credit risk is expressed by assigning the borrower the relevant risk category. Credit risk exposure involved in a specific transaction is controlled by establishing contractual conditions and obtaining collateral in support of the transaction.

The monitoring of rating and credit risk involves assessing the following criteria (at minimum):

- current financial and economic situation of the clients;
- compliance with contractual terms, specifically reviews of the repayments of loan principal and interest amounts, payment of the fee for the provision of a guarantee, contractual penalties and charges, provision of information to the Bank, and balances on the client's bank accounts;
- restructuring;
- external factors, primarily economic, political and legal;
- loan analysts quarterly monitor the development of selected data and information for the monitoring of all clients as part of a client's financial analysis;
- staff of the Risky Transactions Department monitor the records of clients in bankruptcy, settlement and liquidation on an ongoing basis, with regular weekly checks;
- staff of business units monitor, on a monthly basis, the summary of clients for which the central loan register indicates that they have past due receivables.

Measuring credit risk of the portfolio

The Bank uses the following techniques to measure risks inherent in the loan and guarantee portfolio:

The method of quantified losses on the portfolio of loans and guarantees exposures compares the total quantified losses of doubtful and loss receivables with the redemption of these exposures. The quantification of losses also reflects the current balances of substandard exposures adjusted by an empirical and well-established coefficient which represents an estimate of the default rate of exposures in this category.

The weighted risk exposure method compares the weighted risk exposure with the original contractual amount of the loans (the balance of the actual loan draw-down) and guarantees. The weighted risk exposure consists of the sum of recorded provisions, the sum of receivables written-off, the sum of outstanding principal, the sum of outstanding interest and the sum of outstanding contractual penalties on client accounts, segmented by individual years of the portfolio's duration.

The risk category method compares quantified losses with the original contractual value of the loans or guarantees.

The incurred loss method is derived from calculated probabilities of individually unidentified default on individual internal risk categories described below and loss given default for specified type of exposures (loans, loans granted within the water infrastructure support program and guarantees).

Risk categories

The Bank has risk (internal rating) categories 4 to 10, which are linked to the Czech National Bank's risk categories: standard loans 4, 5 and 6, watch 7, substandard 8, doubtful 9 and loss 10. In 2012 the Bank established internal rating category X9. Clients, which the Bank considers doubtful and which are overdue only 180 days or less, are classified into this category.

Credit enhancement

In the course of its lending and guarantees business, the Bank accepts movable and immovable assets pledged as collateral. This fact is also considered in calculation of the impairment provisions. The Bank also uses various forms of guarantee statements to collateralize its loan receivables.

Movable and immovable asset collateral is recorded in operating records and is valued on the basis of an appraisal prepared by a licensed appraiser (nominal value of collateral). The Bank centrally revalues real estate collateral to market values every two years on the basis of pricing maps prepared by an external agency. Collaterals provided by individuals and legal entities and bills of exchange are recorded in operating records and are valued at estimated values provided by the Bank's internal regulation.

The recoverable value of collateral takes into account both the cost of recovering collateral and the time value of money.

If the borrower's receivable is past due by more than 360 days, the Bank does not attribute any value to the collateral, since the historical evidence proves negligible workouts from such collaterals.

Recovery of Amounts due from borrowers

The Bank recovers due receivables arising from bank guarantees and loans through its internal debt work-out system by using all statutory recovery instruments available according to generally applicable legal regulations. With a view to expediting the recovery process, the Bank has employed an arbitration clause in respect of loan contracts and enforceable notarial and distrainer deeds.

Economic sector risk concentrations

The Bank principally monitors risk concentrations in the area of loans issued to small and medium-sized businesses and receivables arising primarily from water management loans. These risks are periodically monitored and reassessed at least on an annual basis. Credit risk limits are approved by the Board of Directors. This concentration translates into the definition of the classes of the loans to customers.

Geographical concentrations

Although the Bank performs its key activities in the Czech Republic, some investments in securities are done also outside of the Czech Republic. For the geographical concentrations see Note 4.1 B.

Risk concentrations

Significant risk concentration is defined by the Bank as a situation, where excessive concentration of exposures against mutually related entities or groups, certain industries, business activities or geographical areas would have significant impact on Bank's performance and stability in the case of negative development.

The Bank primarily monitors risk concentrations in the area of preferential guarantees issued for loans to small and medium-sized businesses and for loans issued on housing units' repairs, preferential loans issued by the Bank to small and medium-sized businesses and loans to entrepreneurs and municipalities for water management projects. Majority of these loans and guarantees is provided in cooperation with the government and given the fact that the state participates on risk in some types of loans and guarantees the Bank's risk is effectively shared and thus limited. The Bank manages its risk concentrations in relation to credit exposure using system of limits for credit risk management. To identify concentration of credit risk the Bank mainly uses methods and procedures that are based on data analysis, which are stored in internal business and accounting systems of the Bank. The Bank does not use any hedging derivatives to eliminate these risks. The risks are periodically monitored.

Credit risk of other financial assets

Generally, in accordance with its internal regulations, the Bank defines eligible financial instruments for its investments. These principally involve deposits, bonds (mortgage bonds, CZK bonds, EUR bonds, and other foreign currency bonds) and derivatives (FX FWD, FX SWAP, CCS, IRS).

Credit assessment of counterparties and issuers involves analyzing the borrower's solvency on the basis of credit ratings published by internationally recognized rating agencies and evaluating economic and other aspects. The solvency of counterparties and issuers is periodically assessed over the whole life of the commercial loan transaction.

4.1.2. Credit risk – quantitative disclosures

aa) Quality of amounts due from customers

Information about the credit quality of financial assets that are neither past due nor impaired

31 December 2015

	Risk category							
CZKm Classes of financial assets	**4, 5**	**6**	**7**	**8**	**9**	**10**	**Not specified**	**Total**
Loans to private legal entities and individuals	91	367	90	15	-	-	24	587
Loans to Czech government entities	5,931	-	-	-	-	-	-	5,931
Loans to municipalities	-	242	-	-	-	-	-	242
Total	**6,022**	**609**	**90**	**15**	**-**	**-**	**24**	**6,760**

31 December 2014

	Risk category							
CZKm Classes of financial assets	**4, 5**	**6**	**7**	**8**	**9**	**10**	**Not specified**	**Total**
Loans to private legal entities and individuals	120	546	122	19	-	-	26	833
Loans to Czech government entities	7,693	-	-	-	-	-	-	7,693
Loans to municipalities	-	218	-	-	-	-	-	218
Total	**7,813**	**764**	**122**	**19**	**-**	**-**	**26**	**8,744**

Analysis of financial assets that are individually determined to be impaired

31 December 2015

	Risk category					
CZKm Classes of financial assets	**7**	**8**	**9**	**10**	**Not specified**	**Total**
Loans to private legal entities and individuals	1,152	425	367	1,135	701	3,780
Loans to municipalities	365	30	28	-	-	423
Total	**1,517**	**455**	**395**	**1,135**	**701**	**4,203**

31 December 2014

	Risk category					
CZKm Classes of financial assets	**7**	**8**	**9**	**10**	**Not specified**	**Total**
Loans to private legal entities and individuals	1,598	457	504	1,041	606	4,206
Loans to municipalities	461	43	14	-	-	518
Total	**2,059**	**500**	**518**	**1,041**	**606**	**4,724**

Analysis by regulatory rating

The loans to clients comprise the following, broken down by regulatory classification:

CZKm	Internal rating	31 December 2015	31 December 2014
Standard	4 – 6	6,611	8,555
Watched	7	1,650	2,228
Substandard	8	471	520
Doubtful	9	394	517
Loss	10	1,837	1,648
Total		**10,963**	**13,468**
Impairment provision for loans to customers (Note 3.5)		(1,906)	(1,878)
Net amounts due from customers		**9,057**	**11,590**

Analysis of provisions by risk category

CZKm		31 December 2015		31 December 2014	
Risk category		Type of provision		Type of provision	
		Individual	Portfolio	Individual	Portfolio
4 – 6	Standard	-	31	-	46
7	Watched	196	22	260	31
8	Sub-standard	119	-	154	-
9	Doubtful	182	-	272	-
10	Loss	1,356	-	1,115	-
Total		**1,853**	**53**	**1,801**	**77**
Total provisions			**1,906**		**1,878**

Analysis by collateral

The loan portfolio comprises the following, broken down by type of collateral:

CZKm	31 December 2015	31 December 2014
Bank guarantees and collateral by reliable guarantors	734	739
Cash collateral	10	16
Real estate collateral	1,544	1,963
Other loan collateral	80	48
Uncollateralized	8,595	10,702
Total	**10,963**	**13,468**
Impairment provision for loans to customers (Note 3.5)	(1,906)	(1,878)
Net amounts due from customers	**9,057**	**11,590**

Renegotiated loans to customers

CZKm	31 December 2015	31 December 2014
Loans to private legal entities and individuals	192	396

Aging analysis of loans past due which are not classified as individually impaired

As at 31 December 2015 the balance of loans past due which were not classified as individually impaired were CZK 0 million (2014: 0 million).

ab) Quality of guarantees portfolio

31 December 2015 in CZKm

	Risk classification								
Programs	**5**	**6**	**7**	**8**	**X9[1)]**	**9**	**10**	**No risk category***	**Total**
Guarantees for small and medium sized enterprises provided until 2006	4	10	46	36	52	-	99	-	247
PANEL small portfolio guarantees	-	35	98	11	9	-	4	204	361
PANEL individual investment guarantees	-	936	2,277	366	170	-	23	-	3,772
Other previously provided guarantees	-	-	-	-	-	-	22	-	22
Vadium	-	-	64	-	-	-	-	-	64
Small portfolio guarantees for businessmen since 2007	13	103	337	136	66	-	3	3,405	4,063
Small portfolio guarantees without external risk enhancement	27	214	742	184	82	-	9	6,796	8,054
Individual investment and operating guarantees for small and medium sized enterprises since 2007	18	191	1,861	519	608	-	146	-	3,343
Total	**62**	**1,489**	**5,425**	**1,252**	**987**	**-**	**306**	**10,405**	**19,926**

* Portfolio approach

[1)] Category X9 is used by the Bank to designate guarantees where the Bank anticipates delivery of the pay-out call

31 December 2014 in CZKm

	Risk classification								
Programs	**5**	**6**	**7**	**8**	**X9[1)]**	**9**	**10**	**No risk category***	**Total**
Guarantees for small and medium sized enterprises provided until 2006	7	27	79	49	55	-	132	-	349
PANEL small portfolio guarantees	-	40	117	7	13	-	5	230	412
PANEL individual investment guarantees	-	941	3,045	435	185	-	5	-	4,611
Other previously provided guarantees	-	-	-	-	-	-	22	-	22
Vadium	-	-	89	-	-	-	4	-	93
Small portfolio guarantees for businessmen since 2007	-	69	267	138	48	1	5	990	1,518
Small portfolio guarantees without external risk enhancement	36	178	658	199	61	-	1	5,929	7,062
Individual investment and operating guarantees for small and medium sized enterprises since 2007	31	136	2,288	624	534	-	220	-	3,833
Total	**74**	**1,391**	**6,543**	**1,452**	**896**	**1**	**394**	**7,149**	**17,900**

* Portfolio approach

[1)] Category X9 is used by the Bank to designate guarantees where the Bank anticipates delivery of the pay-out call

ac) Quality of Securities portfolio

The securities portfolio comprises the following, broken down by rating classification and classes of financial instruments:

31 December 2015

CZKm	AA- to AA+	A- to A+	Lower than A	Total
Securities at fair value through profit or loss	113	965	-	1,078
Securities available for sale	9,628	4,382	902	14,912
Securities held to maturity	2,353	2,835	-	5,188
Total	**12,094**	**8,182**	**902**	**21,178**

31 December 2014

CZKm	AA- to AA+	A- to A+	Lower than A	Total
Securities at fair value through profit or loss	415	1,091	-	1,506
Securities available for sale	9,832	6,327	451	16,610
Securities held to maturity	770	4,990	-	5,760
Total	**11,017**	**12,408**	**451**	**23,876**

ad) Quality of derivatives portfolio

The derivatives portfolio as at 31 December 2015 and 2014 includes established banking counterparties (with external rating equivalent of AA+ to A).

b) Geographical concentration of assets

31 December 2015

Assets

CZKm	Czech Republic	European Union	Total
Cash and balances with central banks	120	-	120
Amounts due from banks	261	-	261
Securities at fair value through profit or loss	746	332	1,078
Positive fair values of financial derivative transactions	103	-	103
Loans and advances to customers	9,057	-	9,057
Securities available for sale	13,688	1,224	14,912
Securities held to maturity	5,188	-	5,188
Other financial assets	41	-	41
Total financial assets	**29,204**	**1,556**	**30,760**
Non-financial assets	**347**	**-**	**347**
Total	**29,551**	**1,556**	**31,107**

31 December 2014

Assets

CZKm	Czech Republic	European Union	Total
Cash and balances with central banks	91,234	-	91,234
Amounts due from banks	180	-	180
Securities at fair value through profit or loss	1,157	349	1,506
Positive fair values of financial derivative transactions	169	-	169
Loans and advances to customers	11,590	-	11,590
Securities available for sale	15,718	892	16,610
Securities held to maturity	5,760	-	5,760
Other financial assets	45	-	45
Total financial assets	**125,853**	**1,241**	**127,094**
Non-financial assets	**349**	**-**	**349**
Total	**126,202**	**1,241**	**127,443**

c) The Bank's maximum credit risk exposure

31 December 2015 in CZKm

		Total exposure		Collateral held
	Assets	Financial guarantees and loan commitments	Total credit exposure	
Cash and balances with central banks	120	-	120	-
Amounts due from banks	261	-	261	-
Securities at fair value through profit or loss	1,078	-	1,078	-
Financial derivatives	103	-	103	-
Loans to customers	9,057	-	9,057	2,368
- Loans to private legal entities and individuals	2,559	-	2,559	2,022
- Loans to the Czech government entities	5,931	-	5,931	-
- Loans to municipalities	567	-	567	346
Securities available for sale	14,912	-	14,912	-
Securities held to maturity	5,188	-	5,188	-
Other financial assets	41	-	41	-
Financial guarantees and loan commitments	**-**	**20,441**	**-**	**2,659**
Total financial assets	**30,760**	**20,441**	**51,201**	**5,027**
Non-financial assets	**347**			
Total assets	**31,107**			

31 December 2014 in CZKm

		Total exposure		Collateral held
	Assets	Financial guarantees and loan commitments	Total credit exposure	
Cash and balances with central banks	91,234	-	91,234	69,580
Amounts due from banks	180	-	180	-
Securities at fair value through profit or loss	1,506	-	1,506	-
Financial derivatives	169	-	169	-
Loans to customers	11,590	-	11,590	2,765
- Loans to private legal entities and individuals	3,269	-	3,269	2,403
- Loans to the Czech government entities	7,693	-	7,693	-
- Loans to municipalities	628	-	628	362
Securities available for sale	16,610	-	16,610	-
Securities held to maturity	5,760	-	5,760	-
Other financial assets	45	-	45	-
Financial guarantees and loan commitments	**-**	**19,328**	**19,328**	**2,341**
Total financial assets	**127,094**	**19,328**	**146,422**	**74,686**
Non-financial assets	**349**			
Total assets	**127,443**			

The maximum credit exposure is presented at carrying values net of any recognized impairment losses. Collaterals held for due from banks represents the fair value of the securities obtained under reverse repo transactions, for loans to customers principally the collateralized mortgages (see Note 4.1.2) and in case of the financial guarantees the current level of funds deposited by the programs partners to cover risks attached to providing of the financial guarantees (see Note 3.18).

4.2. Market risk

4.2.1. Management of the market risk

Characteristics of Market Risks

The principal market risk management strategy is defined in the Bank's internal regulations and in the documents approved by the Board of Directors of the Bank, and primarily provides guidance on the following areas:

- acceptable degree of market risks;
- market risk management techniques;
- set of limits used; and
- basic requirements regarding the Bank's organizational structure in terms of market risk management, including segregation of duties and information flows.

Description of Transactions Carrying Market Risks

The Bank is exposed to market risks in acquiring, holding and selling investment instruments defined in the Investment Strategy of ČMZRB. This risk arises from open positions in interest rates and currencies, there are no exposures to risk in equities.

Market Risk Measurement

The Bank measures interest rate risk using basic techniques (interest rate GAP analysis, duration and elasticity of interest rates) and techniques to calculate capital ratio as set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council.

In addition, the Bank has developed a series of internal limits to restrict its market risk exposure. The interest rate GAP analysis measures interest rate risk inherent in the trading and banking book on a collective basis. Interest rate risk is restricted through limits to net interest rate exposure in each time bucket. Interest rate risk inherent in all bond portfolios is restricted by having a limit in place in respect of the elasticity of the bond portfolio. The Bank undertakes stress testing on a quarterly basis in accordance with Regulation no.163/2014.

Market Risk Management

The Bank's instrument for managing market risks involves the external capital ratio limit and internal limits for interest rate risk and elasticity of the interest rate in respect of the bond portfolio. In addition, the market risk is mitigated through the implementation of an internal capital ratio limit.

Foreign currency risk is prevented by limits set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council.

Interest rate risk limits restrict the size of interest rate GAP in each time bucket of an interest rate GAP analysis in relation to the Bank's capital and are expressed in percentage terms. The limit for elasticity of the interest rate in respect of the bond portfolio restricts the market risk associated with all bond portfolios together with derivatives hedging risk arising from the change in exchange rates when the Bank holds foreign currency bonds.

The Bank's internal capital ratio limit sets out requirements that are more stringent than the external capital ratio limit established by the banking regulator. The Bank uses hedging derivatives to manage market risk. The Bank has secured loans from European Investment Bank and German Kreditanstalt für Wiederaufbau as well as bonds. The risk management department of the Bank calculates accounting hedge effectiveness.

4.2.2. Derivates

Trading derivatives

	31 December 2015		31 December 2014	
CZKm	**Notional value asset**	**Notional value liability**	**Notional value asset**	**Notional value liability**
Interest rate swaps	500	500	500	500
Currency and cross - currency swaps	2,091	2,109	2,586	2,526
Total	**2,591**	**2,609**	**3,086**	**3,026**

	31 December 2015		31 December 2014	
CZKm	**Positive fair value**	**Negative fair value**	**Positive fair value**	**Negative fair value**
Interest rate swaps	-	53	-	65
Currency swaps	103	155	169	156
Total	**103**	**208**	**169**	**221**

Hedging derivatives

The Bank uses the fair value hedging derivatives to hedge currency risk relating to recognized hedged items, which are securities denominated in foreign currencies (see Notes 3.12 and 4.3).

	31 December 2015		31 December 2014	
CZKm	**Notional value asset**	**Notional value liability**	**Notional value asset**	**Notional value liability**
Cross currency swaps	171	182	203	211
Total	**171**	**182**	**203**	**211**

	31 December 2015		31 December 2014	
CZKm	**Positive fair value**	**Negative fair value**	**Positive fair value**	**Negative fair value**
Cross currency swaps	-	36	-	41
Total	**-**	**36**	**-**	**41**

4.3. Foreign currency risk

The Bank's financial position and cash flows are exposed to the risks of changes in exchange rates of common foreign currencies. The Bank monitors its foreign currency positions on a daily basis. In the event that the Bank breaches limits, it undertakes measures as outlined in its internal regulations relating to foreign currency exposure limits.

The table below provides summary information about the Bank's exposure to foreign currency risk. The tables set out foreign currency assets and liabilities at carrying values, analyzed by currency.

The Bank covers its open position by using financial derivatives as can be seen from the tables below and the sensitivity analysis.

31 December 2015

CZKm	CZK	EUR	USD	Total
Cash and balances with central bank	120	-	-	120
Amounts due from banks	197	64	-	261
Securities at fair value through profit or loss	463	332	283	1,078
Financial derivatives	103	-	-	103
Loans to customers, net	5,701	3,356	-	9,097
Securities available for sale	14,912	-	-	14,912
Securities held to maturity	5,188	-	-	5,188
Other financial assets	41	-	-	41
Total financial assets	**26,725**	**3,752**	**283**	**30,760**
Non-financial assets	**347**	**-**	**-**	**347**
Total assets	**27,072**	**3,752**	**283**	**31,107**
Amounts due to banks	4,585	5,157	-	9,742
Amounts due to customers	11,655	51	-	11,706
Financial derivatives	244	-	-	244
Other financial liabilities	230	-	-	230
Total financial liabilities	**16,714**	**5,208**	**-**	**21,922**
Non-financial liabilities and equity	**9,185**	**-**	**-**	**9,185**
Total liabilities and equity	**25,899**	**5,208**	**-**	**31,107**
Statement of financial position net	1,173	(1,456)	283	-
Off-balance sheet derivatives notional position, net	-	1,503	(273)	-
Net position	**1,173**	**47**	**10**	**-**

31 December 2014

CZKm	CZK	EUR	USD	Total
Cash and balances with central bank	91,234	-	-	91,234
Amounts due from banks	154	26	-	180
Securities at fair value through profit or loss	774	466	266	1,506
Financial derivatives	169	-	-	169
Loans to customers, net	7,242	4,348	-	11,590
Securities available for sale	16,610	-	-	16,610
Securities held to maturity	5,760	-	-	5,760
Other financial assets	45	-	-	45
Total financial assets	**121,988**	**4,840**	**266**	**127,094**
Non-financial assets	**349**	**-**	**-**	**349**
Total assets	**122,337**	**4,840**	**266**	**127,443**
Amounts due to banks	7,750	6,565	-	14,315
Amounts due to customers	103,903	49	-	103,952
Financial derivatives	262	-	-	262
Other financial liabilities	237	-	-	237
Total financial liabilities	**112,152**	**6,614**	**-**	**118,766**
Non-financial liabilities and equity	**8,677**	**-**	**-**	**8,677**
Total liabilities and equity	**120,829**	**6,614**	**-**	**127,443**
Statement of financial position net	1,508	(1,774)	266	-
Off-balance sheet derivatives notional position, net	-	1,803	(251)	-
Net position	**1,508**	**29**	**15**	**-**

Foreign exchange rates sensitivity analysis

Set out below is a sensitivity analysis to foreign currency risk. The statement of financial position items in foreign currencies were tested in respect of the upward movement of a foreign exchange rate by 10% (a 10% appreciation of the currencies would have an equal and opposite effect). The open position in EUR and USD currencies is hedged using derivatives. The hedging instruments almost fully counter-balance the open position (see tables above) and therefore also the income statement and equity impact of the movements in foreign exchange rates is not significant as of the statement of financial position date and also during the year. The table below summarizes the sensitivities in CZK in comparison only to CZK/EUR exchange rates valid as of 31 December 2015 or 2014 as EUR was the only significant currency in which the Bank had open position as at that date (for open position amounts see above).

	2015 CZKm	2014 CZKm
Sensitivity to changes in EUR rates		
Expected rate fluctuation,%	10%	10%
Open position	47	28
Effect on profit and loss	5	3
Effect on equity	-	-

4.4. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market interest rate before maturity, the next repricing date. Those assets and liabilities that do not have contractual maturity or a repricing date were grouped in the 'non-specified' category.

The Bank has a significant portion of amounts due to customers which are not interest bearing instruments. These comprise part of state deposits and risk funds (see Note 3.18). These liabilities are presented as liabilities with non-specified interest rate sensitivity.

Impaired loans are carried on a non-accrual basis and presented as items with non-specified interest rate sensitivity.

31 December 2015

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Non-specified CZKm	Total CZKm
Cash and balances with central bank	111	-	-	-	9	120
Amounts due from banks	261	-	-	-	-	261
Securities at fair value through profit or loss	139	299	528	112	-	1,078
Financial derivatives	-	-	-	-	103	103
Loans to customers, net	792	1,308	5,054	1,007	896	9,057
Securities available for sale	5	317	3,625	10,965	-	14,912
Securities held to maturity	-	-	2,076	3,112	-	5,188
Other financial assets	-	-	-	-	41	41
Total financial assets	**1,308**	**1,924**	**11,283**	**15,196**	**1,049**	**30,760**
Non-financial assets	**-**	**-**	**-**	**-**	**347**	**347**
Total	**1,308**	**1,924**	**11,283**	**15,196**	**1,396**	**31,107**
Amounts due to banks	3,205	1,203	4,519	825	(10)	9,742
Amounts due to customers	8,120	857	-	-	2,729	11,706
Financial derivatives	-	-	-	-	244	244
Other financial liabilities	-	-	-	-	230	230
Total financial liabilities	**11,325**	**2,060**	**4,519**	**825**	**3,193**	**21,922**
Non-financial liabilities and equity	**-**	**-**	**-**	**-**	**9,185**	**9,185**
Total	**11,325**	**2,060**	**4,519**	**825**	**12,378**	**31,107**
Net interest position	**(10,017)**	**(136)**	**6,764**	**14,371**	**(10,982)**	**-**

31 December 2014

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Non-specified CZKm	Total CZKm
Cash and balances with central bank	91,227	-	-	-	7	91,234
Amounts due from banks	179	-	-	-	1	180
Securities at fair value through profit or loss	4	140	757	605	-	1,506
Financial derivatives	-	-	-	-	169	169
Loans to customers, net	833	1,398	6,679	1,612	1,068	11,590
Securities available for sale	10	1,299	4,628	10,673	-	16,610
Securities held to maturity	-	2,135	1,489	2,136	-	5,760
Other financial assets	-	-	-	-	45	45
Total financial assets	**92,253**	**4,972**	**13,553**	**15,026**	**1,290**	**127,094**
Non-financial assets	**-**	**-**	**-**	**-**	**349**	**349**
Total	**92,253**	**4,972**	**13,553**	**15,026**	**1,639**	**127,443**
Amounts due to banks	5,714	1,207	5,993	1,400	1	14,315
Amounts due to customers	100,734	64	-	-	3,154	103,952
Financial derivatives	-	-	-	-	262	262
Other financial liabilities	-	-	-	-	237	237
Total financial liabilities	**106,448**	**1,271**	**5,993**	**1,400**	**3,654**	**118,766**
Non-financial liabilities and equity	**-**	**-**	**-**	**-**	**8,677**	**8,677**
Total	**106,448**	**1,271**	**5,993**	**1,400**	**12,331**	**127,443**
Net interest position	**(14,195)**	**3,701**	**7,560**	**13,626**	**(10,692)**	**-**

Interest rate sensitivity analysis

Statement of financial position items sensitive to interest rates were analyzed under the 2% expected parallel increase in interest rates. The Bank modelled 8 scenarios for possible movements of interest rates as the benchmark; the most probable alternative of 2% parallel shift was selected for reporting purposes. The impact on profit and loss and equity (in the case of available-for-sale securities) is outlined below.

Statement of financial position item	31 December 2015 Sensitivity/Impact	31 December 2014 Sensitivity/Impact	Comment
Assets			
Loans to customers	(123)	(178)	
Loans to banks	0	(10)	
Held to maturity securities	-	-	Only fixed interest rates securities in the portfolio
Available for sale securities	214	(108)	Impact on equity reserve
Available for sale securities	277	(77)	Impact on profit and loss
Financial derivatives	(129)	(186)	
Liabilities			
Due to banks	366	554	
Due to customers	8	2	
Financial derivatives	132	188	

4.5. Liquidity risk

Liquidity risk is the risk that the Bank will lose its ability to meet its financial obligations as they fall due or that it will not be able to fund its assets. Liquidity risk may result from a temporary payment insolvency and low liquidity of the market with financial instruments, which makes it impossible to quickly close out positions thereby limiting access to funding. The basic liquidity management tool involves the record-keeping and planning of the Bank's cash flows. In support of liquidity management, the Bank uses two mechanisms - payment notices and price setting. The liquidity management strategy is established and implemented through the preparation of a 'Liquidity Scenario' and 'Emergency Plan for Events Jeopardising the Bank's Liquidity'. The Bank's liquidity position is monitored through the liquidity reserve limit in relation to the value of adjusted weighted risk exposure.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees, margins and settlement of derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based upon the remaining maturity period as of the period-end date.

As the main depositors of the Bank are state institutions (Ministry of Finance etc.) the current accounts of the Bank are presented as being repayable on demand because these funds can be withdrawn upon demand. However these deposits represent specific financing granted, e.g. funding for state approved programs and therefore their withdrawal is not likely in large volume upon demand.

The Bank has a significant portion of amounts due to customers which are held for an undefined amount of time to finance individual support programs. These comprise part of state deposits and risk funds (see Note 3.18). These liabilities are presented as liabilities with undefined maturity.

31 December 2015

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
Cash and balances with central bank	117	-	-	-	3	120
Amounts due from banks	67	-	-	-	194	261
Securities at fair value through profit or loss	139	299	528	112	-	1,078
Financial derivatives	-	-	27	76	-	103
Loans to customers, net	1,197	1,490	5,521	849	-	9,057
Securities available for sale	5	317	3,625	10,965	-	14,912
Securities held to maturity	-	-	2,076	3,112	-	5,188
Other financial assets	29	-	-	-	12	41
Total financial assets	**1,554**	**2,106**	**11,777**	**15,114**	**209**	**30,760**
Non-financial assets	**14**	**6**	**1**	**-**	**326**	**347**
Total	**1,568**	**2,112**	**11,778**	**15,114**	**535**	**31,107**
Amounts due to banks	2,869	1,236	4,762	875	-	9,742
Amounts due to customers	5,967	3,050	44	2,645	-	11,706
Financial derivatives	15	87	79	63	-	244
Other financial liabilities	-	-	-	-	230	230
Total financial liabilities	**8,851**	**4,373**	**4,885**	**3,583**	**230**	**21,922**
Non-financial liabilities and equity	**674**	**757**	**819**	**1,788**	**5,147**	**9,185**
Total	**9,525**	**5,130**	**5,704**	**5,371**	**5,377**	**31,107**
Net liquidity exposure	**(7,957)**	**(3,018)**	**6,074**	**9,743**	**(4,842)**	**-**

31 December 2014

	Up to 3 months CZKm	3 months to 1 year CZKm	1 year to 5 years CZKm	Over 5 years CZKm	Maturity undefined CZKm	Total CZKm
Cash and balances with central bank	91,230	-	-	-	4	91,234
Amounts due from banks	27	-	-	-	153	180
Securities at fair value through profit or loss	4	140	757	605	-	1,506
Financial derivatives	1	-	50	103	15	169
Loans to customers, net	1,329	1,602	7,323	1,336	-	11,590
Securities available for sale	10	1,299	4,628	10,673	-	16,610
Securities held to maturity	-	2,135	1,489	2,136	-	5,760
Other financial assets	36	-	-	-	9	45
Total financial assets	**92,637**	**5,176**	**14,247**	**14,853**	**181**	**127,094**
Non-financial assets	**14**	**6**	**-**	**-**	**329**	**349**
Total	**92,651**	**5,182**	**14,247**	**14,853**	**510**	**127,443**
Amounts due to banks	5,314	1,207	6,136	1,658	-	14,315
Amounts due to customers	101,169	779	1	2,003	-	103,952
Financial derivatives -	8	129	125	-	262	
Other financial liabilities	1	-	-	-	236	237
Total financial liabilities	**106,484**	**1,994**	**6,266**	**3,786**	**236**	**118,766**
Non-financial liabilities and equity	**291**	**868**	**766**	**1,903**	**4,849**	**8,677**
Total	**106,775**	**2,862**	**7,032**	**5,689**	**5,085**	**127,443**
Net liquidity exposure	**(14,124)**	**2,320**	**7,215**	**9,164**	**(4,575)**	**-**

Contractual liquidity of the main non-derivative financial liabilities at amortized cost and derivatives – undiscounted basis

a/ Amounts due to banks and customers

31 December 2015

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to banks	2,863	1,441	5,323	1,097	10,724
Amounts due to customers	8,337	869	1,929	572	11,707

31 December 2014

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to banks	9,781	1,411	6,726	1,645	19,563
Amounts due to customers	103,139	100	25	-	103,264

b/ Derivatives settled on a net basis

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the period-end date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted net cash flows.

31 December 2015

CZKm		Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swaps	-	(13)	(39)	(3)	(55)	

31 December 2014

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swaps	-	(12)	(45)	(8)	(65)

c/ Derivatives settled on a gross basis

The Bank's derivatives that will be settled on a gross basis comprise of foreign exchange derivatives: currency forward, currency swaps and cross currency interest rate swaps.

The table below analyses the Bank's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the period-end date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

4.6. Operational risk

31 December 2015

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cross-currency swaps:					
Cash inflows	211	483	1,275	377	2,346
Cash outflows	214	583	1,290	362	2,449

31 December 2014

CZKm	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cross-currency swaps:					
Cash inflows	114	396	1,641	731	2,913
Cash outflows	104	414	1,713	722	2,953

The Bank defines operational risk as the risk of loss arising from human errors, the inappropriateness or failure of internal processes, failures of systems or the risk of loss resulting from external events.

The system of the Bank's operational risk management is built around the following four cornerstones:

- strategy (clear vision, management attitude, culture);
- organization (Board of Directors, Assets and Liabilities Management Committee, internal audit, operational risk management coordinator, and the Bank's departments);
- processes (identification, evaluation, countermeasures, monitoring and reporting); and
- infrastructure (system, source of information, data collection and communication).

Identification of Operational Risk

The Bank identifies individual operational risks in all of its departments and categorizes them according to the underlying cause (human error, internal process, information system, external factor). Responsibility for identifying operational risks primarily rests with the head of the department where the risk originates (via a self-evaluation form). Collection of information from individual departments and its processing is within the remit of the coordinator. The Bank identifies and records each risk to which it is exposed, even a risk that is no longer treated as a risk due to the countermeasures that are currently being implemented.

Evaluation of Operational Risk

Operational risk is evaluated in terms of the likelihood of its occurrence (graded one to five) and the significance of impact if it materializes (graded one to five). The Bank has opted for a qualitative approach to evaluating the risk which better meets its needs and better reflects the situation within the Bank. The evaluation is based on a reasonable estimate and uses scores to assess the likelihood of the occurrence and the significance of impact. Following the evaluation, individual risks are rated according to their overall significance (risk profile) into the following three levels:

- low (ideal risk profile where the Bank only checks the effectiveness of the existing measures);
- medium (the risk is acceptable only if the implementation of an appropriate countermeasure to mitigate the risk is too costly); and
- high (the risk is not acceptable, additional countermeasures need to be put in place and the risk mitigated).

Countermeasures

Responsibility for the implementation of an appropriate countermeasure against operational risks rests within the department where the risk originates (mitigation of the likelihood of the occurrence of operational risk or its impact on the Bank).

Monitoring and Reporting

The basic tool for monitoring is the database of incidents and a report on operational risk management within the Bank. These activities result in a risk profile of the Bank. Operational risk events include all events that have a direct impact on the Bank's profit or loss according to the Bank's activities during which the event occurred.

4.7. Capital management

The Bank has identified the following risks which should be covered entirely or partially by capital: market risks, interest rate risk of the banking book, credit risk and concentration risk, liquidity risk and operational risk.

The principal objectives of the Bank in managing capital risks are as follows:

- quantification of risks in the form of economic capital which is needed to cover potential losses arising from these risks;
- comparison of capital requirements with capital resources;
- management of capital resources with respect to current and future risks;
- determination of the maximum acceptable degree of risks with respect to available capital resources;
- monitoring and management of the performance of business activities with respect to the risk or the capital requirements; and
- strategic planning with respect to the risk, allocated capital resources and capital efficiency of individual business activities of the Bank.

The Bank has established an internal limit for capital ratio at 12%. The Bank has implemented the standard approach for capital management which is in compliance with Basel II requirements.

CZKm	**31 December 2015**	**31 December 2014**
Tier 1 capital		
Share capital	2,132	2,132
Less: Own treasure shares	-	(776)
Other reserves	1,150	1,150
Retained earnings (without profit for the current year, statutory non-consolidated)	756	1,413
Less: Values adjusting according to requirements for prudent valuation	(2)	(19)
Less: intangible assets	(23)	(33)
Total qualifying Tier 1 capital	**4,013**	**3,867**
Total regulatory capital	**4,013**	**3,867**
Total risk weighted exposure	**21,735**	**22,564**
Capital ratio	**18.46%**	**17.14%**

5/ Fair values of assets and liabilities and fair value hierarchy

The fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. When available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other generally acceptable pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect the estimates. Therefore, the calculated fair market estimates might not be realized in a current sale of the financial instrument. In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

(a) Cash and balances with central banks

The carrying values of cash and balances within central banks are generally deemed to approximate their fair value.

(b) Securities held to maturity

Fair values of securities in the 'Held-to-Maturity' portfolio are taken from the active market, where these instruments are quoted.

(c) Due from banks

The fair value of amounts due from banks is estimated based upon discounted cash flow analyses using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk).

(d) Loans to customers

The fair value of variable yield loans that regularly reprice, with no significant change in credit risk, generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analyses, based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality.

(e) Loans and advances to banks

The fair value of term deposits repayable on demand approximates the carrying value of amounts repayable on demand as of the period-end date. The fair value of term deposits at variable interest rates approximates their carrying values as of the period-end date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates.

The following table summarizes the carrying values and fair values of those financial assets and liabilities not presented on the statement of financial position at their fair value:

CZKm	31 December 2015 Carrying value	31 December 2015 Fair value	31 December 2014 Carrying value	31 December 2014 Fair value
Financial assets				
Cash and balances with central banks	120	120	91,234	91,232
Loan and advances to banks	261	261	180	180
Loans to customers	9,057	8,859	11,590	11,262
- Loans to private legal entities and individuals	2,559	2,517	3,269	3,163
- Loans to the Czech government entities	5,931	5,777	7,693	4,795
- Loans to municipalities	567	565	628	604
Securities held to maturity	5,188	5,688	5,760	6,332
Other financial assets	41	41	45	45
Financial liabilities				
Amounts due to banks	9,742	9,619	14,315	14,028
Amounts due to customers	11,706	11,604	103,952	103,923
Other financial liabilities	230	230	237	237

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments on exchanges (for example Prague Stock Exchange and other recognized stock exchanges)
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivative contracts. The sources of input parameters like PRIBOR or other yield curves are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes financial instruments with significant unobservable components

This hierarchy requires the use of observable market data when available. The Bank considers only relevant and observable market prices in its valuations and does not have any financial assets or liabilities at fair value to be categorized in Level 3. There have not been any reclassifications between the Levels 1 and 2 during the presented periods.

31 December 2015	Level 1	Level 2
Financial assets at fair value through profit and loss		
Financial assets held for trading		
- Debt securities	113	-
- Derivatives	-	103
Debt securities designated at fair value	965	-
Available-for-sale debt securities:	14,912	-
Total assets at fair value	**15,990**	**103**
Financial liabilities at fair value through profit and loss		
- Derivatives held for trading	-	208
Hedging derivatives	-	36
Total liabilities at fair value	**-**	**244**

31 December 2014	Level 1	Level 2
Financial assets at fair value through profit and loss		
Financial assets held for trading		
- Debt securities	415	-
- Derivatives	-	169
Debt securities designated at fair value	1,091	-
Available-for-sale debt securities:	16,610	-
Total assets at fair value	**18,116**	**169**
Financial liabilities at fair value through profit and loss		
- Derivatives held for trading	-	221
Hedging derivatives	-	41
Total liabilities at fair value	**-**	**262**

6/ Subsequent events

No significant events having a material impact on the financial statements of the Bank for the year ended 31 December 2015 occurred subsequent to the period-end date.

The Board of Directors has authorized these financial statements for submission to the General Meeting of Shareholders. These financial statements have been signed, on the basis of authority delegated by the Board of Directors, by Jiří Jirásek, Chairman of the Board and Jan Ulip, Member of the Board.

ČESKOMORAVSKÁ ZÁRUČNÍ A ROZVOJOVÁ BANKA, a.s.

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