

ANNUAL
REPORT
2015





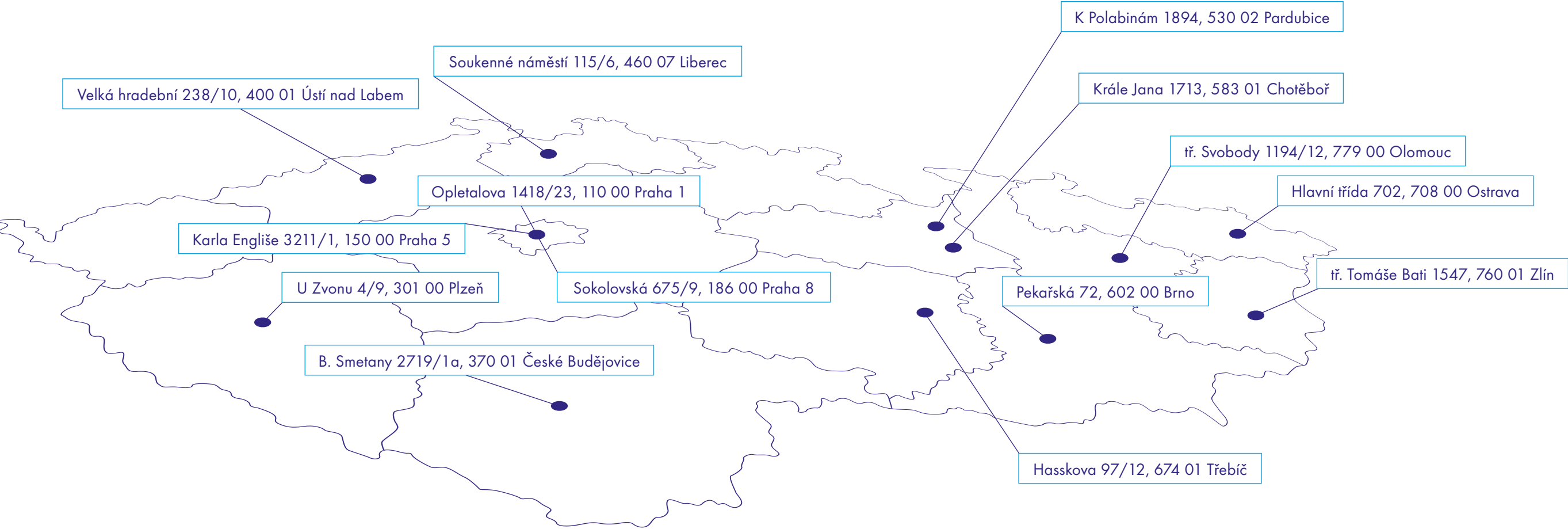
INTRODUCTION OF CREDIT UNION

Záložna CREDITAS, spořitelní družstvo (hereinafter referred to as „Credit union“), has been operating on the financial market since 1996. From a business with regional operations, it transformed into a financial institution with nationwide operations. Credit union is a stable financial cooperative with a branch network throughout the whole Czech Republic with a complete portfolio of products for both individuals and legal entities, including current accounts administration, advantageous savings and loan products, free internet banking and MasterCard payment cards. Our members are offered foreign payment services, the purchase and sale of foreign currencies and, at some branches, we also offer exchange services for selected currencies. Currency conversions for advantageous and individually negotiated exchange rates with immediate realisation of spot currency is also one of our desired products.

Credit union is a financial entity with a cooperative legal form, established according to Act no. 87/1995 Coll., on credit unions. Credit union does not have any foreign branch.



NUMBER
OF BRANCHES
AS AT 31 DECEMBER
2015

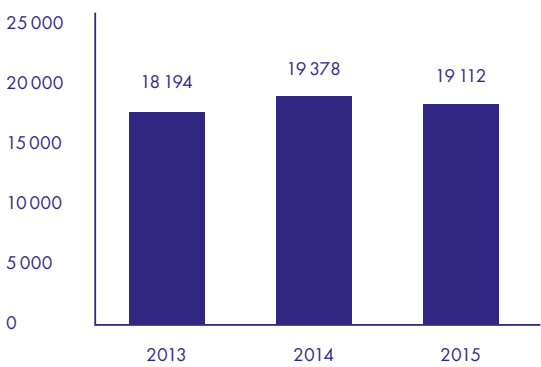


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OVERVIEW OF SELECTED INDICATORS IN CHARTS

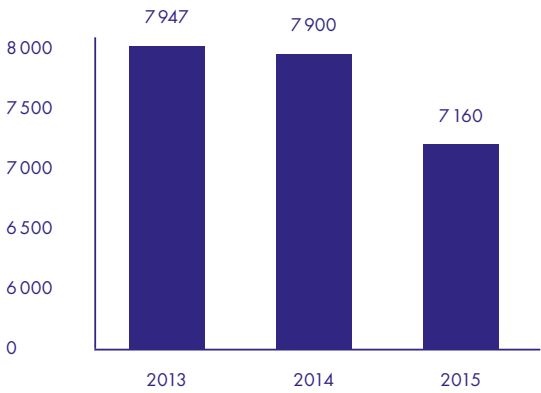
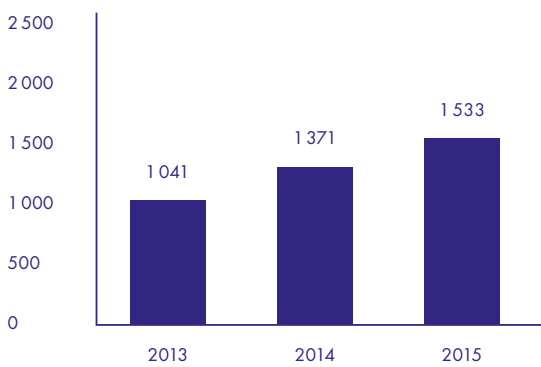
(DATA AS AT 31 DECEMBER 2015)



number of members

19,112

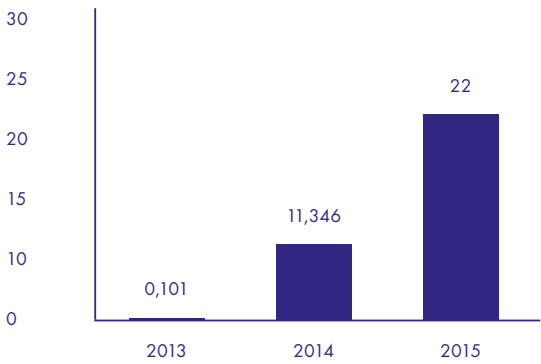
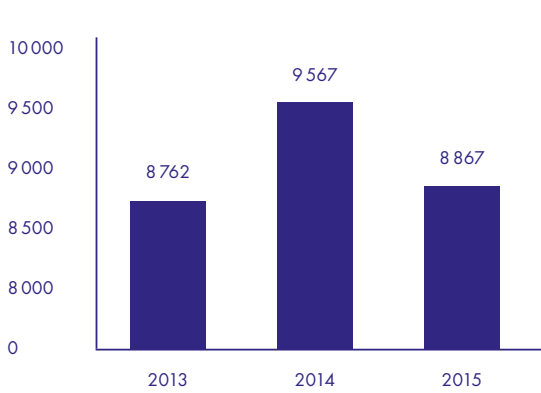
number of legal entities



volume of loans (in CZK million)

7,160

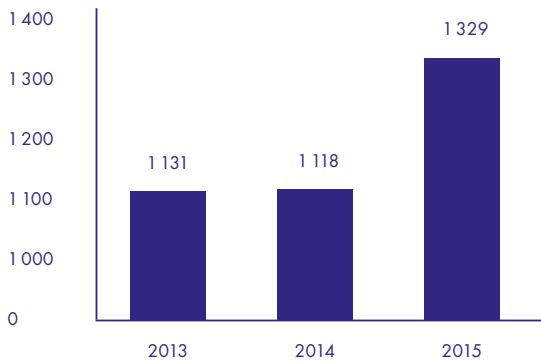
volume of deposits (in CZK million)



profit for the financial period (in CZK million)

22

volume of regulatory capital (in CZK million)



1,329



INTRODUCTION OF THE CHAIRMAN OF THE BOARD

Dear members,

In the occasion of Credit union annual report presentation, let me make a short summary not only of previous year events, but also of the present situation, and say couple of personal words in this regard.

The year 2015 was the year of the total stabilization and consolidation for Credit union after its previous significant, several years of growth. It was a difficult year due to the necessity to simultaneously proceed right along several different lines within our business and at the same time continuously respond to developments and changing conditions. Namely, there was fundamental change of the legislative framework governing the activities of credit unions which includes the increasing in interest of laic and professional public, detailed monitoring by the supervisory authority and strategic plan for transformation to a bank. Simultaneously, we had to ensure the ordinary business, keep stable financial position and achieve a favourable net profit.

I would like to say that we achieved a very good and cheering results for the year 2015 on which it is possible to build in the future and we can capture this year as a successful, despite the difficult and specific conditions.

In 2015, the concrete significant steps to transform the Credit union into the bank were made. I would like to mention mainly unambiguous approval of the project to transform into the bank and approval of the legal form change by the membership meeting and the following submission of application for granting the banking licence by the Czech National Bank (hereinafter CNB). We are convinced we have done as maximum as possible for successful transformation so far and we are fully obliged to continue to do so. Within the objectivity it is necessary to mention that the following course of the process will be doubtless difficult and achieving the target is not predetermined or guaranteed. To manage successful transformation and from our Credit union becoming our Bank in the end, it will be necessary to overall spend and sustain full concentration and dedication and continually demonstrate the ability to overcome adverse conditions which can

occur over time, including external factors without own influence or activity of the Credit union itself.

Given the unstoppable passage of time, it is already the year 2016 which will be a turning-point and crucial for Credit union's subsequent development. It is primarily about further progress on the transformation into the bank but also about the ability to keep stable financial position henceforth and at the same time succeed in business in difficult competitive environment of the local financial market.

In the end, please, let me at this point to express my sincere thanks to you, our clients, business partners and employees for all your patronage and demonstrated support. We very appreciate the trust with which you have embraced us and I promise in the next years, we will do all not to disappoint this trust and concurrently ensure perspective for Credit union of its future functioning as Bank CREDITAS.

Yours faithfully



Vladimír Hořejší, MBA
Chairman of the Board of Directors

In Olomouc, 16 March 2016



SELECTED EVENTS OF 2015

4/2015

CREDIT UNION CONTROL

The owner of the investment Group UNICAPITAL Mr. Pavel Hubáček strengthened his influence in the area of financial services by obtaining more than half a billion share capital of Credit union last year. Mr. Hubáček increased Credit union's share capital by CZK 150 million in total in 2015 whereas Credit union share capital exceeded the amount of CZK 1 billion also thanks to this increase.

7/2015

AMENDMENT TO THE ACT ON SAVINGS AND CREDIT UNIONS

The new legislation introduced into force the so called rule 1:10 which covers the relation between the membership deposit and interest-bearing deposit in Credit union at the minimal ratio one to ten. The amendmaent impacted deposits held by Credit union since 1 July 2015.

9/2015

NEW CREDIT UNION BRANCH IN PRAGUE

In September 2015, Credit union opened already the third branch in Prague, this time in Prague 8 - Florenc. Concurrently, the Prague part of Credit union headquarters moved into the administration building S9 Florenc whose location ensures excellent traffic availability and which provides generous facilities with four client workplaces on an area of 120 square meters, and took of- fice space at fifth and sixth floor.

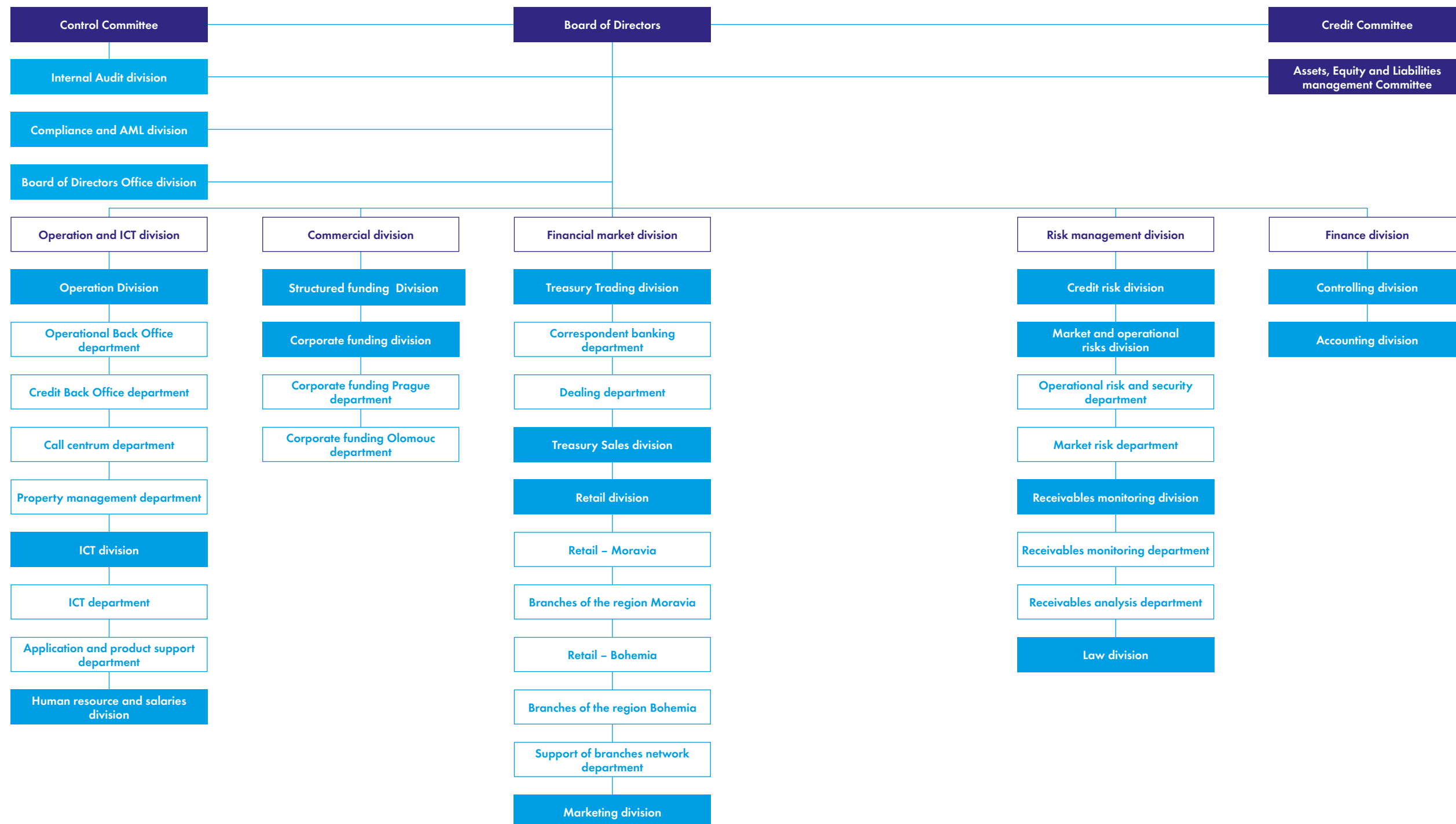
10/2015

APPLICATION FOR BANK LICENCE

On 22 October 2015, Credit union CREDITAS applied for Bank license and at the same time applied for approval of legal form change.

ORGANISATIONAL STRUCTURE

(DATA AS AT 31 DECEMBER 2015)



CREDIT UNION CREDITAS' BOARD OF DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Dear members, business partners and friends,

We are pleased to present the Annual report of Záložna CREDITAS, spořitelní družstvo (hereinafter also referred to as „Credit union“) for the year 2015 and provide information about its overall situation, financial position, economic results, activities and development plans in the future.

The past year was essential and crucial for Credit union due to several reasons which we address in details within the report. At the beginning, we would like to say that despite challenging goals, newly specified legislative conditions for business and highly competitive environment, the year was overall successful for Credit union. Credit union managed to keep strong and stable financial position with a total balance sheet volume of CZK 10,286 million and achieve net profit after taxation of CZK 22.2 million. The independent auditor's report and financial statement with presented information about financial position and business results are integral part of the Annual report.

The most significant external factor was the amendment of the Act no. 87/1995 Coll., on savings and credit unions which was accepted by the government after the long and complicated legislative process at the end of 2014. New law presents political-regulatory instrument for systemic transformation of the existing functioning of the credit union segment and therefore directly affects Credit union itself. Given the importance and impact of these changes, it is appropriate to perform a short recapitulation.

Since 1 January 2015, the credit unions are obligated to remit twice the amount of contributions to the Deposit Insurance Fund. The obligatory levy of the part of the credit unions profit to the Risk Fund was increased as well and since the same date, the tightened conditions of providing products and services only to members is used.

New amendment introduced essential measure in relation to accepting deposits which enforces higher credit union members' involvement in the functioning of the credit union itself. It is about determining a minimum of the member contribution (the total of the general and additional member contributions) in the amount of one tenth sum of the interest-bearing deposits for the given member. The rule is valid for deposits received after 1 July 2015. The "one-tenth" rule is applied to deposits received before this date (in case of fulfilment of the certain conditions) in a milder form since 1 January 2018. This rule means that the deposits above

the amount of ten times the sum of the given member (capital) deposits are generally allowed, although cannot bear interest. A lot of ambiguity resulting from the specificity and variety of possible interpretations in relation to this rule eventually led to issuing of the official detailed explanatory opinion of the CNB in June 2015. Entire first half of the year 2015, which was critical and time limiting with respect to this rule, was impacted by factual and legal uncertainty for the credit unions, their members and clients.

Within the group of measures effective since the beginning of 2018, there is still a limit on the size of a credit union in the total assets amount of CZK 5 billion being implemented. In the case of exceeding it a credit union will be forced to transform into the bank, or to continue its activities without the possibility of further growth, respectively, with the obligation to reduce its size below this limit. Last but not least, there is a tightening of the business of credit unions in the area of lending, which introduces a limit of CZK 30 million for loans granted to a single member of the union. The effectiveness of this measure is set at January 1, 2018, where for contracts concluded before this date there will be a three-year transitional period applied. Since 2018, there will also apply a rule for the minimal amount of the general member contribution in the amount of CZK 1,000.

Although the new legal framework places considerable demands on the credit unions, Credit union perceives the new rules as predominantly positive. The reason is that the transformation of the present sector and achieving of its qualitatively higher level is objectively desirable in the general interest, Credit union's interest as an institution and in the interest of its members, such as clients and owners. The Board of Directors is of the opinion and fully confident that the only meaningful option for further activity and development of Credit union is leaving the segment of credit unions by obtaining banking licence and transformation into the bank. At the same time, it is a case of objectively inevitable qualitative change with the top priority that Credit union has to undergo to ensure its further activities. In doing so, Credit union is also prepared to adjust its activity to all circumstances or any development of the situation to ensure proper compliance with the current and future legislative framework.

Credit union has previously informed about its strategic intent for obtaining banking licence and launching of preparatory works on transformation project. However, it seemed appropriate to wait

with specific transformation steps until a final form of the new legislation, mainly due to considerably complicated legislative process and resulting natural uncertainties. Development of existing events only indicates that it was reasonable measure from the part of Credit union as during given situation it was not really possible to accept major decisions or take actions without it being possible to avoid the risk of their necessary subsequent corrections or revocations and additional costs and other consequences following from them.

Years 2015 and particularly 2016 are critical in terms of fulfilment of the transformation plan, which has already partially manifested itself and undoubtedly will further be reflected in the trading policy, activities and internal structure of Credit union. Transformation into the bank actually, among other things, involves a change of the current union form of Credit union into the joint-stock company and fulfilment of a whole system of necessary criterions for granting a banking licence by the CNB. Furthermore, it requires achieving an adequate level of managing and controlling systems including risk management, maintaining a strong and transparent capital and financial position, and last but not least sustainable business model that will ensure further functioning of the institution on the going concern basis in competitive conditions of the financial sector for the foreseeable period.

In 2014, Credit union has already deliberately approached the controlled interruption of its growth dynamics of the previous few years. This change combines for one thing certain natural need for correction of the previous growth, new legal conditions and for another, in particular, intention to transform into the bank as claims for successful transformation including related claims for required resources are generally more demanding when growth rate is high. Therefore, Credit union plans, in terms of its volume size, to maintain constant or slightly decreasing state throughout the whole transition period, particularly as for the loan items and customer deposits and to restore growth dynamics after successfully executed transformation into the bank.

One of the significant milestones on the path was without a doubt June 2015 when member's meeting, as a supreme body of Credit union, explicitly supported transformation into the bank plan and approved a legal form change project. In October 2015, based on the successful completion of all necessary requirements and documents, Credit union reached a phase when it was able to submit its application for banking licence to the CNB, which is another significant milestone in the overall transformation project.

With regard to prudential demands and recognized standards, Credit union is continuously obligated to place emphasis on effective risk management and function of managing and controlling systems as a regulated financial institution, which is significant particularly with respect to liabilities arising from deposits accepted from members. It is publicly known that the credit union segment is subject of the increased longer term attention from the CNB, as a supervisor of the financial market in the Czech Republic, due to the historical development and related higher system risks. Such situation naturally results in Credit union being practically continuously a subject of the different forms of supervision, whether so called remotely or on-site. In 2014, the CNB performed on site inspections aimed at verifying the credit risk management and risks associated with credit activities, market risk management, liquidity risk management, the process of processing and settling up trades on financial markets, the system of internal capital adequacy assessment, IS/IT risk management and remuneration policies and practices. Credit union itself has adopted a set of internal measures to correct all of the identified deficiencies whereas the adequacy of these measures were verified by the independent auditor accepted by the CNB in September 2015.

During the year 2015, there was significant strengthening and uprating of Credit union capital position. Based on the concluded contracts on credit shares transfer from the present specific members, which were approved by the membership meeting of Credit union in November 2014, Mr. Pavel Hubáček and three legal entities acting in accordance with the CNB applied for acquisition, respectively, for increase in qualified shares and control over Credit union, and the CNB approved this request on 1 April 2015. After obtaining the control, Mr. Hubáček personally has contributed significantly to the further increase of share capital of Credit union by CZK 150 million. Bounded transfers of the earlier agreed subordinate member deposits to the share capital also largely contributed to the capital structure improvement in the total volume of CZK 262.1 million, whereas this process intensively took place in particular from July to October 2015. Own transfers of deposits and credit shares are beyond the scope of Credit union activity because they are usually matters of mutual relations among members as their holders and owners. However, if this leads to strengthening of Credit union capital position, improvement of its structure or strengthening of transparency, the Board supports and welcomes all these actions and activities aiding them because it is one of the necessary fundamental prerequisites for the successful transformation into the bank.

The above mentioned factors positively influenced Credit union capital position as at 31 December 2015. Share capital presented by the general and other member deposits amounted CZK 1,295.7 million, which reflects the net annual increase of CZK 430.5 million. The total capital ratio indicator reached 14.29% and the capital ratio indicators of equity and total capital ratio Tier 1 were congruently 14.08%.

There remains to present and address Credit union own business for the past year.

The main Credit union activities in 2015 were henceforth providing loans to members and accepting deposits from members. Credit union considers its competitive advantage to be a negotiation culture with members and clients which is based on personal and professional behaviour that allows an individual evaluation of their specific needs and then provision of adequate, suitable products and services.

The most significant assets item is presented by the receivables from loans to members where the balance sheet amount was CZK 6,878 million as at 31 December 2015 with year-on-year decrease of 10.0%. Representation of the receivables in default in portfolio was managed to reduce from 17.5% to 9.9% as at 31 December 2015 compared with amount as at the last day of 2014. Over a long period of time, Credit union has been primarily focusing on corporate financing of certain business entities and projects, and concurrently using professional experiences and knowledges of its credit specialists within the credit activity. In the light of existing market conditions and objective possibilities of Credit union it is, above all, about searching and realization of perspective individual business opportunities that in a suitable and acceptable way combine volume size, undergone risks and yield potential. Credit union is trying to assert active client approach and provide solutions that match with certain individual credit member needs. The purpose is also to achieve a competitive advantage compared with other credit providers who cannot or are not willing to address specific client needs.

The biggest client interest is as traditionally in savings deposit products which are used in different forms by the vast majority Credit union members. Therefore, the most significant liabilities item is the volume of accepted deposits, which was CZK 8,867 million as at 31 December 2015 at a managed annual decrease of 7.3%, implying the continued confidence in Credit union. The number of Credit union members was 19,112 members as at the end of

the year 2015 which indicates constant condition in comparison with the end of the year 2014. Taking into account the changes resulting from the new legislation, Credit union has prepared time-limited special offers for its members to optimally set parameters in relation to imposed funds still using existing statutory conditions effective till 30 June 2015, particularly in relation to the rule of "one to ten".

Credit union is planning to gradually shift its focus from historical orientation on deposits and credit products to full-fledged financial products and services offer in accordance with its business strategy. Therefore, it is gratifying to see growing interest of members in use of active payment system through a current account, foreign payment services, purchase and sale of foreign currency, payment cards and internet banking. Since 2014, Credit union clients may also use services of an exchange office to exchange foreign currency under favourable conditions at selected branches. The financial market specialists also daily assess and prepare information about estimates of the future developments on foreign-exchange markets to facilitate orientation to our clients in this matter. We are delighted to state that more than 1,600 clients have already used services of purchase and sale of foreign currency and more than CZK 65 billion were traded through Credit union in 2015.

Credit union branches are located mainly in county towns in order to provide acceptable physical accessibility even for members from the so-called catchment regions, and so that their network effectively covers the entire territory of the Czech Republic. At the same time, Credit union allows clients to establish membership and arrange a variety of deposit products without a need for a personal visit to the branch and also remotely employ the possibilities of internet banking.

Furthermore, Credit union pays attention to its high professional standards and promotes a disciplined approach corresponding with the level and requirements placed on financial institutions. Credit union appreciates the confidence of its members and conducts ongoing surveys of their satisfaction because such immediate feedback is a very valuable stimulus for further improvement of products and services of Credit union, and as well as for its further development and growth. In 2015, Credit union, as a client-oriented institution, has continued to develop training programs for its employees and invested resources to improve the quality of services offered to its members and desirable perception of the CREDITAS brand.

Credit union is persistently committed to its responsible approach to the community by actively promoting generally accepted principles in the economic and social fields, the environment and labour relations. Specific steps leading to fulfilment of these principles include, inter alia, compliance with the standards and principles of ethical behaviour, support for non-profit organizations and charities, emphasis on transparency in business, providing equal opportunities, employee care, waste management and reduction of activities that burden the environment.

The year 2016 will be without a doubt very essential and in many respects even decisive for the future direction of Credit union. We are convinced that Credit union has a potential and real chance to successfully pass all upcoming changes, especially transformation into the bank and will be able to offer and provide products and services to its clients on always advanced levels in future. In this regard, we strongly believe that track records of Credit union jointly with its stable financial position, business plans for future, abilities, efforts of employees and continuing support and trust of its members are the reason for optimistic outlook for following years. We assure you that all activities and decision making of the Board were, are and will be carried out with the utmost effort to do everything possible so that Credit union may further successfully develop and may stand with honour the very strong competitive market for financial business in the Czech Republic already as future Bank CREDITAS.

Finally, we would like to conclude with sincere thanks to all members and business partners for their expressed confidence so far. We also assure that we remain fully committed to continue investing maximum effort, diligence and full deployment in favor of Credit union and its plans and objectives.



Vladimír Hořejší, MBA
Chairman of the Board of Directors



Kamil Rataj, MBA
Vice-Chairman of the Board

In Olomouc, 16 March 2016

REPORT ON THE ACTIVITIES OF CREDIT UNION CREDITAS' CREDIT COMMITTEE FOR THE YEAR ENDED 31 DECEMBER 2015

Dear members and business friends,

I am pleased to present the report on the activities of the credit committee of Zložna CREDITAS, spořitelní družstvo (hereinafter also referred to as „Credit union“) for the 2015 year.

Jan Andrš and Tomáš Vojkůvka worked in the credit committee during whole year, whereas during the year, Roman Borůvka substituted Radek Fotr as a committee member.

The credit committee performed its activities in accordance with relevant legal regulations, the statutes and other internal regulations and policies of Credit union.

The credit committee fulfils the important role in the formation of Credit union's financial position, financial results and risk taking, but especially credit risk. When acting, the credit committee of Credit union follows the resolution of the Board of Credit union with the exception of those competencies entrusted to the credit committee via the statutes or by generally binding legal regulations. The credit committee in this regard:

- decides about
 - providing loans to members;
 - providing guarantees in the form of liability or bank guarantees for members;
 - securing or hedging loans;
- proposes changes to the Board in general trade conditions, in particular it proposes changes in deposit and loan interest;
- has other activities set by the statutes or by generally binding legal regulations.

Throughout the year 2015, a total of 104 meetings of the credit committee took place. The credit committee has always met with respect to actual needs in order to discuss the presented cases and, in accordance with the rules of procedure of the credit committee, regular meetings or meetings with remote voting were carried out. Written records were made on all the meetings and accepted decisions. The most essential points of the meetings were in particular to assess requests of clients for loans provisions, increase in loans, changes of loan contracts in terms of the postponement of repayments, prolongation of originally set loan maturities, changes of hedging loans or other obligations resulting from a specific loan contract or from contracts on their hedging.

Planned correction of credit growth of the past few years and targeted stabilization of Credit union's size to a certain volume level on

grounds of its planned strategic transformation into the bank has been reflected in the decisions of the credit committee for the year 2015.

Based on the decision of the credit committee, in 2015, Credit union has provided a total of 66 loans in the amount of CZK 3,058 million including increase and prolongation of existing loans, which represents a year-on-year increase of 9.1%. The final balance sheet value of the credit portfolio due from members amounts to CZK 6,878 million as at 31 December 2015 with an annual decrease of 10.0%. The average interest rate for loans provided in 2015 reached 6.94% p.a. and in a way reflects market conditions in combination with the risk profile of credited members, including their solvency and creditworthiness. The total structure and quality of the credit portfolio is a result of external demand factors of the target client segment for credit resources in combination with a certain required higher yield potential and also necessarily linked with it certain higher risk profile of Credit union. It was managed to reduce the share of so-called impaired receivables in the portfolio as at 31 December 2015 compared with the end of the year 2014 from 17.5% to 9.9%.

On the basis of proposals submitted in 2015, the credit committee recommended the purchase of the selected 11 corporate bonds in the total amount of CZK 880 million CZK to the Board of Directors.

The credit committee also proposed adjustments of interest rates on deposit products, mainly such as current accounts, savings accounts and term deposits, as a result of overall persisting sentiment for the low market interest rates and substantial legislative changes of conditions for the functioning of the credit unions sector. The average interest rate on deposit products arranged in 2015 amounted to 2.68%, respectively 2.78% when including previously arranged products as well.

Yours faithfully,



Jan Andrš
Chairman of the Credit Committee

In Olomouc, 16 March 2016

REPORT ON THE ACTIVITIES OF CREDIT UNION CREDITAS' CONTROL COMMITTEE FOR THE YEAR ENDED 31 DECEMBER 2015

Dear Ladies and Gentlemen,

I would like to present you the report on the activities of the control committee of Credit union CREDITAS (hereinafter also referred to as „Credit union“) for the year 2015.

For the whole period of the year 2015, the control committee was composed of Alena Sikorová and Jitka Plášilová, whereas during the year, Kamila Valštyňová substituted Martin Tomeš as a committee member.

The control committee acted fully in accordance with appropriate legal regulations, statutes and other internal regulations and principles of Credit union.

The control committee controls all Credit union activities, discusses members' complaints and can demand any information and evidence about the economy of Credit union. The control committee is independent from other Credit union authorities.

The control committee:

- issues written decision to every financial statement and proposals for profit distribution or loss settlement of Credit union;
- is authorised to demand any information about the economy of Credit union from the Board of Directors and the credit committee of Credit union; the Board of Directors and the credit committee of Credit union are obligated without undue delay to inform Credit union control committee about all facts that may have severe consequences for the economy or position of Credit union and its members;
- supervises whether managing and controlling system of Credit union is effective, comprehensive and proportionate, and evaluates findings from this activity at least once a year;
- supervises and assures fulfilment of approved Credit union strategies including risk management strategy, integrity of accounting system and financial reporting including reliability of financial and operational control, compliance with legal obligations and relevant standards by Credit union and adequacy of its communication system and information publishing;
- within its scope of activity, critically and constructively participates in an appropriate manner in the evaluation of strategic and financial management, risk management and compliance, and direction, planning and evaluation of internal audit activities of Credit union;
- expresses beforehand on authorization proposal of natural or legal persons by ensuring performance of the risk management,

compliance and internal audit functions, or on its appeal; the control committee evaluates activities of these persons in an appropriate manner; without the consent of the control committee it is not possible to revoke the person of these functions; in case that the function is provided by more persons, the control committee expresses itself only to authorization or removal of the person responsible for managing of the given function;

- judges activities of members of the Board of Credit union in an appropriate way; the control committee takes into account a sufficiently wide range of qualities and abilities when assessing the activity of members of the Board of Credit union, and also applies principle that supports effective and adequate diversity in the overall composition of the Board of Directors;
- lays down rules for the remuneration of the person entrusted with ensuring the performance of the risk management, compliance and internal audit functions, and the members of the Board of Directors;
- evaluates the total remuneration system;
- can propose changes of the general business conditions to Credit union's Board of Directors;
- notifies Credit union's Board of Directors on found deficiencies and supervises establishing correction;
- has another authority determined by the statutes or generally binding legal regulations.

Due to the fact that in order to fulfil one of the basic prerequisites for successful implementation of the intended strategic transformation of Credit union into the bank, it is objectively necessary also to achieve and sustain adequate standard of managing and controlling system (hereinafter referred to as "MCS"). The control committee, for one thing within its scope, passed on advice to the Board of Directors in order to improve MCS and eliminate identified deficiencies, and for another actively and systematically supported initiatives and acts which are directed at or aid in obtaining desired level of MCS.

Because of the small institutional size of Credit union, it does not have any established separate audit committee; therefore, the control committee fulfils this function as well. The execution of this function lies in:

- observing and creating financial statements;
- assessing the efficiency of internal controls, internal audit and risk management system;

- supervising the process of mandatory financial statement audit;
- evaluating the independency of the statutory auditor and the audit company, in particular in terms of providing additional services;
- recommendations on an auditor.

In regard to the execution of the function of the audit committee, the control committee recommended Credit union members' meeting, as its supreme body, that the company PricewaterhouseCoopers Audit, s. r. o. (IČ 40765521) is selected as an external auditor to perform the verification of the financial statement and the annual report for the year 2015. The audit company was approved by the members' meeting and subsequently accepted by the CNB as a supervisory authority.

Throughout the year 2015, the control committee discussed three member complaints in total, identifying one as partially adequate, along with a suggestion for resolution, and the remaining two as unreasonable.

The control committee likewise reviewed the financial statement, annual report, report on relations and proposal on profit distribution of Credit union for the year ended 31 December 2015 and decided to recommend their approval to the members' meeting of Credit union, as its supreme body.

Yours faithfully,



Alena Sikorová
Chairman of the Control Committee

In Olomouc, 16 March 2015

BOARD OF DIRECTORS OF CREDIT UNION CREDITAS

– Vladimír Hořejší, MBA



– Kamil Rataj, MBA



– Radim Synek



– Vladimír Hořejší, MBA

Chairman and member of the senior management. He served as a member of the Board since September 2012 and has been Chairman of the Board since May 2013. During professional career he held a number of senior positions and functions, including director of the department of information services and settlement in the Consolidation Bank Praha, s.p.ú. and the Czech Consolidation Agency, Deputy Minister of Informatics in the Czech Republic in the department of e-Government and Vice Chairman and Director of Finance and ICT in European-Russian Bank, a.s. After joining Credit union in March 2012, first as advisor to the Board, since September 2012 he worked as director of risk management and, since May 2013, he has been Director of Sales. He is the shareholder of 4H Consulting s.r.o.

– Kamil Rataj, MBA

Vice Chairman and a member of the senior management. He served as a board member since May 2012 and, since June 2014, he performs the function of Vice Chairman of Credit union and at the same time he works as director of the operation and ICT department. He has worked in the banking sector since 1999. He worked in management positions in eBanka a.s. and Raiffeisenbank, a.s. being actively involved in the successful merger project of the two banks and directed major centralisation of back-office activities and optimisation of selected branch processes. Additionally, he held a senior position within the implementation of the banking system, CRM and IB. He is not a member of any body of other legal entities.

– Radim Synek

Member of the board of directors and senior management. He is in the position of the Board of Directors member since June 2014 and simultaneously he operates in the position of Director of Financial Markets and Retail banking. Before joining Credit union he worked in the banking industry for 20 years. He worked as Vice President of Citibank and Head of the trading department on the interbank markets; as director of trading department on the interbank markets for the Czech and Slovak Republics. From 2007 to 2009 he worked at Citibank in London, where he was in charge of trading on the interbank markets in the Czech Republic, Slovak, Romania, Hong Kong, Iceland and Serbia. He is the shareholder of NASEB spol. s.r.o. and SCILIF s.r.o. Till March 2015, he was shareholder and executive director of Prague Wellness, s.r.o.

MEMBERS OF THE CREDIT COMMITTEE OF CREDIT UNION CREDITAS

– Jan Andrš

Member of the credit committee since August 2010 and was reappointed as a member of the credit committee in June 2015. Since June 2012, he performs the function of Chairman of the credit committee. In the past, he worked in the real estate sector, followed by financial companies with a focus on credit and bankruptcy issues. Currently he works in Credit union in the position of advisor to the Board. He is not a member of the bodies of any other legal entities.

– Tomáš Vojkůvka

Member of the credit committee since August 2010 and was reappointed as a member of the credit committee in June 2015. In the past, he worked in the business company as a manager responsible for economy of trade and marketing. His task was to fulfil the concept of business policy, which should have ensured the maximum economic effect of completed transactions using marketing tools. Currently he works in a finance company as an economic and marketing manager. He is member of the Board of Housing Cooperative Neherovy domy.

– Roman Borůvka

Member of the credit committee since June 2015. In the past, he worked in the position of officer for the grants processing in K-PROFI spol. s.r.o. and client worker in Fio banka, a.s. He worked in Credit union since 2012 when he boarded position of financial analytic in the field of controlling and currently he works in the position of director of market and operational risks department. He is not a member of the bodies of any other legal entities.

MEMBERS OF THE CONTROL COMMITTEE OF CREDIT UNION CREDITAS

– Alena Sikorová

Member of the control committee since October 2013, whereas being reappointed in the function in June 2015. From 2008 to 2012, she served as Vice-Chairman of Credit union. In the past, she worked in Česká spořitelna, a.s. as a lawyer in risk management of the banking activities and as a firm lawyer. Also she was a chairperson of the damage committee. Also she worked in the segment on the provision of loans, receivables management and executor activities. From July 2010 to March 2014, she held the position of Director of Legal Support and Compliance. She is the member of the Supervisory Bodies of MORAVAN, a.s. and ZEMSPOL STUDÉNKA a.s.

– Jitka Plášilová

Member of the control committee since June 2014. She has worked in the financial sector since 1999, as she held a position of an acquirer and a merchant in the company CAC Leasing, a.s., also she worked in the position of acquirer, merchant and deputy branch manager at ČSOB Leasing, a.s. Also she gained further work experience at a position in the company CREDIT Financial s.r.o., where she focused primarily on processing loans, including collateral management and receivables administration and collection. Since 2006, she works as a manager in the company SMART HYPO s.r.o., where she focuses on administration and collection of receivables, auctioning real estate and insolvency proceedings. She is not a member of the bodies of any other legal entities.

– Kamila Valštyňová

Member of the control committee since June 2015. Currently she serves in the position of financial director of UNICAPITAL a.s. In the past, she worked in several financial institutions, e.g. UniCredit Bank Czech Republic, a.s. as a relationship manager and a deputy head of Corporate Clients Centre for Central Moravia, in HVB Banka Czech Republic, a.s. as a senior account manager a branch manager or in Bank Austria Creditanstalt Czech Republic, a.s. as a senior account manager. She has experience as a credit specialist and corporate client consultant. She is not a member of the bodies of any other legal entities.

MEMBERS OF THE SENIOR MANAGEMENT OF CREDIT UNION CREDITAS

– Vladimír Hořejší, MBA

Chairman and member of the senior management. He served as a member of the Board since September 2012 and has been Chairman of the Board since May 2013. During professional career he held a number of senior positions and functions, including director of the department of information services and settlement in the Consolidation Bank Praha, s.p.ú. and the Czech Consolidation Agency, Deputy Minister of Informatics in the Czech Republic in the department of e-Government and Vice Chairman and Director of Finance and ICT in European-Russian Bank, a.s. After joining Credit union in March 2012, first as advisor to the Board, since September 2012 he worked as director of risk management and, since May 2013, he has been Director of Sales. He is the shareholder of 4H Consulting s.r.o.

– Kamil Rataj, MBA

Vice Chairman and a member of the senior management. He served as a board member since May 2012 and, since June 2014, he performs the function of Vice Chairman of Credit union and at the same time he works as director of the operation and ICT department. He has been working in the banking sector since 1999. He worked in management positions in eBanka a.s. and Raiffeisenbank, a.s. being actively involved in the successful merger project of the two banks and directed major centralisation of back-office activities and optimisation of selected branch processes. Additionally, he held a senior position within the implementation of the banking system, CRM and IB. He is not a member of any body of other legal entities.

– Radim Synek

Member of the board of directors and senior management. He is in the position of the Board of Directors member since June 2014 and simultaneously he operates in the position of Director of Financial Markets and Retail banking. Before joining Credit union he worked in the banking industry for 20 years. He worked as Vice President of Citibank and Head of the trading department on the interbank markets; as director of trading department on the interbank markets for the Czech and Slovak Republics. From 2007 to 2009 he worked at Citibank in London, where he was in charge of trading on the interbank markets in the Czech Republic, Slovak, Romania, Hong Kong, Iceland and Serbia. He is the shareholder of NASEB spol. s.r.o. and SCILIF s.r.o. Till March 2015, he was shareholder and executive director of Prague Wellness, s.r.o.

– Josef Holub

Member of senior management. He works in the position of director of finance department in Credit union since 2012. From October 2013 to December 2013 he served as a member of the control committee. In the past, he worked at PriceWaterhouseCoopers Audit, s.r.o. By 2010, he served as CFO and member of the Board of Directors of Aviva Životní pojišťovna a.s. and subsequently as an independent advisor and consultant. He is a qualified member of Association of Chartered Certified Accountants (Great Britain). He is not a member of the bodies of any other legal entities.

MEMBERS OF THE SENIOR MANAGEMENT OF CREDIT UNION CREDITAS

– Miroslav Morháč, MBA

Member of senior management. He works in the position of director of risk management department in Credit union since 2014. During career, first he served in various positions in trading on financial markets in Slovenská spořitelna a.s. and Hypovereinsbank. Then he successively held the position of Treasury Sales, product and project manager at Raiffeisenbank a.s. Prior to joining Credit union, he was responsible for the overall business design and development of banking systems in the company SunGuard. He is not a member of the bodies of any other legal entities.

– Jaromír Hošek, MBA

Member of senior management. He works in the position of director of internal audit division in Credit union. In the past, he served as the director of 1. úvěrní družstvo Chotěboř. Since 2004, he held the position of branch manager and deputy director of Credit union. In years 2004 to 2007 he also served as a member of the credit committee of Credit union. He served as a member of the credit committee of Credit union since June 2007 to September 2012. He is not a member of the bodies of any other legal entities.

– Radek Fotr

Held the position of a member of the credit committee from August 2010 to June 2015. He gained 5-years credit experience as a consultant in Česká spořitelna, a.s. Previously, he worked in Živnostenská banka in position of Head of branches. He worked in Credit union since 2011 and held position of Head of operational risk and security management. He is not a member of bodies of any other legal entities.

– Lenka Němečková

Member of senior management. She works in Credit union since 2012 and currently holds position of direct of the office of the Board Directors. Before she worked as an assistant of the chairman of the Board of Directors and project manager. In the past, she worked as Office Manager at NextiraOne Czech s.r.o. where at the same time, she leads the legal and personal agenda, furthermore as director of the office of AK Koutná, Slušná & Bělohávek v.o.s. She is not a member of bodies of any other legal entities.

– Radek Heloňa

Member of senior management. He works in Credit union since 2011 and currently holds position of director of Compliance and AML division. Previously, he worked as a Compliance specialist and Head of Compliance department. He gained experience as Manager of Collections at Raiffeisenbank, a.s. and eBanka where he worked as a supervisor of client services. He is the authorised representative of the owners' union for Community House Norská 239/37, 240/39 in Olomouc.

– Martin Tomeš

Held the position of a member of the credit committee from August 2010 to June 2015. In the past, he worked as a corporate law with specification in the issue of lending, receivables claiming and managing. From the position of law clerk he worked with Credit union based on mandatory contract which subject was mainly providing with law service in the area of deposit and credit products. After passing the bar exams as an independent attorney, he has been focusing inter alia on the area of cooperative law. He is Chairman of the Community of owners, Olomouc, Nové Sady, Rooseveltova 752/122, Postal Code 779 00.

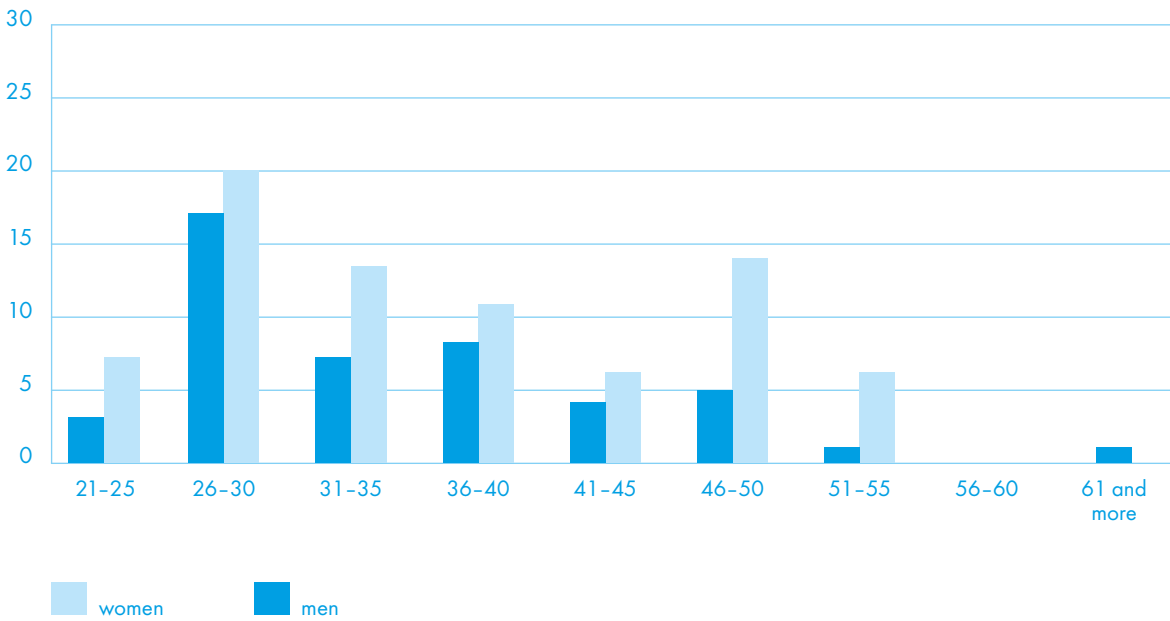






EMPLOYEES

AGE STATISTICS OF STAFF OF THE ORGANISATION
(AS AT 31 DECEMBER 2015)



77
WOMEN

46
MEN

123
IN TOTAL*

* Figures do not include employees on maternity leave.

SOCIAL RESPONSIBILITY

CREDIT UNION REALISES ITS SOCIAL RESPONSIBILITY. OVER THE LONG TERM, CREDIT UNION HAS STRENGTHENED ITS POSITION AS A SOCIALLY RESPONSIBLE COMPANY ACTIVELY INVOLVED IN MANY PROJECTS. LIKE IN PREVIOUS YEARS, THIS YEAR THE SUPPORT HAS ALSO TENDED TO THE AREA OF SPORT, MEDICINE AND CHARITY PROJECTS.

SPORT

Czech Wheelchair Tennis Association

Financial support of costs associated with the international wheelchair tennis tournament organisation in Prostějov – VINCI Wheelchair Czech Open 2015.

Equine Sport Centre Olomouc o.p.s.

Financial support for physical education and sports services in the field of racing and sports activities.

Association TREND VOZÍČKÁŘŮ Olomouc

Purchasing registration with the Association TREND VOZÍČKÁŘŮ Olomouc to participate in the Mattoni Marathon Olomouc race, Credit union supported activities in favour of severely handicapped people.

MEDICINE

Society of Gastrointestinal Oncology z.s.

Financial support of costs associated 3th national congress and colorectal cancer.

CHARITY

Šance o.p.s.

Supporting seriously ill children at the Children's Clinic of the University Hospital Olomouc through involvement in the charitable collections league and by buying poinsettias.

Endowment Fund MEN AGAINST CANCER

The financial collection Credit union employees for support the project against prostate cancer with the name "Movember".

Mamma HELP, z.s.

The financial collection of Credit union employees for preventing breast cancer and program to improve the quality life of cancer patients.







English translation

Independent auditor's report

to the members of Záložna Creditas, spořitelní družstvo

We have audited the accompanying financial statements of Záložna Creditas, spořitelní družstvo, identification number 634 92 555, with registered office at tř. Svobody 1194/12, Olomouc ("Credit Union"), which comprise the balance sheet as at 31 December 2015, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the financial statements").

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal control as the Statutory Body determines is 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 of the Czech Republic, International Standards on Auditing and the related application 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. An audit also includes evaluating the appropriateness of the 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 the Credit Union as at 31 December 2015 and its financial performance for the year then ended in accordance with Czech accounting legislation.

Other information

The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is not materially inconsistent with the financial statements or our knowledge about the Credit Union obtained in the course of the audit of the financial statements, whether the annual report was prepared in compliance with legal requirements, and whether the other information does not appear to be otherwise materially misstated.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Evidence No 021.



Shareholders of Záložna Creditas, spořitelní družstvo Independent auditor's report

If, based on the work we have performed, we conclude that the aforementioned requirements of the other information are not met, we are obliged to report that fact herein.

We have nothing to report in this regard.

16 March 2016

PricewaterhouseCoopers Audit, s.r.o.
represented by partner

Ing. Petr Kříž FCCA
Statutory Auditor, Evidence No. 1140

Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.

BALANCE SHEET AS AT 31 DECEMBER 2015

(CZK thousand)	Note	31 December 2015	31 December 2014
ASSETS			
Cash and cash deposits with central banks	3	1,546,461	1,370,652
Due from banks	4	815,760	756,148
of which: a) repayable on demand		126,285	245,937
b) other receivables		689,475	510,211
Due from customers – members of Credit unions	5	6,878,236	7,646,900
Debt securities	6	913,194	635,381
Long-term intangible assets	7	28,405	13,534
Long-term tangible fixed assets	7	15,400	11,765
Other assets:	8	60,716	59,915
of which: Deferred tax asset		20,031	23,984
Prepayments and accrued income	8	28,173	38,250
Total assets		10,286,345	10,532,545

LIABILITIES			
Due to customers – members of Credit union:	10	8,834,608	9,272,419
of which: a) repayable on demand		745,128	977,188
b) other payables		8,089,480	8,295,231
Other liabilities	11	59,846	58,763
Subordinated liabilities	10	32,073	294,126
Share capital	12	1,295,723	865,246
Obligatory reserve funds and Risk funds	12	24,930	13,928
Retained earnings		17,013	16,717
Profit for the accounting period		22,152	11,346
Total liabilities		10,286,345	10,532,545

OFF-BALANCE SHEET AS AT 31 DECEMBER 2015

(CZK thousand)	Note	31 December 2015	31 December 2014
OFF-BALANCE SHEET ASSETS			
	13		
Commitments and guarantees given		205,981	111,852
Collateral given		396,691	377,472
Receivables from spot transactions		150,611	192,788
Receivables from term instruments		860,381	1,192,217
Total off-balance sheet assets		1,613,664	1,874,329

OFF-BALANCE SHEET LIABILITIES			
	13		
Commitments and guarantees received		285,000	285,000
Collateral and pledges received		4,055,300	4,928,839
Payables from spot transactions		150,527	189,989
Payables from term instruments		861,501	1,198,625
Total off-balance sheet liabilities		5,352,328	6,602,453

INCOME STATEMENT
FOR THE YEAR ENDED AS AT 31 DECEMBER 2015

(CZK thousand)	Note	31 December 2015	31 December 2014
Interest and similar income	14	541,144	624,750
Interest and similar expense	15	(263,911)	(285,389)
Fee and committee income		6,090	4,393
Fee and committee expense	15	(9,804)	(6,032)
Gains less losses from financial transactions	16	18,553	(675)
Other operating income	17	930	1,528
Other operating expense	18	(4,949)	(99,619)
Administrative expense	19	(204,879)	(155,889)
of which: a) staff costs		(92,150)	(93,608)
of which: aa) wages and salaries		(67,822)	(68,174)
ab) social and health insurance		(21 186)	(20,579)
b) other administrative expenses		(112,729)	(62,281)
Depreciation/amortisation for long-term tangible and intangible fixed assets	7	(14,111)	(15,544)
Allowances and provisions for amounts due from clients	9	(27,781)	(24,243)
Profit on ordinary activities before taxation		41,282	43,280
Income tax	20	(19,130)	(31,934)
Profit for the accounting period		22,152	11,346

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED AS AT 31 DECEMBER 2015

(CZK thousand)	Share capital	Reserve fund	Risk fund	Retained earnings	Total
Balance as at 1 January 2014	833,792	6,039	7,839	16,819	864,489
Profit for the accounting period	-	-	-	11,346	11,346
Transfer to funds	-	25	25	(50)	-
Settlement shares (Note 12.3)	-	-	-	(51)	(51)
Creation or increase of member contributions (see Note 12.3)	(1,619)	-	-	-	(1,619)
Increase of member contributions	33,073	-	-	-	33,073
Balance as at 31 December 2014	865,246	6,064	7,864	28,064	907,238
Profit for the accounting period	-	-	-	22,152	22,152
Transfer to funds	-	5,501	5,501	(11,002)	-
Settlement shares (Note 12.3)	-	-	-	(49)	(49)
Creation or increase of member contributions	430,477	-	-	-	430,477
Balance as at 31 December 2015	1,295,723	11,565	13,365	39,165	1,359,818

1. GENERAL INFORMATION

Credit union CREDITAS, spořitelní družstvo (hereinafter referred to as „Credit union“) was incorporated on 26 February 1996 and has a registered office at tř. Svobody 1194/12, 779 00 Olomouc. Within the internal organizational structure, Credit union is divided into the headquarters and 14 regional branches represented by local business points in the Czech Republic.

Credit union, in the scope of its licence to operate as a credit union under Act no. 87/1995 Coll., on credit unions as amended by the applicable regulations (hereinafter „AoCU“), is entitled to carry out the following activities:

- accepting deposits from its members;
- providing loans to its members;
- payments, clearing, issuing and administration of payment means for members;
- providing guarantees in the form of insurance or a bank guarantee for members;
- providing money collecting services for members;
- buying and selling foreign currency for members;
- renting safe deposit boxes to members*;
- financial leasing for members *;
- opening letters of credit for members *;

**Note: The Credit union does not perform these permitted activities yet.*

and exclusively for the purpose of provision of the permitted activities Credit union is authorised to perform the following activities:

- place deposits in credit unions and banks and branches of foreign banks;
- accept loans from credit unions and banks;
- acquire assets for the purpose of ensuring own operational activities and disposing of it;
- trading on its own account with foreign exchange instruments and interest rates in order to hedge risks arising from authorised activities;
- trading on its own account in securities approved to trading on a European regulated market;
- trading on its own account with bonds issued by a member state of the Organisation for Economic Cooperation and Development or the Central bank of this country, bonds guaranteed by a member state of the Organisation for Economic Cooperation and Development, and bonds issued by the European Investment Bank, the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development or another international financial institution of which the Czech Republic is a member;
- execute trades with the Czech National Bank (hereinafter CNB) in accordance with the law governing the activities of the CNB.

Credit union as regulated credit and financial institution shall comply with appropriate rules of prudential entrepreneurship and it is being supervised by the CNB, which is the supervisory authority of the financial market in the Czech Republic.

Credit union is controlled by Pavel Hubáček (hereinafter the “controlling person“), who took it over by the acquisition of direct and indirect holding through transfers of shares from other cooperative Credit union members based on the CNB authorization from 1 April 2015.

Credit union is therefore also part of a combined holding entity (hereinafter “the Group“) in the meaning of relevant provisions of the applicable legislation, which is composed of legal persons controlled by the same person and affiliated legal entities. From the prudential perspective, according to the above legislation, Group forms a whole that is a subject to the CNB supervision on a consolidated basis. Credit union has in this respect the legal statute of responsible credit union in which the CNB is obliged to provide all information necessary for exercising supervision.

At the end of 2014, an amendment to the AoCU was approved, which fundamentally adjusts the conditions for further activities of credit unions. Consequently, that led to the increase in contributions to the Deposit Insurance Fund, compulsory conscription of profit part to risk fund, toughening of the conditions for provision of loans, setting interest on deposits and increasing the level of involvement of members in operation of credit unions. Since the beginning of 2018, the new boundaries will be introduced defining the size limit of credit unions to the amount of CZK 5 billion of the total assets. In the event of exceeding the limit, a credit union must either be transformed into the bank, or to continue its activities without options for further growth, respectively with the obligation to reduce its size below this limit. Credit union has informed about its strategic plan to transform into the bank before. The general meeting of members by resolution approved its intention to transform Credit union into the bank and launched the project of changing its legal form as at 24 June 2015. Credit union submitted an application for a banking licence to the CNB as at 22 October 2015.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on accounting and the applicable accounting rules set by the Ministry of Finance of the Czech Republic and Czech accounting standards for financial institutions.

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values.

The financial statements are rounded to thousands of Czech Crowns ("CZK thousand") unless otherwise stated.

The financial statements are not consolidated and Credit union is not a part of any consolidated group.

Management believes that Credit union has adequate resources to continue its business activities in the foreseeable future. As a result, these financial statements are prepared on a going-concern basis.

2.2 RECOGNITION AND DERECOGNITION OF THE FINANCIAL ASSETS AND LIABILITIES

The following rules apply for the recognition of the financial assets and liabilities:

- The settlement date is the date of payment or receipt of cash, the day of purchase or sale of foreign currency or securities, the date of payment or debiting client the account, the date of order to a correspondent to make a payment, settlement date of the bank's orders with the CNB clearing centre.
- The settlement date principles for other financial operations is stated in notes below.

The following rules apply for the derecognition of financial assets and liabilities:

- Credit union derecognises a financial asset or its part when it loses control over the asset or its part. The difference between the carrying amount of an asset (or a portion thereof) extinguished or transferred and the amount received for is recognised net in profit.
- Credit union removes a financial liability (or a part of a financial liability) from its balance sheet when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for it is recognised net in profit or loss.

2.3 FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated and recorded at the exchange rate valid as at the time of the transaction.

Financial assets and liabilities denominated in foreign currencies as at the balance sheet date are translated to Czech Crowns at the exchange rate announced by the CNB.

Resulting foreign exchange gains and losses are recognised in the income statement. For assets and liabilities at fair value as at balance sheet date, the foreign Exchange difference is then part of the revaluation to fair value.

2.4 INTEREST INCOME AND EXPENSES

Interest income and expenses are recognised for all interest-bearing instruments on an accrual of daily interest calculation basis using the linear interest rate method.

Interest income also includes income fees, which in nature represents interest income.

Income on non-performing receivables is also accrued and capitalised into the related loan balance. Such amounts are considered when estimating the provision for non-performing receivables.

2.5 PENALTY INTEREST

Penalty income, which has the nature of contractual penalties or interest on overdue payments, is recorded on the basis of its repayment or collection.

2.6 FEE AND COMMITTEE INCOME

Fees and committees are generally recognised on an accrual basis when the service has been provided.

2.7 RECEIVABLES

Receivables are stated at nominal value, which reflects the principal, accrued interest income or other related payments less of allowances. Bad debts are written off after insolvency proceedings against the debtor or, prior to insolvency based on the internal decision about the uncollectibility of the receivable made by Credit union.

Individual receivables from financial activities are classified in categories and subcategories according to the definitions of prudential rules of the CNB, which can be summarised as follows:

- Receivables in the category "non-impaired" (a subcategory of "standard" and "watched") are not overdue more than 30 days in case of standard receivables, or 90 days in case of watched receivables. With regard to the financial and economic situation of the debtor for these receivables, their full repayment is likely without proceedings taken by Credit union to satisfy its claim on collateral. The claim cannot be included in the category "non-impaired", specifically to the subcategory "standard" if it was restructured in the last 2 years due to the worsening of the financial situation of the debtor, in other words to the subcategory "watched" if the restructuring has occurred in the last 6 months.
- The receivable is considered restructured if the forced restructuring of the loan occurs, which is likely to lead to a reduction in value caused by substantial remission or postponement of principal repayment, interest repayment or, where applicable, payment of charges. Receivables resulting from the renewal of the short-term loan are not considered restructured, if the borrower fulfilled the obligations arising out of the credit agreement.
- Receivables in the category "impaired" (subcategory of "substandard", "doubtful" and "loss" receivables) are overdue more than 90 days or show any of the failure indicators, on the basis of the application of the prudential principle. In this case, therefore, this does not necessarily have to lead to a de facto failure in terms of the proper repayment of the debt or delay in repayments.
- If Credit union has more receivables from the same borrower, and some of them meet the definition of failure, all claims against the debtor are classified as defaulted receivables and within the same subcategory of receivables. If the claim meets the same criteria for inclusion in several sub-categories, it is classified in the worst of these subcategories.

2.8 ALLOWANCES

Allowances to receivables reduce the carrying value of the individual receivables, particularly for loans provided. The amount of allowance is determined based on evaluation of the recoverable amount of receivables as at the balance sheet date, taking into account the current value of the collateral at forced sale.

Additions to the allowances and their utilisation or release of the allowances are recognised in the income statement. In the case of the utilisation of allowance, the expenses and losses related to the decrease in assets are also recognised in the income statement.

Due to the nature of its activities, the structure and volume of the loan portfolio exposures, Credit union applies standardised individual approach to assessment of receivables and determining the allowances amounts.

Allowances for loans denominated in a foreign currency are created in that foreign currency.

2.9 DEBT SECURITIES

Credit union trades on its own account with debt securities approved to trading on a regulated European market.

All securities are classified under the category of securities at fair value through profit or loss accounts.

Purchases and sales of debt securities are recorded as at the date of trading. At the settlement date, they are thereafter recorded in the balance sheet. For the valuation of losses arising from the sale, the weighted average calculation method is used.

Securities are valued at acquisition cost. The acquisition cost includes the purchased aliquot interest and the direct costs relating to acquisition (e.g. the fees and committees paid to brokers and stock exchanges). As at the balance sheet date, securities are revalued at their fair value and any differences on revaluation are recognised in the profit or loss account. The fair value of a security is determined as the market "mid" price quoted by the relevant stock exchange or other active public market. For securities denominated in foreign currencies, their value is translated to Czech Crowns at the current exchange rate announced by the CNB and foreign exchange differences are treated as part of the revaluation to fair value.

In the case of certain debt securities, the issuer has the right (option) to early repayment. These options represent an embedded derivatives that are not treated as separate derivatives, as their risks and characteristics are closely linked to the characteristics and risks of the host contract (debt security) and the host contract is carried at fair value through profit or loss.

2.10 SPOT FOREIGN EXCHANGE TRANSACTIONS

Spot foreign exchange transactions refer to operations of purchasing and selling foreign currency financial assets when the period of time between the transaction date and the settlement date is no longer than 2 days, or another period depending on market practices.

Foreign exchange spot transactions are recorded as at the trading day, and receivables and payables arising from spot transactions between the date of negotiation and trade settlement date are recorded on off-balance sheet at their nominal contract value. All open

spot positions are revalued as at the balance sheet date at their fair value. Gains or losses arising from changes in fair value of spot transactions are recorded at the balance sheet and in the profit and loss account.

2.11 DERIVATIVES

Derivative financial instruments are represented by fixed term currency swap operations, also called „OTC – Over The Counter“. Credit union classifies all derivatives as “held for trading” and does not apply hedge accounting.

Derivatives are recorded as at the trading day and are recorded in off-balance sheet at their nominal contract value. Financial derivatives are initially recognised at cost and are subsequently measured at fair value. All derivatives are presented in other assets if they have a positive fair value, or in other liabilities when their fair value for Credit union is negative.

Changes in the fair value of derivatives held for trading are included in profit or loss from financial operations.

Fair values are derived from the discounted cash flow model using quoted market data. The valuation models reflect current market conditions as at the assessment date which may not reflect the situation on the market before or after that date. As at the balance sheet date, management of Credit union has reviewed these models and ensured that they appropriately reflect current market conditions, including relative market liquidity and credit spreads.

2.12 LONG-TERM TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible and intangible assets are recorded at cost and depreciated over their estimated useful lives applying annual depreciation rates that are consistent with the tax depreciation rates.

Group of assets	Depreciation time in years
Buildings, halls and leasehold improvements of rented assets	50
Equipment	3–10
Other	5–10
Software	4

Technical improvements of already recorded tangible and intangible assets, with the acquisition price in the aggregate for the entire accounting period exceeding CZK 40 thousand, is activated and represents the increase of input price or the residual value of these assets. Depreciation is calculated according to individual categories of assets from this increased price. Technical improvements, where the value in the current period does not exceed CZK 40 thousand, are expensed directly at the acquisition.

Costs of repairs and maintenance expenditures are expensed as incurred.

Assets held under finance lease agreements are not capitalised and are accounted for similarly as operating leases, where rental charges are expensed evenly over the contract period. Also, the total leasing liabilities are recorded in liabilities.

Tangible assets with a unit cost of less than CZK 40 thousand comprising of sets of furniture and equipment are capitalised and subsequently amortised on a straight lump sum principle directly to costs with the rate of 25% corresponding to the expected time span of 4 years.

Other tangible fixed assets with a unit cost of less than CZK 40 thousand with a useful life longer than one year and intangible fixed assets with a unit cost of less than CZK 60 thousand with a useful life longer than one year are fully expensed upon acquisition.

2.13 VALUE ADDED TAX

Credit union is not registered for value added tax (“VAT”). VAT is therefore part of the cost of services received and other transactions and tangible and intangible assets are stated at cost, including VAT.

2.14 DEFERRED TAXATION

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. A deferred tax asset is recognised to the extent of probable future available taxable profit against which this asset can be utilised.

The approved tax rate for the period in which Credit union expects to utilise the asset or settle the liability is used for the deferred taxation calculation.

2.15 STAFF COSTS, PENSIONS AND SOCIAL FUND

Staff costs are included in administrative expenses and comprise the remuneration of the Board of directors, Credit committee and Control committee.

Credit union regularly pays statutory payments to the state budget for funding the state pension plan and health insurance, and beyond these limits Credit union does not provide its employees with additional pension contributions nor contributions to any other pension funds or plans.

2.16 RELATED PARTIES

Organisations or individuals with a special relationship to Credit union based on the AoCU are considered members of Credit union, members of the elected bodies of Credit union and persons close to them under the Civil Code (hereinafter referred to as “related parties”). In accordance with the AoCU and statutes, Credit union is entitled to undertake actions solely for its members. Consequently, virtually all financial activities of Credit union, except for transactions with counterparties whose membership is excluded based on specific legislation, are carried out with related parties.

Selected transactions, balances and pricing policies with selected related parties are disclosed in Note. 5.3

2.17 SUBSEQUENT EVENTS

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the event that these events provide further evidence of conditions, which existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to preparation of the financial statements that are indicative of conditions which arose subsequent to the balance sheet date, the effects of these events are disclosed in the notes to the financial statements, but are not themselves reflected in the financial statements.

3. CASH AND CASH DEPOSITS WITH CENTRAL BANKS

(CZK thousand)	31 December 2015	31 December 2014
Cash on hand	4,189	3,886
Cash in transit	-	335,813
Deposits held with the Central bank	1,542,272	1,030,953
Total cash and cash deposits with central banks	1,546,461	1,370,652

In the context of central bank deposits, Credit union also maintains the minimum obligatory reserves.

4. DUE FROM BANKS

(CZK thousand)	31 December 2015	31 December 2014
Term deposits	659,871	509,611
Current and saving accounts	151,403	245,961
Other receivables	4,486	576
Total due from banks	815,760	756,148

5. DUE FROM CUSTOMERS AND MEMBERS

5.1 RECEIVABLES BY TYPE OF DEBTOR

(CZK thousand)	31 December 2015	31 December 2014
Due from customers and members – individuals	252,919	257,311
Due from customers and members – entrepreneurs	5,824	12,680
Due from customers and members – legal entities	6,900,785	7,630,419
Total due from customers and members	7,159,528	7,900,410
Allowance for impaired loans (Note 9)	(281,292)	(253,510)
Total due from customers and members, net	6,878,236	7,646,900

5.2 QUALITY OF RECEIVABLES PORTFOLIO

Receivables from clients and members and the relating allowances according to the definitions of the categories and subcategories issued by the CNB can be analysed as follows:

31 December 2015 (CZK thousand)	Receivables gross	Allowances	Receivables net
Non-impaired:			
- standard	3,851,003	-	3,851,003
- watched	2,358,168	14,579	2,343,589
Total non-impaired	6,209,171	14,579	6,194,592
Impaired:			
- substandard	194,925	25,874	169,051
- doubtful	298,075	96,254	201,821
- loss	457,357	144,585	312,772
Total impaired	950,357	266,713	683,644
Total receivables	7,159,528	281,292	6,878,236

31 December 2014 (CZK thousand)	Receivables gross	Allowances	Receivables net
Non-impaired:			
- standard	2,771,889	-	2,771,889
- watched	3,551,311	17,950	3,533,361
Total non-impaired	6,323,200	17,950	6,305,250
Impaired:			
- substandard	1,024,956	82,577	942,379
- doubtful	203,686	68,766	134,920
- loss	348,568	84,217	264,351
Total impaired	1,577,210	235,560	1,341,650
Total receivables	7,900,410	253,510	7,646,900

To mitigate the losses in case of default of receivables, Credit union accepts pledge collateral for receivables (see Note 21.4).

Property and personal collateral represent accepted pledges. Property collateral includes real estate, movable assets, securities, shares, trademarks and receivables. Personal collateral includes personal guarantees, bills of exchange and bank guarantees.

Value of collateral is determined based on an internal valuation prepared by Credit union, which is based on valuator’s reports or external observable data of the prices of individual types of collateral. This value is further discounted to determine the present value in the event of a forced sale (realization of collateral), and thus reduced value is also taken into account as part of the calculation of allowances (see Note 9). The value of the collateral is regularly reassessed during the duration of credit relations.

The structure of received collateral for loans provided to customers and members can be analyzed as follows:

(CZK thousand)	31 December 2015	31 December 2014
Real estate	2,134,243	2,834,384
Receivables	1,185,373	924,693
Movable assets	267,371	764,334
Securities, trade shares	103,104	92,213
Other collateral	365,173	313,215
Total collateral accepted (see Note 13)	4,055,300	4,928,839

In 2015, the total amount of restructured debts equalled CZK 316,225 thousand (2014: CZK 522,915 thousand).

The total overdue amount of loans including related payments as at 31 December 2015 amounted to CZK 353,489 thousand (31 December 2014: CZK 158,716 thousand).

5.3 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

(CZK thousand)	31 December 2015
Balance sheet assets	
Loans provided to the Credit union members*	168,500
Bonds issued to members of the Group*	101,893
Other operational nature assets provided to members of the Group*	30,630
Balance sheet liabilities	
Liabilities from deposits received from members of the Group*	288
Revenues	
Interest and fees on loans to members of the Group*	15,607
Revenues on bonds issued by Group members	1,013
Revenues arising from the performance provided by operational nature Group members	90
Expenses	
Expenses arising from received operational nature performance from members of the Group	21 610

**Because of the acquisition of Credit union and its integration into the Group during the year 2015, comparative figures for 2014 in relation to the members of the Group are not reported. Those costs and revenues with Group members represent the values for the entire financial year 2015 with members of the Group as at 31 December 2015, regardless the period, after when the counterparty within the Group has been added.*

By relations, exhibitions and operations with related parties incurred no detriment to the Credit union. All Credit union transactions with these parties were implemented in the course of business and under similar circumstances as comparable transactions with third parties without special relationship to the Credit union. These relationships, exposure and operations to Credit union also do not pose a higher than normal risk nor show other unfavourable features.

6. DEBT SECURITIES

(CZK thousand)	31 December 2015	31 December 2014
State bonds of CR	84,856	-
Corporate bonds accepted for trading at:		
- Stock exchanged in CR	596,062	318,591
- Other regulated market in EU	232,276	316,790
Total debt securities	913,194	635,381

7. LONG-TERM INTANGIBLE AND TANGIBLE FIXED ASSETS

7.1 LONG-TERM INTANGIBLE ASSETS

(CZK thousand)	Software	Investments in progress	Total
As at 1 January 2014			
Acquisition cost	28,003	17	28,020
Accumulated amortisation	(10,791)	-	(10,791)
Net book amount	17,212	17	17,229
Overview of changes in the year ended 31 December 2014			
Additions	6,669	-	6,669
Disposals	-	(17)	(17)
Amortisation	(10,347)	-	(10,347)
Total changes	(3,678)	(17)	(3,695)
Amount as at 31 December 2014			
Acquisition value	34,607	17	34,624
Accumulated amortisation	(21,073)	(17)	(21,090)
Net book amount	13,534	-	13,534
Overview of changes in the year ended 31 December 2015			
Additions	5,661	17,301	22,962
Disposals	-	-	-
Amortisation	(8,091)	-	(8,091)
Total changes	(2,430)	17,301	14,871
Amount as at 31 December 2015			
Acquisition value	40,269	17,301	57,570
Accumulated amortisation	(29,165)	-	(29,165)
Net book amount	11,104	17,301	28,405

7.2 LONG-TERM FIXED ASSETS HELD UNDER FINANCE LEASE CONTRACTS

(CZK thousand)	Investments in progress	Technical improvements of leased assets	Equip-ment	Other	Set of furniture and equipment	Total
Amount as at 1 January 2014						
Acquisition value	-	3,709	3,331	7,234	4,085	18,359
Accumulated depreciation	-	(123)	(1,541)	(2,937)	-	(4,601)
Net book amount	-	3,586	1,790	4,297	4,085	13,758
Overview of changes for the year ended 31 December 2014						
Additions	-	367	2 796	527	2 349	6,039
Disposals	-	(2,141)	-	(568)	(126)	(2,835)
Depreciation/amortisation	-	(62)	(1,194)	(1,441)	(2,500)	(5,197)
Total changes	-	(1,836)	1,602	(1,482)	(277)	(1,993)
Amount as at 31 December 2014						
Acquisition value	-	1,847	6,127	6,186	3,808	17,968
Accumulated depreciation	-	(97)	(2,735)	(3,371)	-	(6,203)
Net book amount	-	1,750	3,392	2,815	3,808	11,765
Overview of changes for the year ended 31 December 2015						
Additions	2,514	1,007	2,053	3,099	1,810	10,483
Disposals	-	(761)	(62)	-	(5)	(828)
Depreciation/amortisation	-	(41)	(1,461)	(1,569)	(2,949)	(6,020)
Total changes	2,514	205	530	1,530	(1,144)	(3,635)
Amount as at 31 December 2015						
Acquisition value	2,514	2,034	8,102	9,284	2,664	24,598
Accumulated depreciation	-	(79)	(4,180)	(4,939)	-	(9,198)
Net book amount	2,514	1,955	3,922	4,345	2,664	15,400

In 2015 and 2014 Union credit did not use the assets under finance leases.

7.3 DEPRECIATION AND AMORTISATION OF TANGIBLE AND INTANGIBLE ASSETS

(CZK thousand)	2015	2014
Depreciation of tangible fixed assets	3,071	2,697
Amortisation of intangible fixed assets	8,091	10,347
Depreciation/amortisation total	11,162	13,044
Amortisation of set of furniture and equipment with the unit price below CZK 40 thousand	2,949	2,500
Depreciation/amortisation total	14,111	15,544

8. OTHER ASSETS AND PREPAID EXPENSES

(CZK thousand)	31 December 2015	31 December 2014
Deferred tax asset (see Note 20)	20,031	23,984
Income tax advances (see Note 20)	28,744	21,621
Operating advances paid – rent and utilities	10,085	8,957
Advances paid for financial operations	755	4,613
Positive fair value of derivatives (see Note 2.11)	386	-
Positive value after revaluation of spot transactions (see Note 2.10)	197	105
Other assets	518	635
Total other assets	60,716	59,915
Prepaid rent	23,557	37,018
Other deferred expenses	4,616	1,232
Total deferred expenses	28,173	38,250

9. ALLOWANCES

Allowances for risky assets can be analyzed as follows:

(CZK thousand)	Loan receivables
As at 1 January 2014	229,268
Additions net	110,437
Release	(5,468)
Utilisation (see Note 18)	(80,727)
As at 31 December 2014	253,510
Additions net	30,689
Release	(2,254)
Utilisation (see Note 18)	(653)
As at 31 December 2015	281,292

In 2015, debts written off amounted to CZK 56 thousand (2014: CZK 948 thousand), which were covered by revenues from utilisation of allowances in the amount up to CZK 0 thousand (2014:

CZK 659 thousand). Allowances were also used to cover losses from the cession and transfer of receivables in the amount of CZK 653 thousand (2014: CZK 80,068 thousand).

10. DUE TO CUSTOMERS – MEMBERS OF CREDIT UNIONS

(CZK thousand)	31 December 2015	31 December 2014
Due to customers – members of Credit unions		
– term deposits	7,706,917	6,667,936
– savings deposits incl. deposits on savings books	382,563	1,627,295
– current accounts	745,128	977,188
Total due to customers – members of Credit unions	8,834,608	9,272,419
Subordinated term deposits of clients - members of Credit unions	32,073	294,126
Total subordinated debts	32,073	294,126

Deposits of individuals and legal entities at Credit union are insured by the rules of the Act no. 21/1992 on banks, as amended, and Credit union guided by those rules duly pays the contributions to the Deposit Insurance Fund (See Note 18).

All subordinated deposits were negotiated in 2012 or 2013, have a contractual maturity of 6 years, fixed interest rate of 5% p.a. and meet the conditions for inclusion in the capital of the Credit union as Tier 2. Based on the regulatory rules under Art. 64 of EU Regulation 575/2013 (CRR) for inclusion in the capital the linear amortisation on daily basis for the period of over five years up to the maturity date is applied (see Note 21.2). This rule relating to reduction for the purpose of inclusion into the capital has no impact on the agreed maturity of these deposits and the resulting liquidity risk. On the basis of the consent received from the CNB as well as of additional contractual arrangements with the holders of deposits, the deposits were during 2015 prematurely terminated in order to improve capital structure of Credit union. At the same time, the share capital as another members’ deposits (component of Common Equity Tier 1) tied converted subordinated deposits at total value CZK 262,053 thousand.

Amounts due to clients and members do not include the basic and additional member deposits, which constitute capital of Credit union and are presented in Note 12.

11. OTHER LIABILITIES

(CZK thousand)	31 December 2015	31 December 2014
Liability from income tax for the taxable period (Note 20)	15,017	28,918
Estimated payables	13,662	4,893
Liabilities to suppliers	8,817	1,644
Liabilities to the Deposit Insurance Fund	7,120	3,699
Liabilities to employees	3,904	3,867
Negative fair value of derivatives (Note 2.11)	1,999	6,781
Withholding tax on debited interest	1,973	1,892
Health and social insurance	1,890	1,950
Liabilities arising from client transfers and received un-identified payments	1,782	1,960
Settlement accounts of financial markets	1,285	77
Income tax liability	703	716
A negative value of the revaluation of spot positions (Note 2.10)	112	135
Liabilities from settlement shares (Note 12.3, 12.1)	20	1,632
Other liabilities from operating activities	1,562	599
Total other liabilities	59,846	58,763

Credit union did not have any overdue obligations to the financial institutions, social security institutions, health insurers or the Deposit Insurance Fund as at 31 December 2015 and 2014.

Since the year 2012, Credit union has been a passive participant in one litigation where the counterparty as plaintiff claimed payment of the amount of CZK 9 million including related payments under one cessed receivable which this counterparty deemed as non-existent, while the amount represents a payment and cession of the receivable. Credit union believes that the legal defence of such a claim to be entirely justified and, in this case, did not identify the reason for the creation of reserves for potential liabilities from litigation.

12. EQUITY AND PROFIT DISTRIBUTION

12.1 PROFIT DISTRIBUTION

(CZK thousand)	31 December 2015	31 December 2014
Basic member deposits	1,911	1,938
Other member deposits	1,293,440	863,308
Member deposits in settlement (see Note 11, 12.3 and 21.2)	372	-
Total share capital	1,295,723	865,246

All the share capital had been fully paid on the closing dates.

The amount of registered capital of Credit union as at 31 December 2015 amounted to CZK 500 thousand (31 December 2014: CZK 500 thousand).

The number of Credit union members as at 31 December 2015 amounted to 19,112 (31 December 2014: 19,378).

The total value of direct and indirect shares of the controlling entity in the share capital of Credit union represented 49.3% as at 31 December 2015.

Member contribution may be only in cash. The basic and necessary membership contribution is the same for each member and equals to CZK 100. With the consensus of the general meeting of Credit union, a member can contribute additional capital to the share capital of Credit union. Inserting and subsequent transfers of membership contributions are subject depending on their size and the amount of shares of approval Board of Directors, membership meetings, or even require the consent of the CNB.

A member is entitled to reduce the amount of another membership contribution to maximum of 20% of its original amount every twelve months from the date of repayment under the condition that other Member deposit remains an integral multiple of basic membership contribution.

On the basis of the official explanatory clarification of certain provisions of the CRR in 2015, there was a change in the captured Members’ deposits in the event of a reduction or extinction. As a result, these items may be charged from capital and payed only if this does not endanger the stability of the institutions and only after the consent of the CNB. Therefore share capital includes entry Member deposits in the settlement as at 31 December 2015, whilst this item was included in liabilities as at 31 December 2014 (see Note 11). Such deposits are no longer contributed to the voting rights.

The settlement amount is determined by the measurement of membership contribution, possibly by reduction of some membership contribution, that had been terminated in the reporting period, the total of all membership contributions and reductions of contributions related to the reporting period, all the members on the last day of the reporting period and the sum of all the Member contributions and reduction of contributions of those members, of who the membership in the reporting period had been terminated. Thus obtained rate is multiplied by the ratio of the amount of Credit union equity after deduction of the amount of the risk fund and reserve fund of Credit union. For determining the settlement amount is decisive the state of equity of Credit union after deducting the risk fund and reserve fund of Credit union by its Annual report for the year in which membership had been terminated.

Settlement share is payable within 3 months from the date of approval of the financial statements for the accounting period, in which the membership has expired or the membership contribution has been reduced. Payment of settlement amounts cannot be performed if there would be a threat for the stability of Credit union. Credit union is also entitled to postpone payment of the settlement amount, or part of it if the payment could jeopardize the fulfilment of the requirements under direct applicable EU legislation, till the time, when the reasons for which payment has been deferred, will no longer exist.

12.2 REMUNERATION LINKED TO EQUITY

Employees or members of elected bodies of Credit union are not entitled to remuneration linked to equity of Credit union nor remunerations provided from it.

12.3 PROFIT DISTRIBUTION

The profit distribution falls within the scope of the Members meeting and it was distributed or proposed to be distributed by the Boards of Directors as follows:

(CZK thousand)	Proposed 2015	Distributed 2014
Allocation to the reserve fund	8,500	5,501
Allocation to the risk fund	8,500	5,501
Settlement profit shares (see Note 11 and 12.1)	12	49
Retained earnings	5,140	295
Net profit	22,152	11,346

The risk and reserve fund is used to cover the risks of loan provisions and guarantees. The risk and reserve fund is used to cover losses and fluctuations in the economic activities of Credit union. The amount of cash allocated to the risk fund is minimally equal to 20% of the annual net profit till the amount reaches minimally 30% of aggregated outstanding loans and guarantees to Credit union (2014: 10% or 20%). The amount of cash allocated to the reserve fund is minimally equal to 10% of the annual net profit till the amount reaches minimally 20% of the share capital of Credit union.

13. OFF-BALANCE SHEET ITEMS

Off-Balance sheet items can be analysed as follows:

(CZK thousand)	31 December 2015	31 December 2014
Off-Balance sheet assets		
Guarantees granted	20,000	20,000
Undrawn overdrafts	9,091	36,383
Granted loan commitments	176,890	55,469
Pledges granted	396,691	377,472
Receivables from derivatives (Note 2.11, 8, 11 and 21.8)	860,381	1,192,217
Receivables from spot transactions (Note 2.10, 8 and 11)	150,611	192,788
Total Off-Balance sheet assets	1,613,664	1,874,329

(CZK thousand)	31 December 2015	31 December 2014
Off-Balance sheet liabilities		
Commitments received	285,000	285,000
Received collateral (Note 5.2)	4,055,300	4,928,839
Derivative liabilities (Note 2.11, 8, 11 and 21.8)	861,501	1,198,625
Liabilities from spot transactions. (Note 2.10, 8 and 11)	150,527	189,989
Total Off-Balance sheet liabilities	5,352,328	6,602,453

Commitments to provide loans and guarantees issued to third parties expose Credit union to credit risks and liquidity risks and the resulting potential loss in the event of non-fulfilment of conditions by the client.

Apart from the value of collateral received in the context of securing credit exposures (See Note 5.2) as at 31 December 2015 and 2014, there were no liabilities arising from fiduciary duties and Credit union neither gave nor received any assets for management, safekeeping or administration.

Credit union has encumbered assets in favour of counterparties’ financial institutions; these cases reflect the current conditions of the financial market and show no abnormal or unfavourable features. Credit union set up at a certain banking counterparty pledge to its terminated deposit in the amount of CZK 300 million (31 December 2014: CZK 300 million). Credit union is entitled to draw an overdraft loan from that counterparty bank with the limit of up to CZK 285 million (2014: CZK 285 million) recorded in the line Commitments received. Liens amounting to a total of CZK 95.7 million (31 December 2014: CZK 76.5 million) were established in favour of four bank counterparties at the 31 December 2015. The reason is to provide security to these financial counterparties for the purpose of implementing the current business of Credit union on the financial markets. A lien of CZK 1 mil was established to funds in the savings account Credit union kept in one bank counterparty under which it is allowed to offer credit card services to members of unions because their own Credit union credit cards are not issued.

14. INTEREST AND SIMILAR INCOME

(CZK thousand)	2015	2014
Interest income on loans and receivables	470,683	558,757
Fees on loans in the nature of interest	13,733	9,346
Interest income from bank deposits	11,580	14,487
Interest on debt securities over the holding period (Notes 2.9 and 16)	45,148	42,160
Total interest income and similar income	541,144	624,750

In the year 2015, income included the amount of CZK 9,967 thousand of unpaid interest on impaired loans (2014: CZK 6,578 thousand). The allowances for outstanding interest from receivables with classification “watched”, which were overdue less than 30 days, were recognized in the amount of the coefficient applicable for category of “watched” receivables. All other unpaid interest amounts were provisioned in full.

15. PREPAYMENTS ON INTEREST, FEES AND COMMITTEES

(CZK thousand)	2015	2014
Interest expenses arising from deposits received	263,911	285,389
Total interest expense	263,911	285,389
Bank charges	4,706	4,572
Other expenses for fees, committees and mediation	5,098	1,460
Total fees and committees	9,804	6,032

16. LOSS AND PROFIT FROM FINANCIAL OPERATIONS

(CZK thousand)	2015	2014
Net loss (-) of debt securities, including revaluation to fair value*	(6,352)	(4,950)
Net profit (+) from revaluation of derivatives to fair value (Note 2.11, 8, 11, 21.8)	5,169	20,415
Net loss (-) / income (+) of the conversion and revaluation of foreign currencies	19,736	(16,140)
Total net loss (-) / income (+) from financial operations	18,553	(675)

* Interest on debt securities over the holding period is recognised as interest income. (See Note 14).

17. OTHER OPERATING INCOME

(CZK thousand)	2015	2014
Proceeds from sale of tangible and intangible assets (see Note. 7)	256	964
Rental income	93	119
Other income	581	445
Total other operating income	930	1,528

18. OTHER OPERATING EXPENSES

(CZK thousand)	2015	2014
Losses arising from ceded receivables and the cost of receivables written off and executions (See Note 9)	957	81,026
Contributions to the Deposit Insurance Fund (see Note 19)	-	14,720
Costs arising from disposals of tangible and intangible assets	828	2,833
Gifts and other expenses for charitable purposes	3,100	1,000
Other expenses	64	40
Total other operational expense	4,949	99,619

19. ADMINISTRATIVE EXPENSES

Administrative costs are represented by the following items:

(CZK thousand)	2015	2014
Employees and members of elected bodies	92,150	93,608
Contributions to the Deposit Insurance Fund*	28,978	-
Rent and leasing	25,236	16,975
Operation of the Information System	11,216	8,214
Advertising	7,977	5,135
Legal, tax and other advice	7,593	6,034
Audits and notary services	5,160	4,553
Consumption of water, gas and electricity	4,503	3,335
Telecommunications	3,170	2,722
Outsourcing services	3,014	1,636
Maintenance of property and equipment	1,996	784
Representation expenses	1,835	1,151
Travel expenses	1,282	1,152
Fees, notary services and similar costs	952	899
Fuel consumption	908	1,019
Postal costs	841	794
Purchase of small equipment/furniture	830	943
Insurance	658	714
Stationary	305	403
Other - various	6,275	5,818
Total administrative expenses	204,879	155,889

* In 2015 the item is recognized as part of the administrative costs in order to ensure consistency with the CNB reporting methodology. In 2014, this item was reported under other operating expenses (see Note 18) according to the decree of the Ministry of Finance in Czech Republic for financial institutions.

Expenses for employees and members of elected bodies are further analyzed as follows:

(CZK thousand)	2015	2014
Salaries and rewards	67,822	68,381
Social and health insurance	21,186	20,579
Other expenses	3,142	4,648
Total	92,150	93,608

From which:

Board of Directors (CZK thousand)	2015	2014
Salaries and rewards	10,050	7,118
Social and health insurance	2,394	1,302
Total	12,444	8,420

Credit committee (CZK thousand)	2015	2014
Salaries and rewards	2,272	1,486
Social and health insurance	773	505
Total	3,045	1,991

Control committee (CZK thousand)	2015	2014
Salaries and rewards	469	1,735
Social and health insurance	159	285
Total	628	2,020

Others (CZK thousand)	2015	2014
Salaries and rewards	55,031	58,042
Social and health insurance	17,860	18,487
Other expenses	3,142	4,648
Total	76,033	81,177

Remuneration of members of elected bodies includes all remuneration, including the remuneration of the parallel labour-law relationship if such has been negotiated, for the period during which the function was performed by a member of the elected body.

Statistics employees and members of elected bodies:

	2015	2014
Number of employees as at 31 December	144	138
Members of the elected bodies:		
– Board of directors	3	3
– Credit committee	3	3
– Control committee	3	3

20. TAXATION

The income tax expense consists of the following:

(CZK thousand)	2015	2014
Net tax expense of the income tax	15,177	28,334
Deferred tax expense	3,953	3,600
Total tax expense	19,130	31,934

Income tax expense of the income tax has been determined as follows:

(CZK thousand)	2015	2014
Profit before tax	41,282	43,280
Change in provisions and write-offs (See Note 9)	28,739	105,268
Non-deductible expenses and other items not included in the tax base	9,810	3,653
Tax base	79,831	152,201
Tax expense after applying 19% income tax rate on the tax base	15,168	28,918
Other tax items accounted for in the current period	9	(584)
Total income tax expense Income tax	15,177	28,334

Income tax expense is calculated as the best estimate of the management of Credit union as at the balance sheet date. The actual amount of tax liability is determined based on the subsequent establishment of the corporate income tax returns as at the respective statutory deadline. Credit union duly paid its actual tax liability for the tax year 2014 amounting to CZK 28,927 thousand.

Deferred tax can be analyzed as follows:

(CZK thousand)	Accounted for	Not accounted for
Deferred tax assets - provisions for loans		
As at 1 January 2014	27,584	15,977
Changes in 2014	(3,600)	8,206
As at 31 December 2014	23,984	24,183
Changes in 2015	(3,953)	9,232
As at 31 December 2015	20,031	33,415

Potential additional deferred tax assets were not recognised since their utilisation in the future was considered unlikely. For the calculation of deferred taxes, the income tax rate of 19% was used.

21. RISK MANAGEMENT

21.1 RISK MANAGEMENT SYSTEM

By virtue of its activity, Credit union undertakes a number of risks. Credit union has an obligation to have a management and control system set up to enable for systematic and efficient risk management, to provide an undistorted picture of the degree of risk, ensure early detection and capture all relevant risk factors and take into account the quantitative and qualitative aspects of risk management. Credit union has set up a special department of risk management that is independent from senior management. The ultimate responsibility for evaluating the information and the timely adoption of appropriate measures for risk management rests with the board.

The basis for risk management is a risk management strategy, which covers credit risk (including concentration risk), market and operational risk (including IT security risk). The strategy describes the main principles for identifying, measuring and managing risks, and methods and tools for risk management. Part of the risk management strategy is to also establish principles for the creation of emergency plans.

The activities of Credit union, while undergoing and managing financial risks, include mainly the controlled and managed usage of financial instruments and setting admissible limits.

The control system of Credit union also includes comprehensive stress testing. Stress testing involves the modelling of different simulated scenarios, which test various idiosyncratic (specific events related solely to Credit union) and systematic shocks (resulting from difficult conditions in the Czech and world markets). The result of comprehensive stress testing is to qualify the impact of these shocks on credit, market, liquidity risk and capital adequacy. Stress testing is performed on a monthly basis. In case of negative impacts of comprehensive stress scenarios, the corrective measures are accepted by Credit union.

Except regular quarterly summary reports on risk management, Credit union monitors all significant risk indicators and factors monthly. The results of this monitoring are presented to the Board of Credit union for the operational decision and acceptance of necessary actions.

21.2 CAPITAL, CAPITAL REQUIREMENTS AND CAPITAL RATIOS

Credit union is obliged to consistently apply reliable, effective and complete strategies and processes to determine the ongoing assessment and maintenance of the capital in a structure and layout, in order to adequately cover the risks to which Credit union is or might be exposed.

Credit union in this context is also required to continually meet capital requirements under CRR, which sets minimum capital ratios in relation to total risk exposure, Core Tier 1 ratio of 4.5%, Tier 1 capital ratio of 6% and a total capital ratio of 8%. Beyond this, in 2015, the CNB established the duty for Credit union to maintain the ratio of equity Tier 1 at the level of at least 12%. This ratio is fully covered by the equity Tier 1, and because of this also met the criteria to cover the securing capital reserve, which is at level of 2.5% of total risk weighted exposures. In 2015 and 2014 Credit union was not required to set aside a countercyclical capital buffer or reserve to cover systemic risk.

Full reconciliation of capital items under EU Regulation no. 575/2013 to the capital and the balance sheet of Credit union within the audited financial statements is made as follows:

(CZK thousand)	31 December 2015	31 December 2014
Basic Member deposits	1,911	1,938
Other Member deposits	1,293,440	863,308
Member deposits in settlement (see Note 12.1)	372	-
Reserve fund	11,565	6,064
Risk fund	13,365	7,864
Retained earnings	17,013	16,717
Current year profit *	-	-
Deduction of intangible assets	(28,405)	(13,534)
Core Tier 1	1,309,261	882,357
Total Tier 1 capital	1,309,261	882,357
Subordinated deposits (See Note 10)	32,073	294,126
Amortisation according to Art. 64 of EU Regulation 575/2013 (CRR) **	(12,409)	(58,740)
Total capital Tier 2	19,664	235,386
Total capital	1,328,925	1,117,743

* Zero value is included under Art. 26 of EU Regulation 575/2013 (CRR), because the profit for 2015 has not yet been formally approved by the general meeting (see Note 12.3).

Risk exposures are characterised as follows:

(CZK thousand)	31 December 2015	31 December 2014
Risk weighted exposure to credit risk, counterparty risk and dilution		
Exposures to institutions	181,914	258,965
Exposures to corporates	6,400,573	6,417,102
Exposure in default	1,025,466	2,012,475
Other exposure	959,921	820,254
Total risk weighted exposure to credit risk at STA	8,567,874	9,508,796
Risk exposure to currency risk at STA	109,841	-
Risk exposure to operational risk - BIA approach	623,756	535,950
Total risk-weighted exposure	9,301,471	10,044,746

Capital requirements are set out as follows:

(CZK thousand)	31 December 2015	31 December 2014
Capital requirements for credit risk under the standardised approach („STA“) to:		
Exposures to institutions	14,553	20,717
Exposures to corporates	512,046	513,368
Exposure overdue	82,037	160,998
Other exposure	76,794	65,620
Capital requirements for credit risk under STA to total exposures:	685,430	760,703
Risk exposure to currency risk at STA	8,787	0
Risk exposure to operational risk - BIA approach	49,900	42,876
Total capital requirements	744,117	803,579

Capital ratios are presented as follows:

(CZK thousand)	31 December 2015	31 December 2014
Equity capital Tier 1	14.08%	8.78%
Capital Tier 1	14.08%	8.78%
Total capital	14.29%	11.13%

Credit union is further required to have established Internal Capital Adequacy Assessment Process (hereinafter the “ICAAP”). ICAAP is a tool for determining and regularly evaluating internally defined capital needs, planning and continuously maintaining internally defined capital resources in such amount, structure and distribution that is sufficient to cover the risks to which it is or might be exposed to Credit union. ICAAP is conceived on the basis of indicators of total capital ratio. ICAAP beyond the regulatory capital requirements for the Czech Republic, includes also individual premiums and additional requirements for concentration risk, large exposure, interest rate and market risk, liquidity and strategic and reputational, the ICAAP capital resources are the same as in the case of regulatory capital. ICAAP value is also evaluated in relation to the results of comprehensive stress tests to determine and adopt corrective measures.

21.3 RATIOS AND INDICATORS

Part of the obligatory published data are the following ratios that, in some way, reflect the risk and return profile of Credit union:

	31 December 2015	31 December 2014
Return on average assets (ROAA)	0.212%	0.109%
Return on average equity Tier 1 (ROAE)	2.152%	1.319%
Assets per 1 employee *	CZK 83,629 ths.	CZK 82,286 ths.
Administrative expenses per 1 employee * (see Note 19)	CZK 1,690 ths.	CZK 1,218 ths.
Profit or loss after tax per employee *	CZK 180 ths.	CZK 89 ths.

* The values in ratios including the number of workers may be affected depending on the fact whether the agenda and activities are carried out through its own staff or provided by external suppliers, including the so-called outsourcing work force.

21.4 CREDIT RISK

Credit risk is the risk of loss for Credit union in the event that a counterparty (credit borrower) or another third party (indirect participant) of the loan transaction fails to meet its obligations, whether due to insolvency, protracted default of payment or other reasons, which are determined by the character / risk of the relevant loan transaction.

Credit union evaluates financial and other information on individual counterparties and their credit ratings, especially clients drawing loans, issuers of debt securities and financial institutions in order to control and limit credit risk. Credit union assesses the credit risk individually for each counterparty. When assessing the borrower’s creditworthiness, Credit union carries out a financial analysis within which it assesses the debtor’s ability to create sufficient funds to repay the loan and non-financial analysis, as part of which the debtor’s business industry is assessed, debtor’s market position, prospects and other factors that could affect to return of the loans. In the event of recording information indicating an escalation in the credit risk, this particular case becomes subject to specific monitoring.

The condition for granting a loan is to provide quality and sufficient collateral, depending on the evaluation of counterparty risk and the degree of risk that is undergoing exposure. When determining the realisable value of collateral, Credit union bases its assessment on expert valuations, the nominal value of the collateral and the creditworthiness of the collateral provider. Realisable value of collateral is the expected return in case of realisation. The value of collateral is subject to regular revisions and actualisation carried out in regular time periods stipulated by the internal regulations of Credit union. Value of collateral is also updated in cases where information becomes known, which could result in a reduction in the value of collateral. Those factors include, depending on the type of security, e.g. an insured event, reconstruction of the property, rezoning or change in market conditions in property reinsurance. In the case of personal collateral, this is e.g. a change in the creditworthiness and financial credibility of the provider as a result of loss of income or other events.

For the purposes of credit risk management, Credit union creates and adheres to the system of limits and procedures for their utilisation and compliance. The system of limits for credit risk management is approved by the Board.

In its internal regulations, Credit union sets approval competencies for credit deals, principles, rules and procedures for granting loans. Under these rules, Credit union also apply the principle of segregation of the process of negotiation, approval and evaluation of loans.

Credit union has set up an internal organisational unit, which manages the recoverability of the loans.

The aim of this administration is to achieve repayment or partial repayment of loans and to minimise losses. Credit union, based on an assessment of the causes of debtor’s default and the possibility of achieving debt repayment, determines the procedures leading to the recovering of the receivable from the restructuring of the credit relationship to collection or sale or cession of the receivable.

In its evaluation of receivables, Credit union does not use credit ratings published by external ratings agencies. Credit union has developed its own internal rating model that evaluates the creditworthiness of the client. The internal rating model and the amount of collateral are then used as inputs in determining the risk margin, as a tool for credit risk management. For determining the price of the loan, Credit union has worked out a pricing formation system, which, based on 3 inputs (the price of resources, liquidity margin and risk margin), determines the minimum cost of credit. Loan pricing is part of the loan approval process.

Loan portfolio concentration risk is assessed as part of the credit approval process. Credit union focuses on the concentration risk of large exposures, industry concentration risk (segment) and concentration risk according to the forms of repayment. Credit union does not use tools to reallocate credit risk. Credit union has entered into an agreement recursion.

Geographical segmentation of gross assets

Assets are divided into geographical segments according to seat or residence of counterparty, as follows:

31 December 2015 (CZK thousand)	Inland	Other EU	Total
Gross assets			
Petty cash and deposits at central banks	1,546,461	-	1,546,461
Receivables from banks and Credit unions	815,760	-	815,760
Receivables from clients	6,897,383	262,145	7,159,528
Securities	369,424	543,770	913,194
Other assets	171,057	-	171,057
Total gross assets	9,800,085	805,915	10,606,000

31 December 2014 (CZK thousand)	Inland	Other EU	Total
Gross assets			
Petty cash and deposits at central banks	1,370,652	-	1,370,652
Receivables from banks and Credit unions	756,148	-	756,148
Receivables from clients	7,645,338	255,072	7,900,410
Securities	144,680	490,701	635,381
Other assets	150,740	-	150,740
Total gross assets	10,067,558	745,773	10,813,331

Classification of receivables from clients and members according to their primary industry can be analysed as follows:

(CZK thousand)	31 December 2015	31 December 2014
Finance and insurance	1,964,177	1,983,362
Production and distribution of electricity, heat and air-conditioned air	1,040,120	1,722,745
Construction	953,795	753,854
Agriculture, forestry and fishing	771,255	846,675
Real estate	629,491	1,286,352
Business management, management consulting	367,860	237,763
Wholesale and retail	294,129	275,229
Publishing activity	292,250	-
Other	846,451	794,430
Total receivables from clients and members	7,159,528	7,900,410

Classification of debt securities according to primary industry can be analysed as follows:

(CZK thousand)	31 December 2015	31 December 2014
Finance and insurance	240,111	103,152
Wholesale	159,516	58,071
Real estate	88,341	56,149
The State (Czech Republic)	84,856	-
Textile production	76,526	75,791
Beverage production	75,167	75,179
Construction	56,606	83,909
Telecommunication	54,310	99,949
Production and distribution of electricity, heat and air-conditioned air	31,528	74,861
Other	46,233	8,320
Total debt securities	913,194	635,381

21.5 MARKET RISK

Market risk is the risk of financial losses from open positions of Credit union that arise due to changes in market conditions, especially the values of exchange rates, interest rates and volatility in the financial markets. Credit union is exposed to liquidity risk, interest rate risk, currency and financial market risks. Credit union is not exposed to other market risks, or such risks are not due to Credit union’s significant business. Credit union does not apply the market risk Value at Risk method.

Credit union creates and adheres to a system of limits for market risk management and the procedures for their use and compliance. The system of limits for market risk management is approved by the Board. The size of the market risk is continuously compared with the approved limits.

Credit union does not invest in shares or other equity securities.

21.6 INTEREST RISK

Financial position, financial results and cash flows of Credit union are exposed to the risk of market interest rates. Interest rates and margins may increase as a result of this risk and generate profits, but can also decrease and create losses. Credit union is exposed to interest rate risk due to the fact that interest-bearing assets and liabilities have different maturity or interest rate fixing periods. The aim of interest rate risk management is to minimise Credit union losses from potential changes in interest rates on financial markets, especially in case of unexpected movements. The credit committee proposes changes to interest on deposits and loans. The Board continuously assesses trends in interest rate positions.

Interest expense of liabilities is based on fixed contractual interest rates. Interest income from assets is based on a fixed or variable rate. In the event that variable interest rates are applied to loans, the minimum interest rate is agreed in the contract if the reference variable rate has dropped below a certain minimum value.

An essential tool for measuring the interest rate risk is BPV (Basis Point Value) which shows how to change the value of the portfolio changes in the interest rate curve by 0.01%. Credit union has interest rate risk measurement limits set for each relevant currency, maturity and for the entire portfolio.

Another tool for measuring credit risk is interest rate risk stress testing. The baseline scenario of stress testing is a scenario that has a parallel shift in the interest curve of +/- 2%.

The following table summarises Credit union’s exposure to interest rate risk. The table includes interest-bearing assets and liabilities of Credit union in values arranged by the earlier changes in fixed interest rate or contractual maturity.

31 December 2015 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Interest insensitive	Total
Assets						
Petty cash and deposits at central banks	1,542,272	-	-	-	4,189	1,546,461
Receivables from banks and Credit unions	759,716	55,000	-	1,044	-	815,760
Receivables from clients – members of Credit union	995,614	3,202,912	1,696,505	503,663	760,834	7,159,528
Allowances	-	-	-	-	(281,292)	(281,292)
Securities	-	252,075	550,287	70,000	40,832	913,194
Other assets	-	-	-	-	132,694	132,694
Total assets	3,297,602	3,509,987	2,246,792	574,707	657,257	10,286,345
Liabilities						
Payables to clients – members of Credit union	1,351,520	759,604	6,356,594	398,963	-	8,866,681
Other liabilities including equity	-	-	-	-	1,419,664	1,419,664
Total liabilities and equity	1,351,520	759,604	6,356,594	398,963	1,419,664	10,286,345

31 December 2014 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Interest insensitive	Total
Assets						
Petty cash and deposits at central banks	1,366,766	-	-	-	3,886	1,370,652
Receivables from banks and Credit unions	455,105	-	300,000	1,043	-	756,148
Receivables from clients – members of Credit union	1,280,606	3,346,496	2,058,751	573,507	641,050	7,900,410
Allowances	-	-	-	-	(253,510)	(253,510)
Securities	49,905	206,162	293,819	55,450	30,045	635,381
Other assets	-	-	-	-	123,464	123,464
Total assets	3,152,382	3,552,658	2,652,570	630,000	544,935	10,532,545
Liabilities						
Payables to clients – members of Credit union	2,122,440	1,618,995	5,806,383	18,727	-	9,566,545
Other liabilities including equity	-	-	-	-	966,000	966,000
Total liabilities and equity	2,122,440	1,618,995	5,806,383	18,727	966,000	10,532,545

Off-balance sheet position can be further analyzed as follows:

31 December 2015 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Interest insensitive	Total
Off-balance sheet assets						
Provided guarantees	-	-	-	-	20,000	20,000
Undrawn overdraft commitments	5,990	3,101	-	-	-	9,091
Granted loan commitments	2,335	32,837	126,858	14,860	-	176,890
Granted pledges	-	-	-	-	396,691	396,691
Receivables from spot transactions	150,611	-	-	-	-	150,611
Receivables from derivatives	860,381	-	-	-	-	860,381
Total off-balance sheet assets	1,019,317	35,938	126,858	14,860	416,691	1,613,664

31 December 2015 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Interest insensitive	Total
Off-balance sheet liabilities						
Received commitments	285,000	-	-	-	-	285,000
Received collaterals and pledges	-	-	-	-	4,055,300	4,055,300
Liabilities from spot transactions	150,527	-	-	-	-	150,527
Liabilities from derivatives	861,501	-	-	-	-	861,501
Total off-balance sheet liabilities	1,297,028	-	-	-	4,055,300	5,352,328

31 December 2014 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Interest insensitive	Total
Off-balance sheet assets						
Provided guarantees	-	-	-	-	20,000	20,000
Undrawn overdraft commitments	7,913	15,744	12,726	-	-	36,383
Granted loan commitments	-	28,150	27,319	-	-	55,469
Granted pledges	-	-	-	-	377,472	377,472
Receivables from spot transactions	192,788	-	-	-	-	192,788
Receivables from derivatives	1,192,217	-	-	-	-	1,192,217
Total off-balance sheet assets	1,392,918	43,894	40,045	-	397,472	1,874,329
Off-balance sheet liabilities						
Received commitments	-	-	-	-	285,000	285,000
Received collaterals and pledges	-	-	-	-	4,928,839	4,928,839
Liabilities from spot transactions	189,989	-	-	-	-	189,989
Liabilities from derivatives	1,198,625	-	-	-	-	1,198,625
Total off-balance sheet liabilities	1,388,614	-	-	-	5,213,839	6,602,453

21.7 LIQUIDITY RISK

Liquidity risk is the risk that Credit union will become unable to meet its liabilities or that it is unable to finance its assets. It includes both the risk of inability of Credit union to finance assets using instruments with appropriate maturity and the inability of Credit union to sell assets at a reasonable price within a reasonable timeframe.

Credit union is exposed to daily calls on its available cash resources through demand deposits, current accounts, maturing deposits, loan drawdowns, guarantees and settlement of current operating liabilities of Credit union. Credit union does not keep available funds to meet all of these needs as, based on experience and recognised standards of liquidity management, it is implied that a high degree of probability can specify a minimum level of reinvestment of maturing funds. The Board sets limits on the minimum proportion of highly liquid funds that should be available to cover the unexpected volume of drawings.

The direct liquidity risk management tools include also, so called gap analysis, which is based on the distribution of cash flows, balance sheet and off-balance sheet assets and liabilities in the system of time zones (baskets). Based on this analysis, Credit union follows the evolution of liquidity through some internally defined scenarios that simulate standard expected as well as stress evolution in the structure of assets and liabilities, Off-balance sheet items and other factors. Among other direct instruments, can be found calculation and monitoring liquidity ratios LCR (liquidity coverage ratio), calculation and daily monitoring of the liquidity reserve and other operational liquidity indicators. For all indicators of liquidity risk and scenarios are set limits that are responsible for timely capture and highlighting the potential increase in liquidity risk of the Credit union.

For liquidity risk management, Credit union uses not only direct instruments but also indirect instruments, which include:

- a. setting the product parameters, such as advantages for deposits with notice periods prior to termination without possibility of early withdrawal, or option to change interest rates,
- b. setting internal control limits including limits on cash withdrawals,
- c. openness and ensuring client and public awareness.

For the purpose of liquidity management under extraordinary circumstances, there is a contingency plan that includes measures to restore liquidity.

This plan is a subject to regular revision based on changing internal and external conditions. Credit union uses diversified sources of funding. These resources consist of both deposits and other savings as well as of Credit union deposits. To diversify and stabilize liquidity sources and to deposit excess funds is being used cash and bond market. Credit union has a specific credit line from a bank counterparty, which further enhances the flexibility of obtaining liquidity resources and reduces dependence on other sources of funding.

The table below analyses assets and liabilities of Credit union by relevant maturity bands based on the remaining period to the contractual maturity date of the financial statements. In managing liquidity risk, Credit union also takes into account all other relevant information known about the individual components of assets and liabilities, including estimates of future developments. This information is, especially, the expected recovery rate of maturing client deposits, early repayment of loans or their expected refinancing, or information about possible failure.

31 December 2015 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Assets						
Petty cash and deposits at central banks	1,546,461	-	-	-	-	1,546,461
Receivables from banks and Credit unions	759,716	55,000	-	1,044	-	815,760
Receivables from clients – members of Credit union						
– standard	270,572	828,320	1,593,989	1,158,122	-	3,851,003
–classified	669,414	715,757	1,135,106	760,052	28,196	3,308,525
Allowances	-	-	-	-	(281,292)	(281,292)
Securities	1,924	195,126	631,896	84,248	-	913,194
Other assets	35,345	14,939	12,527	26,078	43,805	132,694
Total assets	3,835,432	1,809,142	3,373,518	2,029,544	(209,291)	10,286,345
Liabilities						
Payables to clients - members of Credit union	2,147,104	758,016	5,568,753	392,808	-	8,866,681
Other liabilities including equity	31,141	28,686	-	20	1,359,817	1,419,664
Total liabilities including equity	2,178,245	786,702	5,568,753	392,828	1,359,817	10,286,345
Net amount of assets (+) / liabilities (-)	1,105,187	1,022,440	(2,195,235)	1,636,716	(1,569,108)	-

31 December 2014 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Assets						
Petty cash and deposits at central banks	1,370,652	-	-	-	-	1,370,652
Receivables from banks and Credit unions	400,105	55,000	300,000	1,043	-	756,148
Receivables from clients – members of Credit union						
–standard	247,733	394,479	1,313,967	815,711	-	2,771,890
–classified	774,851	917,542	1,976,321	1,284,340	175,466	5,128,520
Allowances	-	-	-	-	(253,510)	(253,510)
Securities	5,502	138,558	377,186	114,135	-	635,381
Other assets	10,637	34,548	23,798	29,181	25,300	123,464
Total assets	2,809,480	1,540,127	3,991,272	2,244,410	(52,744)	10,532,545
Liabilities						
Payables to clients - members of Credit union	2,082,915	1,720,780	5,744,090	18,760	-	9,566,545
Other liabilities including equity	23,311	35,450	-	-	907,239	966,000
Total liabilities including equity	2,106,226	1,756,230	5,744,090	18,760	907,239	10,532,545
Net amount of assets (+) / liabilities (-)	703,254	(216,103)	(1,752,818)	2,225,650	(959,983)	-

Off-balance sheet position can be further analysed as follows:

31 December 2015 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Off-balance sheet assets						
Provided guarantees	20,000	-	-	-	-	20,000
Undrawn overdraft commitments	9,091	-	-	-	-	9,091
Granted loan commitments	176,890	-	-	-	-	176,890
Granted pledges	396,691	-	-	-	-	396,691
Receivables from spot transactions	150,611	-	-	-	-	150,611
Receivables from derivatives	860,381	-	-	-	-	860,381
Total off-balance sheet assets	1,613,664	-	-	-	-	1,613,664
Off-balance sheet liabilities						
Received commitments	285,000	-	-	-	-	285,000
Received collaterals and pledges	-	-	-	-	4,055,300	4,055,300
Liabilities from spot transactions	150,527	-	-	-	-	150,527
Liabilities from derivatives	861,501	-	-	-	-	861,501
Total off-balance sheet liabilities	1,297,028	-	-	-	4,055,300	5,352,328

31 December 2014 (CZK thousand)	Up to 3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
Off-balance sheet assets						
Provided guarantees	20,000	-	-	-	-	20,000
Undrawn overdraft commitments	36,383	-	-	-	-	36,383
Granted loan commitments	55,469	-	-	-	-	55,469
Granted pledges	377,472	-	-	-	-	377,472
Receivables from spot transactions	192,788	-	-	-	-	192,788
Receivables from derivatives	1,192,217	-	-	-	-	1,192,217
Total off-balance sheet assets	1,874,329	-	-	-	-	1,874,329
Off-balance sheet liabilities						
Received commitments	285,000	-	-	-	-	285,000
Received collaterals and pledges	-	-	-	-	4,928,839	4,928,839
Liabilities from spot transactions	189,989	-	-	-	-	189,989
Liabilities from derivatives	1,198,625	-	-	-	-	1,198,625
Total off-balance sheet liabilities	1,673,614	-	-	-	4,928,839	6,602,453

21.8 CURRENCY RISK

Credit union undergoes currency risk which arises from open positions in various currencies. The Board sets up strategies and limits of acceptable currency risk, which are monitored daily. Credit union concludes derivative transactions for the purpose of hedging currency risks, including monetary liquidity. Derivative exposure on 31 December 2015 is presented as off-balance sheet commitments to the four bank counterparties and one other financial institution (31 December 2014: three bank counterparties and one other financial institution) (see Note 13).

The financial statements for 31 December 2015 include the following balances denominated in foreign currencies:

31. December 2015 (CZK thousand)	EUR	USD	Other foreign currencies	Total foreign currencies
Assets				
Receivables from banks	20,484	25,234	10,057	55,775
Foreign currency petty cash	179	-	123	302
Debt securities	232,276	-	-	232,276
Foreign currency loans provided	558,201	-	-	558,201
Cash in transit, clearing and other accounts	2,516	(745)	-	1,771
Total assets	813,656	24,489	10,180	848,325
Liabilities				
Payables to clients and members	40,632	1,611	2,959	83,686
Clearing and other accounts	20	167	-	5,016
Total liabilities	40,652	1,778	2,959	88,702
Off-balance sheet				
Receivables from derivatives	67,563	14,894	21,955	104,412
Receivables from spot transactions	62,222	52,344	499	115,065
Total off-balance sheet assets	129,785	67,238	22,454	219,477
Liabilities from derivatives	760,754	-	6,317	767,071
Liabilities from spot transactions	57,582	49,382	1,021	107,985
Total off-balance sheet liabilities	818,336	49,382	7,338	875,056

Balances denominated in foreign currencies as at 31 December 2014 were as follows:

31. December 2014 (CZK thousand)	EUR	USD	Other foreign currencies	Total foreign currencies
Assets				
Receivables from banks	113,701	33,223	8,253	155,177
Foreign currency petty cash	194	-	-	194
Debt securities	280,605	-	40,396	321,001
Foreign currency loans provided	808,322	-	-	808,322
Cash in transit, clearing and other accounts	(2,357)	(3,174)	660	(4,871)
Total assets	1,200,465	30,049	49,309	1,279,823
Liabilities				
Payables to clients and members	41,227	36,786	1,339	79,352
Clearing and other accounts	7,347	3,813	-	11,160
Total liabilities	48,574	40,599	1,339	90,512
Off-balance sheet				
Receivables from derivatives	-	-	-	-
Receivables from spot transactions	29,943	43,727	2,439	76,109
Total off-balance sheet assets	29,943	43,727	2,439	76,109
Liabilities from derivatives	1,132,484	6,850	40,965	1,180,299
Liabilities from spot transactions	54,036	27,721	8,078	89,835
Total off-balance sheet liabilities	1,186,520	34,571	49,043	1,270,134

21.9 OPERATIONAL RISK

Operational risk is the risk of loss due to errors, violations, exceeding of limits or failure to uphold rules and the damages caused by failure of internal processes, human factor, outage/ system failure, or external events.

Credit union, in the context of operational risk management, establishes policies and procedures for evaluating and influencing the extent of exposure to operational risk, including consideration of infrequent major events. Monitoring and evaluating operational risk is incorporated into common processes of Credit union. The main control and decision making body regarding operational risk management is the Board.

Credit union’s internal regulations define the rights and obligations of employees, including management staff and regulate the working processes and control activities. Credit union’s organisational structure and its internal regulations are set with respect to the segregation of duties and to avoid conflicts of interest.

Credit union identifies operational risk by the collection of data from information systems, traffic and security monitoring system and from internal requests and reports from the workers of Credit union credit. All Union workers are required to report operational risk, also in case of suspicion without undue delay. Identified operational risks are then consequently being dealt and evaluated.

Credit union has established a system of identification and categorization of assets. For thus categorized assets are determined operating and safety principles from the perspective of confidentiality, integrity and availability. For significant asset is a regular risk analysis and the detection of risk implemented by subsequent corrective actions.

Credit union controls access to all assets. Credit union set the standard level of protection and the possibility of use of the assets, including the regime measures. Access control and security level is appropriately based on the significance of specific assets.

In Credit union, there is a process that is introduced to evaluate the significance of the activities on the basis of which creates contingency plans and so called Disaster recovery plans (plans to resume operations in the event of a catastrophic incident or other). The system of contingency planning is linked with a database of assets.

Within the effective use of resources Credit union provides selected activities through outsourcing. This solution does not relieve the Credit union liability risks associated with the activity. All such outsourced activities are regularly evaluated. Credit union knowledge workers in the field of security and operational risks are regularly reviewed by internal tests.

22. SUBSEQUENT EVENTS

From the balance sheet date to the date of the financial statements there have been no significant events affecting the financial statements of Credit union as at 31 December 2015.

APPROVAL

The financial statements were approved by the Board and signed on its behalf.

Vladimír Hořejší, MBA
Chairman of the Board

Kamil Rataj, MBA
Vice-chairman of the Board

In Olomouc, on 16 March 2016

REPORT ON RELATIONS BETWEEN THE CONTROLLING PARTY AND CONTROLLED PARTY AND BETWEEN CONTROLLED PARTY AND OTHER PARTIES CONTROLLED BY THE SAME CONTROLLING PARTY FOR THE ACCOUNTING PERIOD 2015

This report on relations between the controlling party and controlled party and between controlled party and other parties controlled by the same controlling party for the accounting period 2015 (the “report on relations”) of Zložna CREDITAS, spořitelní družstvo (the “Credit union”) was prepared pursuant to Section 82 of Act No. 90/2012 Coll., the Corporations Act (the “Corporations Act”), as amended.

1. Structure of relations

Credit union is controlled party by Pavel Hubáček (the „controlling party”), who started to control Credit union by the acquisition of direct and indirect share through transfer of shares from other members of Credit union based on the CNB authorization from 1 April 2015. The controlling party further increased and fully paid the share capital of Credit union in the form of other member contributions by CZK 150 million during 2015.

As a result of this control, Credit union is part of combined holding party (the „Group”) pursuant the relevant provision regulation EU 575/2013 (the “CRR”, Act no. 87/1995 Coll., on credit unions, as amended (the “AoCU”) and other related legislations, which composed of legal persons controlled by the same controlling party and further affiliated legal persons.

As at 31 December 2015 the shares value of the controlling party and other parties controlled by it on the Credit union’s share capital was as follows:

Party	Share capital – member deposits	Direct share on share capital
	CZK million	%
Pavel Hubáček	334.5	25.82
Creditas Holding AG*	155.7	12.01
EMPERON CAPITAL, a.s.*	148.5	11.46
Total	638.7	49.29

*Creditas Holding AG and EMPERON CAPITAL, a.s. are parties controlled by the same controlling party, by Pavel Hubáček

Other Group’s entities did not have any share on Credit union, or held only basic nominal membership contribution of CZK 100, which represents the necessary legal condition for membership, and thus possibility of using Credit union’s services, while through such shares cannot exercise any real influence whether individually or acting in conformity.

Credit union’s Board of directors further knows, that between controlling party and some other members of Credit union, who are not controlled by the controlling party nor acting in conformity with it, exist contractual agreements under which the controlling party will or can acquire further shares in Credit union under certain conditions in the future, in the form of a existing shares transfer from these members.

In accordance with the law regulations, Credit union cannot nor is entitled to acquire ownership intrests on other entities including the Group.

2. Role of the Credit union

Credit union’s status as a regulated credit institution is defined by AoCU and further by relevant prudential rules. Credit union is supervised by the CNB on an individual basis.

From the prudential point of view according the above legislation, the Group represents a unit that is a subject of the CNB supervision also on a consolidated basis. Credit union has a legal status of a responsible credit union under which it is obliged to provide the CNB with all information necessary for exercising supervision under this basis and further also publish data about the Group in accordance with the the CNB’s provision no. 163/2014 Coll., on bank, Credit unions and securities dealers’ activities, as amended and CRR.

In accordance with applicable accounting regulations, the Credit union is not part of any consolidated group.

3. Methods and means of control

Between the controlling party nor other parties controlled by it and Credit union was not concluded any controlling agreement.

Credit union’s control is performed by the exercise of voting rights arising from the shares through the highest Credit union’s authority, which is a membership meeting. The scope of membership meeting specifically includes:

- change of statutes;
- elect and dismiss members of elected bodies and alternates for members of elected bodies;
- approve statutory or extraordinary financial statements or interim financial statements or annual report on the Credit union’s activities and management;
- approve the rules of the elected bodies of the Credit union;
- decide on distribution and use of the Credit union’s profit or method of loss payment;
- decide on an increase or decrease of the Credit union’s share capital;
- decide on decrease or increase of membership contribution; the CNB’s consent is necessary for the decision to reduce the membership contribution;
- decide on dissolution, merger or division of the Credit union; the CNB’s consent is necessary for such decision;
- decide on change of the Credit union’s legal form to joint-stock company; the CNB’s consent is necessary for such decision;
- approve the transfer of business or such its part, that would mean a substantial change in the current structure of the plant or substantial change in the business activities of Credit union; the CNB’s consent is necessary for agreement conclusion based on which any disposal with plant or its part is available;
- determine the remuneration of Credit union’s elected bodies;
- approve the contract on performance concluded with members of elected bodies in accordance with Act no. 90/2012 Coll., on business corporations;
- decide on objections of a member against a decision of their exclusion;
- decide on reserve fund use;
- determine the level of ratio between fixed and variable remuneration component higher than 100% in contract on performance, while the overall level of the variable component shall not exceed 200% of fixed component of the total remuneration for any individual;
- decide on other matters related to Credit union and its activities, if so is stipulated by generally binding legal regulations, statutes or if the decision on certain matters is reserved and they are not entrusted by law to the Board of Directors or the audit commission of Credit union.

4. Legal acts made at the instigation of or in the interest of the Controlling Party or other parties controlled by the Controlling Party

Credit union did not make any legal acts in the interest, or at the instigation of, the Controlling Party or other parties controlled by the Controlling Party, which would involve assets 10% of Credit union’s equity reported in the latest Financial Statements.

5. Mutual contracts

Credit union has an agreement on work completion concluded with controlling party for acquisition and sales activities. Beyond this, no moving/premium components are agreed nor provided, nor any other benefits or other fulfilment. The agreement was negotiated before taking control over Credit union.

Based on agreement from 1 July 2015 and its subsequent amendments, Credit union negotiated with third party, which was never controlled party or associated entity within the Group, sublease of office space for 10 years in one location, and also in this context provided deposit to the counterparty. Subleased space are located in the building owned by Pereta Estates s.r.o. (ID no. 03517446), which is controlled party within the Group. Credit union further concluded contract on use of parking space with this controlled party started from September 2015 for indefinite period with notice period of 21 days.

Credit union has negotiated a lease agreement with BONUM reality, s.r.o. (ID no. 01494732), a company within the Group, on the office space, where Credit union has the headquarters. The contract is concluded for the period of 10 years with the option right of expansion by Credit union, which is exercisable at any time during the term of the lease, at least two years prior intended use of the space in question. In this context, Credit union subscribed to rent for the first three years and further provided a lease deposit. The lease contract was negotiated and the lease deposit were provided before taking control over Credit union.

Credit union provided a lease of parts of its branch offices to UNICAPITAL a.s. (ID no. 01800817), which is controlled party within the Group in 6 location in total. All of these lease contracts were negotiated before taking control over Credit union.

Based on outsourcing agreement, Credit union further uses the services of mobile client employees of the UNICAPITAL a.s. (ID no. 01800817) for acquisition, sales and service activities. The contract and its subsequent amendments were concluded before taking control over Credit union, with the exception of the last two amendments agreed on 15 July 2015 and 22 July 2015.

As at 31 December 2015, the current value of the exposure from the loan provided by Credit union to UNICAPITAL DEVELOPMENT s.r.o. (ID no. 25621483), which is controlled party within the Group, was CZK 168.5 million, while during 2015 the exposure net was decreased by CZK 72 million. The loan was negotiated before taking control over Credit union.

During 2015, the Credit union bought publicly traded bonds UNICAP. EN. 5,1/20 (ISIN CZ 0003512311) and UNICAP. EN. 5,1/20 (ISIN CZ003513392) issuer UNICAPITAL ENERGY a.s. (ID no. 01881469), which is a controlled entity within the Group, in nominal value of CZK 50 million, resp. CZK 50 million and acquisition cost CZK 50.9 million, resp. CZK 50 million. Total fair value of these securities amounted to CZK 101.9 million as at 31 December 2015.

6. Assessment of a detriment and its compensation

No detriment occurred to Credit union on the basis of relationships, contracts, exhibitions and operations with the controlling party and parties controlled by it. All Credit union's transactions with these parties were made in the ordinary operations and under similar conditions and in comparable transactions as with third parties without a specific relation to Credit union and all managerial care was performed by Credit union. These relationships, exposures and operations do not constitute a higher than normal risk nor show other unfavorable features for Credit union. No other advantages were provided to any of these parties.

7. Evaluation of advantages and disadvantages of relations with controlling party and parties controlled by it

Credit union is subject to risks due to relationships and operations with controlling party and parties controlled by it. These risks are mainly presented by any failures of these parties in relation to the fulfillment of the liabilities and other obligations towards Credit union or other conduct of such parties that could result in an adverse impact on Credit union, including reputation risk. The risk may also result from negotiation or acceptance of the conditions that are unfavorable for Credit union or can lead to its detriment. In order to reduce these risks to the acceptable residual level of Credit union applies a system of internal principles, procedures and control rules and risk-taking.

Based on the consideration and evaluation of all relevant factors, advantages and risks, the Board states, that from the relationships with the controlling parties and parties controlled by it arise mainly advantages, because in relation to such parties:

- Benefits and commitments accepted by Credit union fulfill its needs, they are supported by adequate utility value and also comply with payments provided by Credit union.
- From benefits provided by Credit union arise adequate returns. The undertaken risk from exposures and operations of Credit union, mainly from provided loans and purchased debt securities are adequately balanced by revenues and benefits arising from them, and no additional costs from their impairment or threat of return arise to Credit union.
- The controlling party is the most important and decisive holder of Credit union's capital, and also in relation to the control and other acquisition of the capital by approved party by the CNB. In the overall interest of Credit union and one of the basic assumptions for its continued existence, development and successful implementation of the overall strategy, mainly the intention to transform to the bank, and its further strengthening, concentration and transparency of the ownership and capital structure. The controlling party is informed and identified with Credit union's strategy, it expresses the necessary support and concrete actions, in particular increasing the capital or voting on the membership meeting as the highest organ of Credit union, also effectively helps its implementation.



Vladimír Hořejší, MBA
Chairman of the Board of Directors



Kamil Rataj, MBA
Vice-Chairman of the Board of Directors

Olomouc, 16 March 2016



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