

**KDB Bank Europe Ltd.,
pobočka zahraničnej banky**

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

for the 31 December 2015

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Independent Auditor's Report

To the Owners and Management of KDB Bank Europe Ltd, pobočka zahraničnej banky:

We have audited the accompanying financial statements of KDB Bank Europe Ltd, pobočka zahraničnej banky ("Branch"), which comprise the statement of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

24 March 2016
Bratislava, Slovak Republic

Auditing company:
KPMG Slovensko spol. s r.o.
License SKAU No. 96



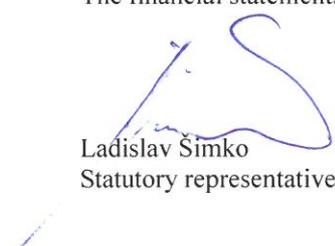

Responsible auditor:
Ing. Mgr. Peter Špeťko, PhD., ACCA
License UDVA No. 994

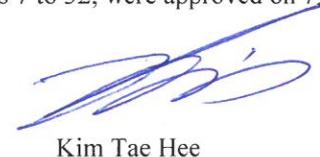
KDB Bank Europe Ltd., pobočka zahraničnej banky

Statement of financial position as at 31 December 2015

	Notes	31 December 2015 € '000	31 December 2014 € '000
Assets			
Cash and cash equivalents	6	27,645	19,757
Loans and advances to banks	7	5	5
Loans and advances to customers	8	23,366	36,622
Property and equipment	9	-	-
Deferred tax asset	17	-	-
Other assets	10	250	225
		<u>51,266</u>	<u>56,609</u>
Liabilities			
Customer accounts	12	13,826	10,552
Provisions	13	-	-
Corporate income tax	11	99	-
Other liabilities	14	169	199
		<u>14,094</u>	<u>10,751</u>
Head Office accounts			
Head Office funding	15	36,786	45,953
Profit/ (loss) for the year	15	386	(95)
		<u>37,172</u>	<u>45,858</u>
		<u>51,266</u>	<u>56,609</u>

The financial statements, which include the notes on pages 7 to 32, were approved on 7 March 2016 by:


Ladislav Simko
Statutory representative


Kim Tae Hee
Statutory representative

KDB Bank Europe Ltd., pobočka zahraničnej banky

Statement of profit or loss and other comprehensive income for the year ended 31 December 2015

		31 December 2015 €'000	31 December 2014 €'000
	Notes		
Interest income	18	1,027	848
Interest expense	19	<u>(416)</u>	<u>(693)</u>
Net interest income		611	155
Net fee and commission income	20	299	122
Net trading income	21	-	-
Other income		<u>7</u>	<u>30</u>
Operating income		<u>306</u>	<u>152</u>
Administrative expenses	22	(374)	(347)
Depreciation	9	-	-
Other expense		<u>(55)</u>	<u>(55)</u>
Operating expenses		<u>(429)</u>	<u>(402)</u>
Operating profit/(loss) before impairment losses and provisions		488	(95)
Creation of allowances of impairment losses on loans	8	-	-
Creation of provisions	13	<u>-</u>	<u>-</u>
Profit/(loss) before income tax		488	(95)
Income tax	23	<u>(102)</u>	<u>-</u>
Profit/(loss) after income tax		386	(95)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income/(loss) for the year		<u><u>386</u></u>	<u><u>(95)</u></u>

The notes on pages 7 to 32 form part of these financial statements.

KDB Bank Europe Ltd., pobočka zahraničnej banky

Statement of cash flows for the year ended 31 December 2015

	Notes	31 December 2015 €'000	31 December 2014 €'000
Cash flows from operating activities			
Profit/(loss) before changes in operating assets and liabilities	24	488	(95)
Income tax paid		(3)	-
Decrease in loans and advances to banks		-	36
Decrease/(increase) in loans and advances to customers		13,256	(10,878)
Increase in other assets		(25)	(74)
Increase/(decrease) in customer accounts		3,274	(2,757)
(Decrease)/increase in other liabilities		(29)	135
<i>Net cash from/(used in) operating activities</i>		<u>16,961</u>	<u>(13,633)</u>
Cash flows from investing activities			
Proceeds from sale of property and equipment		-	-
Purchase of property and equipment		-	-
<i>Net cash used in investing activities</i>		<u>-</u>	<u>-</u>
Cash flows from financing activities			
Decrease in funding received from Head Office		(9,073)	19,569
<i>Net cash (used in)/from financing activities</i>		<u>(9,073)</u>	<u>19,569</u>
<i>Net increase in cash and cash equivalents</i>		7,888	5,936
Cash and cash equivalents at beginning of the period		<u>19,757</u>	<u>13,821</u>
Cash and cash equivalents at end of year	6	<u><u>27,645</u></u>	<u><u>19,757</u></u>

The notes on pages 7 to 32 form part of these financial statements.

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

1. General information

KDB Bank Europe Ltd., pobočka zahraničnej banky (“the Branch”) was established on 23 May 2013 as a branch of KDB Bank Europe Ltd. (“Head Office” or “Bank”) and commenced its activities on 5 August 2013. The Branch provides banking services in the Slovak Republic under the single European passport principle.

The principal activities of the Branch are the provision of bank products and services to commercial and private customers not only resident in the Slovak Republic.

The Branch's registered office is at Obchodná 2, 811 06 Bratislava 1. The Branch's income tax (‘IČO’) and value added tax (‘DIČ’) identification numbers are as follows: IČO: 47 248 572, DIČ: 4020406775.

Statutory body:

Ing. Ladislav Šimko

Kim Tae Hee (since 10 April 2015)

Kim Si Hak

Establisher:

KDB Bank Europe Ltd.

Financial statements for branch's headquarter are prepared by KDB Bank Europe Ltd. Financial statements for KDB Bank Europe Ltd. are available at Bajcsy Zsilinszky út 42 – 46, 1054 Budapest, Hungary.

Consolidated financial statements including the statements of the Bank are prepared by the Korea Development Bank, the ultimate parent company, and are available at 16 - 3 Yeouido-Dong Yeongdeungpo-gu, Seoul, 150-973 South Korea.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union.

These financial statements are prepared as required by the Section 17(a) of the Slovak Act on Accounting 431/2002, as amended.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in euro, which is the Branch's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

**Notes to the financial statements
for the year ended 31 December 2015**

2. Basis of preparation continued

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is provided in note 4 and 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in both periods presented in these financial statements.

(a) Transactions in foreign currency

Transactions denominated in foreign currencies are translated to euro at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling at the end of reporting period. All resulting gains and losses are recorded in *Net trading income* in profit or loss.

(b) Interest income and expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Branch's trading operations and are presented, together with all other changes in the fair value of trading assets and liabilities, in *Net trading income*.

(c) Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawn-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

**Notes to the financial statements
for the year ended 31 December 2015**

3. Significant accounting policies continued

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and foreign exchange transactions.

(e) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(f) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Financial assets and liabilities

(i) Recognition

Loans and advances, deposits by banks and customer accounts are initially recognised on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Branch becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or rights to receive the contractual cash flows on the financial asset are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Branch is recognised as a separate asset or liability.

A financial liability is derecognised when the contractual obligations are discharged, cancelled or expire.

The Branch also derecognises certain assets when it writes off balances pertaining to assets deemed to be uncollectible.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the reporting standards, or for gains and losses arising from a group of similar transactions.

**Notes to the financial statements
for the year ended 31 December 2015**

3. Significant accounting policies continued

(g) Financial assets and liabilities continued

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation, using the effective interest method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include the discounted cash flow method and comparison to similar instruments for which market observable-prices exist.

Fair value hierarchy is followed in relation to the valuation of quoted market prices, the valuation of models with input data directly from the market and input data, which cannot be seen on the market.

(vi) Identification and measurement of impairment

At each end of reporting period, the Branch assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be reliably estimated.

The Branch considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment.

Objective evidence that financial assets (including investment securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Branch on terms that the Branch would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as a deterioration in economic conditions or adverse changes in the payment status of borrowers or issuers in that group.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(h) Cash and cash equivalents

Cash and cash equivalents comprises cash, unrestricted balances held with the National Bank of Slovakia and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Branch in the management of short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Branch acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

3. Significant accounting policies continued

(i) Trading assets and liabilities continued

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to the statement of profit or loss and other comprehensive income. All changes in fair value are recognised as part of *Net trading income*. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(j) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Branch does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

When the Branch purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo or stock borrowing'), the agreement is accounted for as a loan or advance, and the underlying asset is not recognised in the Branch's financial statements.

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the cost of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Branch and its cost can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. All bank premises and equipment are stated at historical cost less depreciation and amortization. Land is not depreciated. The depreciation and amortization rates used are as follows:

Land and buildings	16 years – 50 years
Furniture, fittings and equipment	3 years – 7 years
Other	3 years – 6 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(l) Intangible assets

Software

Software is stated at cost less accumulated amortisation and impairment losses.

Amortisation is recognised on a straight line basis over the 3-year till 6-year estimated useful life of the software.

**Notes to the financial statements
for the year ended 31 December 2015**

3. Significant accounting policies continued

(m) Impairment of non-financial assets

The carrying amounts of the Branch's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent of other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Deposits, customer accounts and Head Office funds

Deposits, customer accounts and Head Office funds are the Branch's main sources of financing.

Deposits, customer accounts and Head Office funds are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Branch sells a financial asset and simultaneously enters into a 'repo' or 'stock lending' agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Branch's financial statements.

(o) Provisions

A provision is recognised if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Branch from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Branch recognises any impairment loss on the assets associated with that contract.

**Notes to the financial statements
for the year ended 31 December 2015**

3. Significant accounting policies continued

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Branch is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

(iii) Short-term benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

(q) New standards and interpretations not yet adopted

Standards issued but not yet effective or not yet adopted by the EU up to the date of issuance of the Branch's financial statements are listed below. This listing of standards and interpretations issued are those that the Branch reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Branch intends to adopt these standards when they become effective.

Amendments to IFRS 9: Financial Instruments

The adoption of IFRS 9 is expected to have significant impact on Branch's Financial Statements mostly in the area of classification of financial instruments and expected losses. The quantification will be subject to further analysis.

Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2016. Early application is permitted.

The Amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard. The guidance on materiality in IAS 1 has been amended to clarify that:

- immaterial information can detract from useful information,
- materiality applies to the whole of the financial statements and
- materiality applies to each disclosure requirement in an IFRS.

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

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

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

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

Effective for annual periods beginning on or after 1 February 2015. The amendments apply retrospectively. Earlier application is permitted.

**Notes to the financial statements
for the year ended 31 December 2015**

3. Significant accounting policies continued

(q) New standards and interpretations not yet adopted continued

The amendments are relevant only to defined benefit plans¹ that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

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

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

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

Amendments to IAS 27: Equity method in the separate financial statements

Effective for annual periods beginning on or after 1 January 2016 and apply retrospectively. Early application is permitted.

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

The Branch does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Bank intends to continue to carry its investments in subsidiaries at cost.

Annual Improvements to IFRSs

The improvements introduce six amendments to six standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2016, with earlier adoption permitted. None of these amendments are expected to have a significant impact on the financial statements of the Bank.

In 2015, the Branch implemented a new interpretation IFRS 21 Levies and those amendments to the Annual Improvements to IFRSs that have been applicable for the annual periods beginning on or after 1 January 2015.

¹ Post-employment defined benefit plans or other long-term employee defined benefit plans

**Notes to the financial statements
for the year ended 31 December 2015**

4. Use of estimates and judgements

These disclosures supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for impairment

Assets accounted for at amortised cost are assessed for impairment as described in accounting policy.

The specific counterparty component of the total allowances for impairment applies to claims assessed individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the management responsible for credit risk management.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation of financial instruments

The Branch's accounting policies and methods for fair value measurements is discussed under note 3(g)(v) and note 27.

The Branch measures fair values using the following hierarchy of methods:

- Quoted market price in an active market for an identical instrument (Level 1).
- Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data (Level 2). Loans and advances to customers are included in the Level 2 hierarchy category.
- Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments (Level 3).

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Branch determines fair values using valuation techniques.

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

**Notes to the financial statements
for the year ended 31 December 2015**

5. Financial risk management

(a) Introduction

The Branch has exposure to the following risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Information on the exposure to each of the above risks; the objectives, policies and processes for measuring and managing risk is set out below.

Risk management framework

Management have overall responsibility for the establishment and oversight of the Branch's risk management framework. In exercising this responsibility they have established the Risk Management Committee (RMC), which are responsible for developing and monitoring risk management policies in their respective areas.

The Branch's risk management policies are established to identify and analyse the risks faced by the Branch, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Branch, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Branch uses a wide range of financial instruments. A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Examples include loans and deposits.

Derivatives are also financial instruments which are so called because their value is derived from the value of an underlying instrument, index or reference rate. The principal categories of derivatives are forwards, including futures, options and swaps.

(b) Credit risk

Credit risk is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Branch's loans and advances to customers, the provision of guarantees, the issuance of documentary credits, loans and advances to other banks and the purchase of investment securities. For risk management reporting purposes, the Branch considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Credit risk is strictly controlled through a structure involving Management, the credit risk department and credit risk management of the Branch's Head Office.

The Branch's procedures for managing credit risk include the establishment of concentration limits by borrower, counterparty, industrial sector and product. Credit appraisal procedures are performed before individual borrower and counterparty limits are approved, and collateral is obtained to reduce credit risk. The Branch also continually monitors performance of the portfolio to ensure that prompt action can be taken to minimise potential losses.

**Notes to the financial statements
for the year ended 31 December 2015**

5. Financial risk management continued

(b) Credit risk continued

The Branch is required to implement credit policies and procedures, with credit approval authorities delegated by the Head Office Credit Committee. The Branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks, including those subject to central approval.

Regular audits on credit processes are undertaken by Internal Audit.

Classification of receivables

Receivables are classified by Asset Quality Classification (“AQC”) into 5 grades.

Problem free receivables (1): Based upon a reliable documentation it can be assumed that a claim will be reimbursed totally without any incurred loss, and delinquency in principal or interest payment is not more than 15 days.

Monitoring receivables (2): If there is no sign of a possible future loss at the time of evaluation but the Branch obtains such information that supports the special treatment. Those claims, that require extraordinary handling as a consequence of a debtor, credit type or other factor, may also belong to this category.

Below average receivables (3): If uncertain amount of loss at the time of evaluation can be foreseen or a claim bears a higher risk than an average one.

Doubtful receivables (4): If overdue exceeds 90 days, or at the time of evaluation certain amount of loss seems to be unavoidable but the amount of loss is not known.

Bad (impaired) receivables (5): If the incurred loss exceeds 70 % of its total outstanding amount, and the debtor does not settle its obligation in spite of several warnings, or liquidation procedure has been started against the debtor.

Past due but not impaired receivables

Loans and securities where contractual interest or principal payments are past due but the Branch believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Branch.

Receivables with renegotiated terms

Receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower’s financial position and where the Branch has made concessions that it would not otherwise consider. After the restructuring these receivables are graded 2 the Branch’s internal credit risk grading system. The restructured receivable remains in this category in case of satisfactory performance after restructuring, in case of non-satisfactory performance it would be classified in lower grade (from 3 to 5) accordingly.

**Notes to the financial statements
for the year ended 31 December 2015**

5. Financial risk management continued

(b) Credit risk continued

Allowances for impairment

The Branch establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures.

The gross amounts of individually impaired loans and advances to customers and by risk grade:

	Loans and advances to customers	
	31 December 2015	31 December 2014
	€'000	€'000
Neither past due nor impaired		
Grade 1:	23,366	36,622
Grade 2:	-	-
Grade 3:	-	-
Grade 4:	-	-
Past due or impaired		
Grade 5	-	-
Allowance for impairment	-	-
Total carrying amount	<u>23,366</u>	<u>36,622</u>

At 31 December 2015, the Branch did not have clients with default loans (grade 5).

	Loans and advances to customers	
	31 December 2015	31 December 2014
	€'000	€'000
Loans with renegotiated terms	<u>3,426</u>	<u>2,310</u>
Total carrying amount	<u>3,426</u>	<u>2,310</u>

Loans with renegotiated terms and the forbearance policy

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Branch has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Branch has provided initially. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. The Branch implements forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Branch's forbearance policy, an exposure is identified as forborne if both of these two conditions are satisfied:

- The Branch must determine the financial difficulties that the debtor is facing or is about to face;
- The exposure must be subject to renegotiation or refinancing, granted in relation to the borrower's current financial difficulties or financial difficulties that would have occurred in the absence of the renegotiation or refinancing measures.

**Notes to the financial statements
for the year ended 31 December 2015**

5. Financial risk management continued

(b) Credit risk continued

Write-off policy

The Branch writes off a loan/security balance (and any related allowances for impairment losses) graded 5, when Work Out Department determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral

The Branch holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Carrying amount of the collateral as at 31 December 2015 was in the amount of €3,108 thousand (2014: €3,957 thousand). Fair value of the collateral as at 31 December 2015 was in the amount of €5,616 thousand (2014: €7,151 thousand).

Estimates of fair values are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Generally, collateral is not held for loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Similarly, collateral is not usually held in respect of investment securities, and no such collateral was held at 31 December 2015 or 31 December 2014.

The Branch monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk is shown below:

	Loans and advances to customers	
	31 December 2015	31 December 2014
	€'000	€'000
Concentration by sector		
Corporate	23,366	36,622
Bank	-	-
State	-	-
Retail	-	-
	23,366	36,622
	23,366	36,622

	Loans and advances to customers	
	31 December 2015	31 December 2014
	€'000	€'000
Concentration by location		
Netherlands	17,422	19,729
Czech Republic	2,510	12,536
Slovak Republic	3,431	4,357
Romania	3	-
Hungary	-	-
South Korea	-	-
	23,366	36,622
	23,366	36,622

**Notes to the financial statements
for the year ended 31 December 2015**

5. Financial risk management continued

(b) Credit risk continued

Concentration by location for loans and advances is measured based on the location of the entity holding the assets, which has a high correlation with the location of the borrower. Concentration by location of any investment securities is measured based on the location of the issuer of the security.

The Branch provided financing also to a Romanian client. This unused credit line is in amount of 9,000 thousand EUR as at 31 December 2015.

Settlement risk

The Branch's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Branch mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual obligations. Settlement limits form part of the credit approval/limit and monitoring process.

(c) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Branch's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branch's reputation.

The Treasury department is in KDB Bank Europe Ltd., the Branch receives information regarding the liquidity profile of the Branch's financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Branch. The liquidity requirements are met through short-term loans from inter-bank market to cover any short-term fluctuations, and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored. All liquidity policies and procedures are subject to review and approval of the RMC. Daily reports cover the liquidity position.

Liquidity risk management system

A summary report, including any exceptions and remedial actions taken, is submitted regularly to the RMC.

Liquidity risk rate

All procedures and activities in the area of the Branch's liquidity management are provided by KDB Bank Europe Ltd. The purpose is to ensure the maximum matching of asset and liability maturities, in individual currencies and to ensure the necessary structure of assets.

By consistent implementation of the liquidity management strategy, an almost perfect matching of asset and liability maturities should be obtained. RMC of KDB Bank Europe Ltd. is kept informed of the liquidity position of the Branch.

An important element in the liquidity management system is the regular provision of information to top management on liquidity status, and in particular, if liquidity significantly differs from the expected status.

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

Information for top management has to be regular, timely and in sufficient detail to allow the evaluation of the Branch's liquidity risk as a whole or in individual portfolios.

The Branch uses maturity GAP calculations for monitoring liquidity risk. GAP calculations are prepared for the main currencies (EUR, HUF, USD, and CHF) and aggregated level. The assets and liabilities are classified regarding their remaining maturity according to the original date shown in the contract.

The remaining period to maturity of monetary assets and liabilities at 31 December 2015 and 31 December 2014 is in the following table, which presents the undiscounted cash flows in relation to their earlier maturity.

Cash flows expected by the branch can differ significantly from this analysis. For example, it is expected, that client's accounts of liabilities will stay stable or with rising balance:

2015	Less than 3 months €'000	3 months - 1 year €'000	1 - 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	27,645	-	-	-	-	27,645
Loans and advances to banks	-	-	-	-	5	5
Loans and advances to customers	5	5,936	17,425	-	-	23,366
Other assets	3	-	-	-	247	250
	<u>27,653</u>	<u>5,936</u>	<u>17,425</u>	<u>-</u>	<u>252</u>	<u>51,266</u>
Monetary liabilities						
Customers accounts	13,122	704	-	-	-	13,826
Corporate income tax	99	-	-	-	-	99
Other liabilities	91	-	-	-	78	169
Head Office accounts	-	36,645	-	-	527	37,172
	<u>13,312</u>	<u>37,349</u>	<u>-</u>	<u>-</u>	<u>605</u>	<u>51,266</u>
2014						
	Less than 3 months €'000	3 months - 1 year €'000	1 - 5 years €'000	More than 5 years €'000	Not specified €'000	Total €'000
Monetary assets						
Cash and cash equivalents	19,757	-	-	-	-	19,757
Loans and advances to banks	-	-	-	-	5	5
Loans and advances to customers	-	4,357	32,265	-	-	36,622
Other assets	225	-	-	-	-	225
	<u>19,982</u>	<u>4,357</u>	<u>32,265</u>	<u>-</u>	<u>5</u>	<u>56,609</u>
Monetary liabilities						
Customers accounts	10,017	400	135	-	-	10,552
Other liabilities	199	-	-	-	-	199
Head Office accounts	11,000	13,070	21,647	-	236	45,953
	<u>21,216</u>	<u>13,470</u>	<u>21,782</u>	<u>-</u>	<u>236</u>	<u>56,704</u>

**Notes to the financial statements
for the year ended 31 December 2015**

5. Financial risk management continued

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The RMC is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

In general, untradeable positions of interest rates risk is managed by Treasury division, which use investment securities, loans and advances to banks and derivative instruments to manage the overall position of the branch of non-tradable activities.

Sensitivity of expected net interest income:

	100 bp Parallel movement - increase €'000	100 bp Parallel movement - decrease €'000	50 bp Parallel movement - increase €'000	50 bp Parallel movement - decrease €'000
31 December 2015				
31 December	33	(33)	17	(17)
Average for the period	21	(21)	11	(11)
Maximum for the period	33	(33)	17	(17)
Minimum for the period	9	(9)	5	(5)
	100 bp Parallel movement - increase €'000	100 bp Parallel movement - decrease €'000	50 bp Parallel movement - increase €'000	50 bp Parallel movement - decrease €'000
31 December 2014				
31 December	9	(9)	5	(5)
Average for the period	111	(111)	55	(55)
Maximum for the period	212	(212)	106	(106)
Minimum for the period	9	(9)	5	(5)

The data are calculated from the portfolio consisting of loans and advances to banks, loans and advances to customers, deposits by banks and customer accounts.

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

5. Financial risk management continued

(d) Market risk continued

Branch showed the following currency structure of assets and liabilities in as at 31 December 2015:

	USD €'000	HUF €'000	EUR €'000	Total €'000
Assets				
Cash and cash equivalents	320	2,415	24,910	27,645
Loans and advances to banks	-	-	5	5
Loans and advances to customers	-	-	23,366	23,366
Other assets	-	-	250	250
	<u>320</u>	<u>2,415</u>	<u>48,531</u>	<u>51,266</u>
Liabilities				
Customer accounts	722	2,112	10,992	13,826
Corporate income tax	-	-	99	99
Other liabilities	-	-	169	169
Head Office funding	-	-	37,172	37,172
	<u>722</u>	<u>2,112</u>	<u>48,432</u>	<u>51,266</u>

Branch showed the following currency structure of assets and liabilities in as at 31 December 2014:

	USD €'000	HUF €'000	EUR €'000	Total €'000
Assets				
Cash and cash equivalents	4,316	1,152	14,289	19,757
Loans and advances to banks	-	-	5	5
Loans and advances to customers	-	-	36,622	36,622
Other assets	-	-	225	225
	<u>4,316</u>	<u>1,152</u>	<u>51,141</u>	<u>56,609</u>
Liabilities				
Customer accounts	3,565	1,124	5,863	10,552
Other liabilities	-	-	199	199
Head Office funding	-	-	45,953	45,953
	<u>3,565</u>	<u>1,124</u>	<u>52,015</u>	<u>56,704</u>

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

5. Financial risk management continued

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branch's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Branch's operations and are faced by all business entities.

The Branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branch's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Branch's standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the relevant managers, with summaries submitted to senior management of the Branch.

(f) Capital management

KDB Bank Europe Ltd.'s lead regulator is National Bank of Hungary, which sets and monitors capital requirements for the Group as a whole. As a branch of KDB Bank Europe Ltd., the Branch is not subject to the capital requirements set by the National Bank of Slovakia ("NBS").

6. Cash and cash equivalents

	31 December 2015 €'000	31 December 2014 €'000
Cash and balances at the central bank	195	144
Loans and advances to banks with original contractual maturity up to 3 months (note 7)	27,455	19,618
Less compulsory minimum reserve (note 7)	<u>(5)</u>	<u>(5)</u>
	<u>27,645</u>	<u>19,757</u>

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

7. Loans and advances to banks

	31 December 2015	31 December 2014
	€'000	€'000
Loans and advances by remaining maturity:		
- 3 months or less	27,455	19,618
Compulsory minimum reserve (note 6)	<u>5</u>	<u>5</u>
	27,460	19,623
Less amounts with original contractual maturity up to 3 months (note 6)	<u>(27,455)</u>	<u>(19,618)</u>
Total Loans and advances to banks	<u><u>5</u></u>	<u><u>5</u></u>

The Branch did not have current account at central bank as at 31 December 2015 or 31 December 2014. The compulsory minimum reserve requirement in amount of €5 thousand (2014: €5 thousand) was fulfilled through the cooperation of a partner bank in accordance with the requirements of the National Bank of Slovakia.

8. Loans and advances to customers

	31 December 2015	31 December 2014
	€'000	€'000
Repayable on demand	-	-
Other loans and advances to customers by remaining maturity:		
- up to 3 months or less	5	-
- 3 months to 1 year	5,936	4,357
- 1 to 5 years	17,425	32,265
- over 5 years	<u>-</u>	<u>-</u>
	23,366	36,622
Allowance for impairment	<u>-</u>	<u>-</u>
	<u><u>23,366</u></u>	<u><u>36,622</u></u>

9. Property and equipment

The Branch did not have property (land and buildings) and equipment as at 31 December 2015 (2014: €nil).

10. Other assets

	31 December 2015	31 December 2014
	€'000	€'000
Other receivables	<u>250</u>	<u>225</u>
	<u><u>250</u></u>	<u><u>225</u></u>

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

11. Corporate income tax

	31 December 2015 €'000	31 December 2014 €'000
Income tax expense for the current year (note 23)	102	-
Tax prepayments	<u>(3)</u>	<u>-</u>
	<u>99</u>	<u>-</u>

12. Customer accounts

	31 December 2015 €'000	31 December 2014 €'000
Repayable on demand	-	-
Other deposits with agreed maturity dates or periods of notice, by remaining maturity:		
- up to 3 months	13,122	10,017
- from 3 months up to 1 year	704	400
- from 1 year up to 5 years	<u>-</u>	<u>135</u>
	<u>13,826</u>	<u>10,552</u>

13. Provisions

The Branch did not have provision for future and contingent liabilities as at 31 December 2015 (2014: €nil).

14. Other liabilities

	31 December 2015 €'000	31 December 2014 €'000
Accrued general expenses	89	88
Deferred income of syndicated loan	78	102
Other	<u>2</u>	<u>9</u>
	<u>169</u>	<u>199</u>

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Notes to the financial statements for the year ended 31 December 2015

15. Head Office accounts

€'000	Head Office funding	Accumulated profit/loss	Total
At 31 December 2013	26,478	(94)	26,384
Funds received	19,569	-	19,569
Transfers	(94)	94	-
Loss for 2014	-	(95)	(95)
At 31 December 2014	<u>45,953</u>	<u>(95)</u>	<u>45,858</u>
Funds received	(9,072)	-	(9,072)
Transfers	(95)	95	-
Profit for 2015	-	386	386
At 31 December 2015	<u>36,786</u>	<u>386</u>	<u>37,172</u>

Head Office provides funds to the Branch with the intention of long-term project financing as required and in the required currencies. Interest rates reflect the current market price at which resources for the Branch are obtained by Head Office.

16. Commitments and contingencies

	31 December 2015 €'000	31 December 2014 €'000
<i>Contingent liabilities:</i>	-	-
<i>Commitments:</i>		
Confirmed credit lines	<u>9,000</u>	<u>-</u>
	<u>9,000</u>	<u>-</u>

17. Deferred tax asset

If certain conditions are met, Slovak tax legislation permits the carry forward of tax losses for offset against future taxable profits. Losses may be carried forward and utilized on the straight line basis against future taxable profits over a maximum period of four years.

The deferred tax asset was not recognised as at 31 December 2015 (2014: €nil) (note 23).

18. Interest income

	31 December 2015 €'000	31 December 2014 €'000
Loans and advances to banks	-	-
Loans and advances to customers	<u>1,027</u>	<u>848</u>
	<u>1,027</u>	<u>848</u>

In 2015 no interest income from loans and advances to customers is recognized as income from impaired loans (2014: €nil).

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

19. Interest expense

	31 December 2015 €'000	31 December 2014 €'000
Deposits by banks	404	483
Customer accounts	<u>12</u>	<u>210</u>
	<u>416</u>	<u>693</u>

20. Net fee and commission income

	31 December 2015 €'000	31 December 2014 €'000
Fee and commission income		
Corporate banking fees	377	153
Banks	<u>-</u>	<u>-</u>
	377	153
Fee and commission expense		
Banks	<u>(78)</u>	<u>(31)</u>
Net fee and commission income	<u>299</u>	<u>122</u>

21. Net trading income

The Branch had no income from foreign exchange operations (2014: €nil).

22. Administrative expenses

	31 December 2015 €'000	31 December 2014 €'000
<i>Employee costs:</i>		
Wages and salaries	(183)	(157)
Social insurance	(61)	(54)
Other personnel expenses	<u>-</u>	<u>-</u>
Total employee costs	(244)	(211)
Other administrative expenses		
Service fee	(64)	(68)
Rent	(40)	(40)
Financial statement audit	(12)	(12)
Telecommunication	(10)	(10)
Other services	<u>(4)</u>	<u>(6)</u>
Total administrative expenses	<u>(374)</u>	<u>(347)</u>

At 31 December 2015, the average number of employees (equivalent to full-time staff) was 6 (2014: 6).

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

23. Income tax

	2015 %	31 December 2015 €'000	2014 %	31 December 2014 €'000
Profit/(loss) before taxation		488		(95)
Income tax using the domestic tax rate	22	107	22	-
Non-deductible expenses	0.18	1	-	-
Other items	0.67	3	-	-
Tax losses carried forward	(1.93)	(9)	-	-
Total income tax expense	20.92	102	-	-

24. Profit/loss before changes in operating assets and liabilities

	31 December 2015 €'000	31 December 2014 €'000
Profit / (loss) before taxation	488	(95)
Adjustments for non-cash items:		
Depreciation	-	-
Loss on disposal of property and equipment	-	-
Impairment losses on loans	-	-
Provisions	-	-
	<u>488</u>	<u>(95)</u>
Net cash used in operating activities includes the following cash flows:		
Interest received	1,027	848
Interest paid	<u>(416)</u>	<u>(693)</u>
	<u>611</u>	<u>155</u>

KDB Bank Europe Ltd., pobočka zahraničnej banky

Notes to the financial statements for the year ended 31 December 2015

25. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. The Branch is controlled by KDB Bank Europe Ltd., which is incorporated in Hungary.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

(a) Head Office

Amounts due from and to the Head Office were as follows:

	31 December 2015	31 December 2014
	€'000	€'000
<i>Assets</i>		
Cash and cash equivalents	27,455	19,618
Loans and advances to banks	-	-
<i>Liabilities</i>		
Deposits by banks	-	-
Head Office funds:		
Interbank borrowing	36,786	45,953
Profit for the year	386	(95)
<i>Transactions during the year were as follows:</i>		
Interest income	-	-
Interest expense	404	483
Head Office charges	-	-

(b) Enterprises related to Head Office

There were no amounts due from and to companies related to Head Office as at 31 December 2015 (2014: €nil).

(c) Senior management

There were no amounts due from and to senior management, or close relatives or companies in which they have a substantial interest, of the Branch as at 31 December 2015 (2014: €nil).

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Notes to the financial statements for the year ended 31 December 2015

26. Operating lease

The Branch has signed lease agreements as at 31 December 2015 with the following notice periods:

€'000	Up to 3 months	3 months - 1 year	1 year- 5 years	More than 5 years
Leased property	10	29	100	-
Leased furniture	-	1	-	-
	<u>10</u>	<u>30</u>	<u>100</u>	<u>-</u>

The Branch has signed lease agreements as at 31 December 2014 with the following notice periods:

€'000	Up to 3 months	3 months - 1 year	1 year- 5 years	More than 5 years
Leased property	10	29	98	-
Leased furniture	1	3	3	-
	<u>11</u>	<u>32</u>	<u>101</u>	<u>-</u>

27. Fair values

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values of the Branch's financial assets and liabilities at year end were as follows:

	Carrying value 31 December 2015 €'000	Fair value 31 December 2015 €'000	Carrying value 31 December 2014 €'000	Fair value 31 December 2014 €'000
<i>Financial assets</i>				
Cash and cash equivalents	27,645	27,645	19,757	19,757
Loans and advances to banks	5	5	5	5
Loans and advances to customers	23,366	23,366	36,622	36,622
<i>Financial liabilities</i>				
Customer accounts	13,826	13,826	10,552	10,552

**Notes to the financial statements
for the year ended 31 December 2015**

27. Fair values continued

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

Loans and advances to banks

The fair value of current accounts with other banks approximates to book value. For amounts with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value. The fair values of other loans and advances to banks are calculated by discounting the future cash flows using current interbank rates.

Loans and advances to customers

Loans and advances are stated net of any impairment losses. The fair values of other loans and advances to customers are calculated by discounting the future cash flows using current market rates.

Deposits by banks

The fair value of current accounts with other banks approximates to book value. For other amounts owed to banks with a remaining maturity of less than three months, it is also reasonable to use book value as an approximation of fair value. The fair values of other deposits by banks are calculated by discounting the future cash flows using current interbank rates.

Customer accounts

The fair values of current accounts and term deposits with a remaining maturity of less than three months approximate their carrying amounts. The fair values of other customer accounts are calculated by discounting the future cash flows using current deposit rates.