# Half-year Report 2014

International Financial Reporting Standards
Consolidated & Unaudited

2014

# Content

# Macroeconomic Development of the Czech Republic

## in the First Half of 2014

The Czech economy grew by 2.9% in the first quarter of 2014, displaying the fastest growth rate over the past three years. The key driver of the increase was, similarly to the previous quarter, the manufacturing industry (contributing 1.5 percentage points to year-on-year growth), which benefited primarily from continuing marked recovery of foreign demand. The expansion of industrial production, largely concentrated in the manufacture of passenger cars, resulted in an increase in the foreign trade surplus on the expenditure side of GDP (contributing 1.1 percentage points to year-on-year GDP growth).

In addition to the positive impact of net exports, an increase in fixed investments (5.8%) and household consumption (1.5%) also boosted economic activity in the Czech Republic at the beginning of the year. In the case of fixed investments, the most significant growth drivers were purchases of machinery (up 6.9% year-on-year) and transport equipment (up 11.9% year-on-year). Of importance were also government infrastructure investments that should keep growing at a considerable pace for the rest of the year, especially with regard to the need to draw on European Union funding for the 2007-2013 programming period.

The increase in household expenditure during the first quarter of 2014 was favorably influenced by growing consumer confidence, which at the end of the first half rose to its highest level since 2008. Similarly, positive developments were recorded in the labor market where in the first six months of 2014 the number of job seekers fell from the historically highest figure (629,000 in January) to the all-time low since November 2012 (537,000 at the end of June).

As in the neighboring countries, the unusually mild winter had a positive impact on Czech economic growth in the first quarter of 2014, which allowed for accelerating the start of some seasonal jobs at the expense of this year's second quarter.

Average inflation in the Czech Republic was at 0.2% at the end of the first half. This figure is considerably below the 2% target of the Czech National Bank ("CNB"), despite continuing growth in import prices due to the introduction of foreign exchange rate interventions in late 2013 (the exchange rate of the Czech koruna against the euro rose above CZK 27). Growth in the year-on-year consumer price index in the first half of 2014 was adversely affected primarily by a drop in electricity prices (down 10.5% year-on-year) and natural gas (down 7.2% year-on-year). Prices of food, beverages and tobacco which, during the first half of 2014 climbed by 2.9% year-on-year, were the only significant positive factor in the year-on-year CPI increase.

The CNB responded to the lower than expected rise in consumer prices during the first half of the year by delaying ending the foreign exchange rate interventions regime from the originally planned beginning of 2015 to (at least) its second quarter. During the first half of 2014, the CNB Board did not specifically address a possible increase in the exchange rate commitment above the current level of CZK 27/EUR. According to the CNB, a similar scenario may materialize only in the event of a substantial decline in the consumer price index to negative values, which seems rather unlikely with regard to the ongoing economic recovery.

# Česká spořitelna's Consolidated Results of Operations

for the Six Months Ended 30 June 2014*

## Income Statement

In the first half of 2014 the Czech economy was slowly recovering as reflected in increased lending to households and businesses. **The higher volume of lending in combination with rigorous cost management contributed to the stabilization of operating profit and an improvement of the cost/income ratio** to 44.1% from 45.1%. However, the environment of historically low interest rates and falling prices of financial services had a negative impact on the size of the net profit.

**For the six months ended 30 June 2014, Česká spořitelna posted** an unaudited consolidated **net profit after non-controlling interests of CZK 7.8 billion** under International Financial Reporting Standards, accounting for a 4.6% decline compared to the first half of 2013. With regard to the profit decrease and due to a capital increase, the return on equity ratio (ROE) dropped from 17.1% to 15.0%. The return on assets ratio (ROA) remained stable at 1.7%

**Operating profit**, calculated as the difference between operating income and expenses, also **remained stable at CZK 11.5 billion**, compared to the previous half-year. The continuing decrease in operating expenses and an increase in trading income helped offset a decline in interest income and income from fees and commissions. Operating expenses fell by 4% to CZK 9.0 billion. Total operating income, including net interest income, net fee and commission income, dividend income, net trading and fair value result and rental income from investment properties amounted to CZK 20.5 billion for the first half of 2014, representing a year-on-year drop of 2%. The proportion of non-interest income to operating income rose moderately to 35.1%.

Positive growth in the volume of customer loans did not suffice to curb an ongoing drop in interest rates that once again fell to an all-time low. **The rate reduction resulted in a lower net interest margin on interest-earning assets**, which fell to 3.55% from 3.60% recorded in the same period last year. Under these conditions, Česká spořitelna's net interest income fell by 3% to CZK 13.3 billion across all portfolios.

Net income from fees and commissions, as another essential component of operating income, totaled CZK 5.6 billion, a decrease of 3% compared to the first half of 2013. The year-on-year decline resulted also from falling prices of financial services **as customers increasingly use internet banking and discounted programs and products.** The cost of commissions paid on card transactions also keeps growing. Česká spořitelna managed to raise the volume of fees and commissions from securities transactions, primarily due to customers' increased investment in unit-linked funds. Commissions from the insurance business grew as well.

**Net trading and fair value result rose by 10% year-on-year to CZK 1.2 billion.** In particular, income from securities transactions and from assets measured at fair value saw a marked increase. Conversely, income from derivative and foreign exchange transactions decreased.

**Owing to consistent cost management with an emphasis on cost efficiency, general administrative costs fell by 4% to CZK 9 billion.** The Bank succeeded in cutting personnel expenses by 8% year-on-year to CZK 4.3 billion due to a lower headcount. The average number of employees of the Česká spořitelna financial group decreased by 4% year-on-year to 10,454. **The reduction in administrative costs of information technology and office space continued**. The administrative costs included a contribution to the Deposit Insurance Fund in the amount of CZK 0.5 billion. Depreciation and amortization charges related to tangible and intangible assets also recorded a moderate year-on-year drop.

Net income from financial assets and liabilities not measured at fair value through profit or loss amounted to CZK 0.1 billion, representing a year-on-year decrease, primarily due to higher realized gains on securities held to maturity in the first half of 2013.

Net impairment losses on financial assets not measured at fair value through profit or loss (i.e. on balance risk provisions for loans and advances) amounted to CZK 1.9 billion, which is an **improvement of 4% compared to the same period last year**.

Other operating expenses fell year-on-year to CZK 10 million. There are numerous contributing factors to other operating profit/loss, such as gains and losses on the revaluation and disposal of financial assets, recognition and reversal of other provisions, etc.

** As at 1 January 2014, Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a.s. (CSPS Transformed Fund), comprising assets of supplementary pension insurance with state contribution in Pillar 3, was deconsolidated from the Česká spořitelna group. The ČSPS Transformed Fund continues to be administered by the ČS financial group through pension company Česká spořitelna – penzijní společnost, a.s.*

## Statement of financial position

**The Bank's total assets amounted to CZK 900.3 billion,** representing a year-on-year decline of 6%. The decline stems mainly from the deconsolidation of the ČSPS Transformed Fund in the amount of CZK 47.0 billion. Without the impact of the deconsolidation, the drop in total assets would amount to only 1%. Balance sheet assets also underwent a structural change due to a year-on-year increase in the volume of lending, deposits with CNB and the portfolio of available-for-sale financial assets. The volume of inter-bank receivables and the portfolio of available-for-sale and held-to-maturity financial assets decreased. On the liability side, liabilities to customers decreased as a result of a decline in loans received in repurchase agreements, and the volume of issued securities also fell. Conversely, equity increased.

The aggregate net **portfolio of client loans** saw a year-on-year **increase of 3% to CZK 489.5 billion**, **which is due to the higher volume of mortgage loans and corporate and public sector loans provided**.

The net portfolio of loans to individuals for the financial group increased by 4% year-on-year to CZK 267.5 billion. However, different types of retail loans reflect varying trends; whereas mortgage loans show impressive growth, consumer loans continue to decline moderately.

The gross **portfolio of mortgage loans to individuals increased by a significant 10% year-on-year to CZK 160.3 billion**; new mortgage loans went up by more than one-fourth (14%) to CZK 20.6 billion, their number totaling 13,200. The growth in the mortgage loan portfolio can be attributed to the Bank's active lending policy, significantly low interest rates and low real estate prices. For instance, in conjunction with Česká spořitelna's unique June event on Facebook, the Bank sold mortgages with the historically lowest fixed rate of 2.38%. Česká spořitelna's branches offer mortgages to clients preferring personal contact with a banker with favorable rates starting at 2.69%. When refinancing mortgage loans from other banks, the Bank provides a free estimate of the property.

Consumer loans, including credit card loans and overdraft facilities, fell by 4% year-on-year to CZK 67.7 billion. Their ongoing declining volume is due to low demand and the very slowly growing customer confidence of households. **As regards consumer loans,** only **loans provided for the consolidation of facilities previously granted by the Bank or other entities continued to rise**. Construction savings loans fell year-on-year by 3% to CZK 37.1 billion. Low interest rates of mortgage loans are the main reason for reduced interest in construction savings loans**.**

Net loans to corporate entities rose year-on-year by 1% to CZK 201.9 billion. The volume of lending to public sector clients saw a 6% increase to CZK 19.7 billion.

The indicator of the proportion of net client loans to client deposits (including deposits measured at fair value) represents 72.7%, compared to 69.0% reported as at 30 June 2013. **The improving quality of Česká spořitelna's loan portfolio is confirmed by the proportion of client loans in default to the aggregate amount of client loans.** This indicator was 4.6% as at 30 June 2014. In the same period last year, the indicator was 5.2%. The proportion of impairment allowances to loans in default rose to 80% and, including collateral, this indicator stands at 117%.

The aggregate balance of portfolios of held-for-trading securities, classified as at fair value, available-for-sale securities and securities held to maturity, totaled CZK 241.2 billion as at 30 June 2014, representing a drop of 8% compared to 30 June 2013. **Almost the entire securities portfolio comprises bonds, in particular government bonds**, while shares and similar securities account for less than 1% of the total securities volume.

Compared to the balance as at 30 June 2013, the aggregate balance of tangible and intangible fixed assets decreased by 2% year-on-year to CZK 16.9 billion. Tangible assets totaled CZK 13.7 billion, of which land and buildings made up 72%. Intangible assets amounted to CZK 3.2 billion.

Amounts due to customers, including deposits measured at fair value, fell by 3% year-on-year to CZK 673.6 billion. The decline was due to a significantly lower volume of loans received from repurchase agreements with public sector clients.

Private individual deposits amounted to CZK 498.3 billion, accounting for a 1% increase. **Principal additions were specifically related to Private account deposits, as well as current and foreign currency account deposits. New savings products** such as ČS Savings, Savings accounts and Internet savings **also did well**. Amounts due to corporate clients declined by 1% to CZK 110.2 billion, whereby current account deposits grew and term deposits and foreign currency deposits decreased. Public sector client deposits saw a more substantial drop of nearly one-quarter to CZK 65.0 billion, which is attributable to the aforementioned repurchase transactions.

Amounts due to financial institutions increased by 16% to CZK 62.0 billion. This is primarily due to an increase in financial institutions' one-day term deposits and specific purpose loans received from the European Investment Bank.

Payables from debt securities reported in the consolidated statement of financial position fell by 18% to CZK 26.2 billion, resulting from a decrease in mortgage and other bonds whose issues matured.

Equity attributable to equity holders of the parent amounted to CZK 99.8 billion. **Compared to the same period in 2013, equity increased by 7% due to an increase in retained earnings.** Previously, Česká spořitelna issued subordinated bonds to strengthen its capital base, but the Bank's excellent capital position allowed for an early repayment of one issue. The total volume of subordinated debt in the Bank's consolidated statement of financial position fell significantly to CZK 0.3 billion as at 30 June 2014.

Capital adequacy under the BASEL II rules reached a comfortably high level of 18.1% as at 30 June 2014. It stood at 16.0% in mid-2013. Total capital under BASEL II used in calculating the capital adequacy ratio amounted to CZK 82.7 billion and total capital requirements amounted to CZK 36.6 billion. As at 30 June 2013, these figures represented CZK 82.7 billion and CZK 36.6 billion, respectively.

# Significant Events and Business Activities

in the First Half of 2014

## General Meeting

**The shareholders of Česká spořitelna, who attended the Annual General Meeting** on 23 April 2014 in Prague**, approved** the distribution of 2013 profits and **payment of the gross dividend of CZK 60 per both ordinary and preference share.** The total dividend payment was CZK 9.1 billion. Česká spořitelna posted a non-consolidated profit after taxes in the amount of CZK 16.2 billion for 2013. The remaining profit not distributed as dividends was transferred to retained earnings to strengthen Česká spořitelna's equity position.

## Mortgage loans

Since 2011 mortgage loans to households have risen steadily. **Česká spořitelna's active credit policy, continuously falling interest rates and low property prices further boosted this trend in the current year**. The gross volume of the portfolio of mortgage loans to individuals increased by 10% to CZK 160.3 billion, compared to the previous half-year; the volume of new mortgage loans to individuals climbed by almost one-quarter (14%) to CZK 20.6 billion, while the number of new mortgage loans totaled 13,200. The average maturity of a non-business mortgage loan is 22.9 years, residual maturity is 18.9 years. An important indicator of the average loan value to the property value shows a comfortable ratio of 66.6%.

Česká spořitelna uses new sales methods to actively market mortgage loans. **One of ČS's unique events was undoubtedly the sale of mortgages through a Facebook profile that Česká spořitelna introduced as the first bank in the Czech Republic** in January. Another event took place in June when Česká spořitelna sold mortgage loans on Facebook with a fixed interest rate of 2.38%, which was the lowest fixed mortgage rate ever. There was high customer demand for both offers.

A new trend in the Czech real estate market is demand for mortgage loans not to purchase a home, but to make an investment. **Česká spořitelna has decided to meet customer needs and expanded its product offer to include mortgage loans to rent (Hypotéka na pronájem)**. Applicants may submit as proof of income up to 60% of future rental income from the acquired property. **The Bank has also designed a turnover mortgage loan (Obratová hypotéka) for entrepreneurs and sole traders.** This product allows clients to submit turnover as per their latest tax return for the purpose of assessing a loan application.

## Card program

**The total number of issued active payment cards amounted to 3.1 million**, which accounts for a 2% decline year-on-year as a result of the cancellation of the sKarta system in March 2014. Of the total, there were 0.3 million credit cards. The volume of lending provided through credit cards totaled CZK 4.2 billion as at 30 June 2014, a decrease of 10% year-on-year.

In the period from January to June 2014, cardholders executed more than 91 million payment transactions amounting to CZK 69.0 billion within the network of more than 18 thousand retail partners of Česká spořitelna. This figure represents a 10% rise year-on-year. **The volume of transactions executed by vendors of Česká spořitelna cards rose by 11% year-on-year to CZK 53.4 billion**, of which contactless card transactions accounted for 34%.

Česká spořitelna currently operates 1,546 ATMs and payment machines, with 49 new machines installed over the last 12 months. Since the beginning of 2014, cardholders executed 45.4 million ATM transactions totaling CZK 148.5 billion.

The most interesting innovations of the card program include re-filling Pilsen cards through Česká spořitelna ATMs, which won first place in the Innovation in Public Administration category of the Czech Innovation 2013 competition. The finalists in five categories were selected by more than a hundred-member jury of experts from the corporate sector, government organizations, industrial research and academic and scientific institutions at the Czech Innovation Festival held in March 2014 in the National Technical Library in Prague.

In June 2014, Česká spořitelna successfully launched the 3D Secure service – secure online credit card payments, which provides the Bank's clients with the highest possible security. **When paying by card on the Internet, clients now need to confirm each transaction in a secure online store with a one-time SMS code.** The service is free for all cards issued by Česká spořitelna.

Since March, Česká spořitelna has enabled its customers as the only bank on the Czech market to pay bills and invoices via QR codes at ATMs (QR Payment). After the introduction of payment machines and the SERVIS 24 Mobile Bank application, Česká spořitelna offers another way to make regular payments easily and quickly. Clients need not waste time copying all payment information from the invoice, but simply download the QR code at an ATM and the relevant invoice is automatically converted to a payment order that the customer only needs to check and confirm.

## Erste corporate banking

**Česká spořitelna was the chief manager in the share issue of the Lobkowicz Breweries Group**, which began to trade on the Prague Stock Exchange on May 28. **It has been the largest and most interesting issue of shares on the Prague Stock Exchange since 2010**. The overall volume of the stock offered amounted to CZK 405 million. The Lobkowicz Breweries Group plans to use the revenues from the stock sale primarily for further development, acquisition of breweries, expansion of its distribution network and export growth.

With the aim to make it possible for start-up small and medium-sized businesses to obtain credit for the implementation of innovative projects, Erste Corporate Banking of Česká spořitelna offers within Swiss-Czech Inostart cooperation funding and advisory to new entrepreneurs across the country. The Inostart project is carried out in cooperation with the Ministry of Industry and Trade and the Czech-Moravian Guarantee and Development Bank.

**Česká spořitelna was involved in arranging export buyer's credit in the amount of EUR 66 million** that will allow Romania's manufacturer of chemical fertilizers, Azomureş SA Tîrgu Mureş, to implement one of the largest investment projects over the past 30 years. Azomureş will use the funding for the modernization of the plant for the production of urea, to be executed by the Czech company Chemoproject Nitrogen.

A consortium of banks, coordinated by the duo of Česká spořitelna and ČSOB, provided financing in the amount of CZK 4.1 billion to Pražská Plynárenská Holding, a.s. (PPH), controlled by the City of Prague, to purchase nearly 50% of the shares of Pražská plynárenská, a.s. from the E.ON Group. In addition, Česká spořitelna was engaged as the City of Prague's advisor for mergers and acquisitions in acquiring a 49% ownership interest in PPH.

**Česká spořitelna provided export buyer's credit to an Israeli manufacturer of steel reinforcing bars in the total volume of EUR 27.9 million** for the purpose of financing the supply of a MI.DA billet caster and a rolling mill for rebars. This is the first direct buyer's credit for an Israeli company. Česká spořitelna also provided an export loan to a state-owned company in Azerbaijan totaling EUR 46.6 million to finance an infrastructure project.

Grantika České spořitelny began to operate under the new business name and trademark **Erste Grantika Advisory**. This step helped the company to **become a solid part of the family of strong corporate banking international brands of the Česká spořitelna financial group** – Erste Corporate Banking. In June Erste Grantika Advisory administered the first ever online electronic auction of corporate bills of exchange in the Czech Republic. The key objective of the auction was to get lower margins and thus ensure cheaper access to cash for the bill's issuer. The Prague Transit Company sold in auction a six-month, CZK 550 million bill of exchange. The winning bank charges an interest margin of 0.29 percentage points. Grantika thus successfully started selling another unique product owned solely by the Česká spořitelna financial group.

## Private banking

At the end of March, Česká spořitelna opened new premises for ERSTE Premier and Erste Private Banking clients in Prague and Liberec. The Prague office is located in a luxury villa in Dejvice and offers comprehensive private banking services for ERSTE Premier and Erste Private Banking customers. The Liberec private banking center is located in the historical building of Česká spořitelna in the city center**. Including the new premises, Česká spořitelna operates a total of 17 centers in the Czech Republic for servicing private clients and has the widest network of premium service branches on the market for affluent clients**.

In June, Česká spořitelna introduced through its Investiční společnost new mutual funds YOU INVEST designed for affluent Erste Premier and Erste Private Banking clients, who do not want to spend too much time managing their assets, but require a high level of transparency and flexibility. The clients choose an investment strategy and Erste Group's professional portfolio managers take care of managing the assets. **YOU INVEST are mixed funds investing in bonds, shares and alternative investment instruments in three different strategic forms** that provide an optimum balance between return and risk.

## Social activities

Last year, **Česká spořitelna** was the most significant contributor to the funding of the Czech government. **According to the Ministry of Finance, in 2013 Česká spořitelna was the largest tax payer in the Czech Republic** and, in the long run, has been the largest taxpayer in the banking sector.

In May, Česká spořitelna opened its eighth administrative center at the Vinice building in Pardubice. **By deployment of administrative centers in regions the Bank creates jobs across the country. Currently some 250 people work in Pardubice**. Česká spořitelna plans to increase this number to 400 employees by the end of 2015. The Vinice office building won the 2010 Building of the Year award, is fully wheelchair accessible as Česká spořitelna makes the effort to make jobs available for people with disabilities.

Česká spořitelna launched a new educational campaign in June for the safe use of internet banking. Part of the campaign is an educational video, posters and other materials that clients can view on Česká spořitelna's website and on social networks, directly during Internet banking, and on LCD screens and information stands at branches. **Česká spořitelna aims for the campaign to highlight various types of internet fraud which primarily target clients' lack of experience** and to provide clients with sufficient information so that they can better protect themselves against fraudsters.

In May the Depositum Bonum Foundation organized a three-day **conference – Elixir for Schools** – in Hradec Králové, which was attended by over 160 physics teachers from across the Czech Republic, representatives of the Ministry of Education and other education experts. Participants agreed that physics teaching must include examples from everyday life and that all the senses of students should be involved during classes through conducting interesting experiments. The Foundation supports exactly this type of teaching. It helped **set up 18 regional centers nationwide, where teachers may come to seek new ideas and rent a variety of physics devices free of charge.**

Česká spořitelna and the charitable organization Terra-club jointly issued a school atlas called **Today's World of Finance for secondary schools** in print and in digital version. It comes complete with the Ministry of Education's seal of approval. The new atlas follows the previous atlas for primary schools published last school year that quickly gained popularity. **Currently 170 primary schools and multi-year grammar schools use the atlas**.

The general public voted for charitable projects, among which **CZK 1 million was allocated from the Grant Program of the Česká spořitelna Foundation.** 31 projects were selected for the finals, nominated by Česká spořitelna's clients who had long participated in the projects as volunteers. The Foundation will provide grants of up to CZK 50,000 to organizations involved in assisting seniors and persons with mental and multiple disabilities and in the prevention and treatment of drug addiction. The Foundation has long supported these target groups.

Within the educational ČS Academy of Social Entrepreneurship, Česká spořitelna and the VIA Foundation are launching **a comprehensive Accelerator program designed for managers of social enterprises and non-profit organizations.** Participants can expect a challenging, but very rewarding agenda. In addition to a series of workshops, seminars and personal consultations, they must prepare a detailed business plan and learn to identify a potential investor. The best business plan will be awarded a financial contribution for the project development.

## Awards received

**Česká spořitelna was voted the most Handicap Friendly Bank for 2013**. The Bank received the award based on the evaluation by persons with disabilities under the auspices of the National Council of Persons with Disabilities. Česká spořitelna won all quarterly assessments in 2013. **Česká spořitelna has consistently promoted a friendly approach to persons with disabilities**. It collaborates with several organizations that have supported this specific group of citizens. Česká spořitelna's objective is to be a bank for all. Therefore, it strives to accommodate the needs of people with disabilities.

**According to the results of the TOP Employer 2013/2014 survey, Česká spořitelna placed first in the category of banking and insurance**, reaffirming the previous year's top position. The TOP Employer project was launched by the Czech Students' Union (ČeSU). Students from Czech colleges and universities participate in the survey. The project has been implemented in cooperation with universities, student organizations and corporate partners. More than 8,000 undergraduates took part in this year's survey.

**Česká spořitelna – penzijní společnost, a.s., has been named the best pension company in the Czech Republic, according to the jury of the international magazine World Finance**. ČS – penzijní společnost manages the largest participation fund in the market and is the largest pension company in the country measured by the number of participants in supplementary pension savings plans of Pillar 3. New clients notably value the offer of the unique Garance (Guarantee) service ensuring recovering their deposits and the ability to view and change their contracts via the SERVIS 24 internet banking application.

**The international magazine World Finance has voted Investiční společnost České spořitelny ("ISČS") the best investment company in the Czech Republic for 2014**. More than 190,000 clients regularly invest in ISČS mutual funds. Česká spořitelna seeks to provide clients with convenient access to information from the investment world. In April it launched a new mobile application Investment Center that can be used free of charge in Czech and English by iPhone holders. Česká spořitelna is planning to launch an application for mobile phones with the Android operating system.

Česká spořitelna offers the best loan product for companies and entrepreneurs in the Czech Republic, according to the popular Zlatá Koruna (Golden Crown) competition. The Investment Loan product once again placed first in the Corporate Loans category.

# Česká spořitelna's Anticipated Development

## in the Second Half of 2014

In line with its updated strategy, Česká spořitelna strives to become a bank maintaining high level customer loyalty and, as a result, achieve financial results above the banking market average. As a major bank it aspires to take the top place in the retail segment and second place in the corporate segment, while in terms of customer loyalty it seeks to achieve a leading position in all customer segments.

In order to achieve these goals, Ceska sporitelna intensively pursues:
- The digitisation of its services and internal processes;
- Getting yet closer to its clients in the environments in which they operate;
- Expanding and tailoring its offer for each client;
- Strategic cost management;
- Harmony with regulatory requirements in the optimisation of its costs and investments.

Following the first signs of the gradual recovery of the Czech economy, Česká spořitelna foresees a stable development based on a reliable and working business model and high level customer loyalty in the second half of 2014.

In respect of the basic captions of the assets and liabilities balances, loans to customers are expected to grow in volume in the second half of this year as compared to the first half. Primary deposits are expected to stagnate or decrease moderately. This trend is to result in a continued increase in the loans to deposits ratio.

In the latter part of the year, the Bank expects a similar trend in the principal items of the income statement as in the first half. Net interest income will again be adversely affected by continued low interest rates. Net commission income will be positively influenced by the Bank's increased activity in the field of loan management and the offer of new services and products. On the other hand, growing competitive pressure from new banks in the Czech market together with increased pressure from some interest and client groups will have a negative impact. A significant role in generating projected profits (in addition to the expected stagnant level of allowances against credit risks) will be played by benefits ensuing from the implementation of selected Group and local projects, along with the constant focus on cutting operating expenses.

# Selected Financial Indicators

## Key Ratios

| | 30/6/2014 | 30/6/2013 |
|---|---|---|
| Return on equity (ROE) | 15.0% | 17.1% |
| Return on assets (ROA) | 1.7% | 1.7% |
| Cost/income | 44.1% | 45.1% |
| Net interest margin in relation to interest-earning assets | 3.55% | 3.60% |
| Non-interest income / operating income | 35.1% | 34.5% |
| Loans and advances to customers / amounts owed to customers | 72.7% | 69.0% |
| Individual capital adequacy (BASEL III) | 18.8% | 17.4%* |
| Consolidated capital adequacy (BASEL III) | 18.7% | 18.1%* |

* Under the BASEL II rules

## Selected Operational Figures

| | 30/6/2014 | 30/6/2013 |
|---|---|---|
| Average headcount of Česká spořitelna Financial Group | 10,474 | 10,621 |
| Total number of clients | 5,091,138 | 5,307,473 |
| Sporogiro accounts | 2,812,593 | 3,112,790 |
| of which Private accounts | 2,403,965 | 2,340,343 |
| SERVIS 24 and Business 24 direct banking active clients | 1,668,303 | 1,516,013 |
| Number of cards | 3,146,490 | 3,207,203 |
| of which credit cards | 300,699 | 335,756 |
| Number of ATMs and payment machines | 1,546 | 1,497 |
| Number of Česká spořitelna branches | 644 | 653 |

## Net Profit After Taxes of Selected Subsidiaries of Česká spořitelna
under International Financial Reporting Standards

| CZK million | 30/6/2014 | 30/6/2013 |
|---|---|---|
| Brokerjet České spořitelny | (5) | (8) |
| Erste Leasing | 29 | 16 |
| Factoring České spořitelny | 30 | 29 |
| S Autoleasing | 50 | 46 |
| Stavební spořitelna České spořitelny | 324 | 301 |

## Affidavit

The signatories of this document represent that according to their best knowledge the consolidated interim report provides a true and fair view of the financial position, business operations and financial results of Česká spořitelna and its group for the six months just ended and on the future prospects of its financial position, business operations and financial results.

Pavel Kysilka
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

# Interim Consolidated Financial Statements

for the Period Ended 30 June 2014

## Prepared in Accordance with International Accounting Standard IAS 34: Interim Financial Reporting (Unaudited)

**Improvements made to the interim financial statements based on the Comments received from the Regulator**

Česká spořitelna, a.s., made following improvements to the interim financial statements and accompanying notes originally published on 5 August 2014, based on the comments dated 2 December 2014 received from the regulator:

1. On page 15, short version of consolidated condensed cash flow statement of as of 30.6.2014 and 30.6.2013 was replaced by full version of the consolidated condensed cash flow statement.

2. On page 18, introductory paragraph describing the reconciliation between the structure of the items in the statement of financial position and in the income statement used until 2013 and the structure used from 2014 was added.

# I. Consolidated condensed statement of comprehensive income

## Income statement

| **CZK million** | **1–6 2014** | **1–6 2013** |
|---|---|---|
| Net interest income | 13,305 | 13,681 |
| Net fee and commission income | 5,555 | 5,725 |
| Dividend income | 46 | 45 |
| Net trading and fair value result | 1,195 | 1,090 |
| Rental income from investment properties & other operating leases | 412 | 430 |
| Personnel expenses | (4,311) | (4,685) |
| Other administrative expenses | (3,582) | (3,622) |
| Depreciation and amortization | (1,152) | (1,154) |
| Gains/(losses) from financial assets and liabilities not measured at fair value through profit or loss, net | 136 | 151 |
| Net impairment loss on financial assets not measured at fair value through profit or loss | (1,917) | (2,005) |
| Other operating result | 10 | 514 |
| **Pre-tax result from continuing operations** | **9,697** | **10,170** |
| Taxes on income | (1,898) | (2,026) |
| Post-tax result from continuing operations | 7,799 | 8,144 |
| **Net result for the period** | **7,799** | **8,144** |
| Net result attributable to non-controlling interests | 17 | (9) |
| **Net result attributable to owners of the parent** | **7,782** | **8,153** |

## Statement of comprehensive income

| **CZK million** | **1–6 2014** | **1–6 2013** |
|---|---|---|
| **Net result for the period** | **7,799** | **8,144** |
| **Items that may be reclassified to profit or loss** | | |
| Available for sale reserve | 542 | (615) |
| Gain/(loss) during the period | 542 | (615) |
| Cash flow hedge reserve | 117 | (76) |
| Gain/(loss) during the period | 117 | (76) |
| Currency translation | 5 | 74 |
| Gain during the period | 5 | 74 |
| Deferred taxes relating to items that may be reclassified | (160) | 79 |
| (Loss)/gain during the period | (160) | 79 |
| **Total** | **504** | **(538)** |
| **Total other comprehensive income** | **8,303** | **7,606** |
| **Total comprehensive income** | **8,303** | **7,606** |
| Total comprehensive income attributable to non-controlling interests | 17 | (21) |
| **Total comprehensive income attributable to owners of the parent** | **8,286** | **7,627** |

# II. Consolidated Condensed statement of financial position

| CZK million | Notes | June 2014 | December 2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash balances | | 66,954 | 77,581 |
| Financial assets – held for trading | | 29,433 | 47,718 |
| Derivatives | | 16,575 | 21,168 |
| Other trading assets | | 12,858 | 26,550 |
| Financial assets – at fair value through profit or loss | | 2,967 | 4,223 |
| Financial assets – available for sale | | 81,298 | 82,295 |
| Financial assets – held to maturity | | 144,013 | 154,720 |
| Loans and receivables to credit institutions | | 49,311 | 75,348 |
| Loans and receivables to customers | | 489,483 | 489,194 |
| Derivatives – hedge accounting | | 1,088 | 945 |
| Property and equipment | | 13,719 | 14,166 |
| Investment properties | | 8,208 | 8,330 |
| Intangible assets | | 3,140 | 3,333 |
| Current tax assets | | 378 | 102 |
| Deferred tax assets | | 147 | 126 |
| Other assets | | 10,193 | 10,642 |
| **Total assets** | | **900,332** | **968,723** |
| | | | |
| **Liabilities and equity** | | | |
| Financial liabilities – held for trading | | 18,426 | 24,024 |
| Derivatives | | 18,409 | 24,024 |
| Other trading liabilities | | 17 | – |
| Financial liabilities – at fair value through profit or loss | 1 | 13,586 | 14,434 |
| Deposits from customers | | 11,950 | 12,616 |
| Debt securities issued | | 1,636 | 1,818 |
| Financial liabilities measured at amortized cost | 2 | 749,761 | 815,659 |
| Deposits from banks | | 61,971 | 73,036 |
| Deposits from customers | | 661,608 | 713,977 |
| Debt securities issued | | 26,182 | 28,646 |
| Derivatives – hedge accounting | | 486 | 422 |
| Provisions | | 2,455 | 2,594 |
| Current tax liabilities | | 110 | 414 |
| Deferred tax liabilities | | 321 | 100 |
| Other liabilities | | 15,119 | 10,100 |
| **Total equity** | | **100,068** | **100,976** |
| Equity attributable to non-controlling interests | | 219 | 316 |
| Equity attributable to owners of the parent | | 99,849 | 100,660 |
| **Total liabilities and equity** | | **900,332** | **968,723** |

These interim consolidated financial statements were prepared by the Group and authorized for issue by the Board of Directors on **5 August 2014**.

Pavel Kysilka
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

# III. Consolidated Condensed statement of changes in total equity

| CZK million | Subscribed capital | Additional paid-in-capital | Retained earnings | Cash flow hedge reserve, net of deferred tax | Available for sale reserve, net of deferred tax | Currency translation | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **As of 31 December 2013** | **15,200** | **11** | **84,740** | **(95)** | **1,008** | **(204)** | **100,660** | **316** | **100,976** |
| Dividends paid | – | – | (9,120) | – | – | – | (9,120) | (22) | **(9,142)** |
| Changes in scope of consolidation | – | – | 23 | – | – | – | 23 | (92) | **(69)** |
| Total comprehensive income | – | – | 7,782 | 95 | 405 | 4 | 8,286 | 17 | **8,303** |
| Net result for the period | – | – | 7,782 | – | – | – | 7,782 | 17 | **7,799** |
| Other comprehensive income | – | – | – | 95 | 405 | 4 | 504 | – | **504** |
| **As of 30 June 2014** | **15,200** | **11** | **83,425** | **–** | **1,413** | **(200)** | **99,849** | **219** | **100,068** |
| | | | | | | | | | |
| **Comparable period of the previous year** | – | – | – | – | – | – | – | – | – |
| **As of 1 January 2013** | **15,200** | **11** | **76,932** | **91** | **1,443** | **(487)** | **93,190** | **122** | **93,312** |
| Dividends paid | – | – | (7,600) | – | – | – | (7,600) | (80) | **(7,680)** |
| Changes in scope of consolidation | – | – | (10) | – | – | – | (10) | 5 | **(5)** |
| Total comprehensive income | – | – | 8,153 | (61) | (551) | 85 | 7,626 | (21) | **7,605** |
| Net result for the period | – | – | 8,153 | – | – | – | 8,153 | (9) | **8,144** |
| Other comprehensive income | – | – | – | (61) | (551) | 85 | (527) | (12) | **(539)** |
| **As of 30 June 2013** | **15,200** | **11** | **77,475** | **30** | **892** | **(402)** | **93,206** | **26** | **93,232** |

# IV. Consolidated statement of cash flows

| CZK million | 1–6 2014 | 1–6 2013 |
|---|---|---|
| **Profit before tax** | **9,697** | **10,170** |
| **Adjustments for non–cash transactions** | | |
| Creation of provisions for losses on loans and advances | 2,001 | 1,983 |
| Depreciation and amortization | (1,043) | 1,042 |
| Depreciation of investment property | (109) | 112 |
| Impairment of investment property | 91 | 58 |
| Unrealised net (profit)/loss on financial assets at fair value through profit or loss and liabilities at fair value | 37 | (96) |
| Gain/(loss) on disposal/revaluation of ownership interests | (4) | (59) |
| Net charge for provisions for legal disputes and other provisions | (41) | 458 |
| Change in fair values of derivatives | (1,104) | 1,233 |
| Accrued interest, amortization of discount and premium | 609 | 1,692 |
| Other non–cash transactions | (656) | 82 |
| | | |
| **Operating profit before changes in operating assets and liabilities** | **9,478** | **16,675** |
| **(Increase)/decrease in operating assets** | | |
| Minimum reserve deposits and other deposits with the CNB | 2,391 | (26,485) |
| Loans and advances to financial institutions | 30,073 | 2,520 |
| Loans and advances to customers | (2,302) | (8,362) |
| Financial assets at fair value through profit or loss | 10,242 | 6,762 |
| Financial assets available–for–sale | (4,105) | 21,606 |
| Other assets | 322 | (49,081) |
| **Increase/(decrease) in operating liabilities** | | |
| Amounts owed to financial institutions | (29,340) | 11,803 |
| Amounts owed to customers | (62,356) | (11,758) |
| Financial liabilities at fair value | 26,546 | (2,404) |
| Other liabilities | 4,979 | 50,134 |
| **Net cash flow from operating activities before income tax and movement in non–controlling interests** | **(14,072)** | **11,410** |
| | | |
| Increase/Decrease in non–controlling interests | (92) | (7) |
| Income tax paid | (2,438) | (2,122) |
| **Cash flow from operating activities** | **(16,602)** | **9,281** |
| Increase in financial assets held–to–maturity | (10,200) | (802) |
| Decrease in financial assets held–to–maturity | 11,175 | 23,509 |
| Purchase of investment property | 140 | (114) |
| Proceeds from the sale of assets under construction | 138 | 445 |
| Proceeds from the sale of non–consolidated equity investments with control or significant influence | 7 | 72 |
| Proceeds from the sale of interests in subsidiary and associate undertakings | – | 105 |
| Purchase of tangible and intangible assets | – | (600) |
| Proceeds from the sale of tangible and intangible assets | 1,677 | – |
| **Cash flow from investing activities** | **2,937** | **22,615** |
| Dividends paid | (9,120) | (7,600) |
| Dividends paid to minority shareholders | (22) | (80) |
| Bonds in issue – sale | 1,412 | – |
| Bonds in issue – repurchase | (2,200) | (4,646) |
| Redemption of subordinated debt | (1,759) | (99) |
| **Cash flow from financing activities** | **(11,689)** | **(12,425)** |
| **Net increase/(decrease) in cash and cash equivalents** | **(25,354)** | **19,471** |
| **Cash and cash equivalents at the end of the previous year** | **95,991** | **35,862** |
| **Cash and cash equivalents at the end of period** | **70,637** | **55,333** |

# V. Consolidated condensed notes to the group financial statements of Česká spořitelna, a. s.

for the period from 1 January to 30 June 2014

## Introduction

Česká spořitelna, a. s. ('the Bank'), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services within the Czech Republic.

The Bank's majority shareholder is EGB Ceps Holding GmbH, which is a 100% subsidiary of EGB Ceps Beteiligungen GmbH, a wholly-owned subsidiary of Erste Group Bank AG ('Erste Group Bank') which is the ultimate parent. The Bank together with subsidiaries and associated companies forms the Group.

The Group is subject to the regulatory requirements of the Czech National Bank ('CNB'). These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, interest rate risk, foreign currency positions and operating risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement, collective investment and brokerage services.

The Group offers a complete range of banking and other financial services, such as savings and current accounts, asset management, consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital and money market services and foreign exchange trading.

## Basis of preparation

The condensed consolidated interim financial statements ("interim financial statements") of the Group for the period from 1 January to 30 June 2014 were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and are presented in accordance with the requirements of IAS 34 "Interim Financial Reporting". The Group's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

These interim financial statements were neither audited nor reviewed by an auditor.

## Basis of consolidation

Subsidiaries are consolidated from the date upon which control is transferred to the bank. Control is achieved when the bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Except for the new definition of control, accounting policies concerning subsidiaries, associates and joint ventures remained as in 2013.

The number of legal entities and funds included in Česká spořitelna Group's IFRS consolidation scope evolved during the first six months of 2014 as follows:

| | |
|---|---|
| **As of 31 December 2013** | **37** |
| **Additions** | |
| Entities newly added to the scope of consolidation | 1 |
| **Disposals** | |
| Companies sold / deconsolidated | (2) |
| **As of 30 June 2014** | **36** |

### Additions in the first half of 2014

Since January 2014 s Autoleasing SK, s.r.o. became part of the consolidated Group. In previous years the entity was excluded from consolidation scope due to immaterial effect on the financial position, performance and changes in financial position of the Group.

### Disposals in the first half of 2014

In May 2014 entity Atrium Center s.r.o., company established for the purpose of investment into real estate, was sold.

### Deconsolidation in the first half of 2014

As of 1 January 2014 Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a. s. (Transformed pension fund) has been deconsolidated as a result of changes in the articles of the fund amending its investment strategy. The impact of deconsolidation was decrease of the group assets by CZK 50,880 million (thereof Financial assets – available--for-sale CZK 20,886 million, Financial assets – held to maturity CZK 10,085 million and Loans and receivables to credit institutions CZK 19,474 million) and decrease of the group liabilities by CZK 50,830 million (thereof Financial liabilities measured at amortized cost – Deposits from customers CZK 50,152 million).

## Accounting and measurement methods

The interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Therefore, the interim financial statements should be read in conjunction with Česká spořitelna Group's consolidated financial statements as of 31 December 2013.

## Risk management

Risk management activities in the Bank's subsidiaries are undertaken by persons independent of the business units. The Credit Risk Controlling and Portfolio Management Department of the Bank provides specialist guidance to and oversees the staff involved in managing credit risk in the subsidiaries and is responsible for monitoring the subsidiaries' portfolios. Market and liquidity risks within the Group are managed by the Bank within the Financial Market Risk Management Department.

### Credit risk

Breakdown of the Portfolio for Credit Risk Management Purposes

For credit risk management purposes, the Group's loan portfolio is broken down as follows:

- **Retail receivables** are receivables from individuals/households and small enterprises with an annual turnover of up to CZK 60 million and small municipalities ('MSE'). The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data.
- **Receivables from corporate counterparties** include receivables from small and medium sized enterprises with an annual turnover of between CZK 60 to 1,000 million ('SME'), receivables from large businesses (with an annual turnover exceeding CZK 1,000 million) and public sector receivables. While the methods of managing the credit risk of corporate receivables are based on statistical models (particularly for the portfolio of receivables from mid-size enterprises), great emphasis is also put on regular, discrete analysis of individual customers.
- **Receivables arising from specific products provided by the subsidiaries** represent specialized financial products that require their own risk management techniques reflecting their specifics. These largely include factoring receivables, leasing receivables, instalment sales, loans issued to finance the acquisition of securities and construction savings loans. The portfolios of these products are regularly monitored both on an individual basis (for individually significant exposures) and a portfolio basis.

With the exception of a limited number of borderline cases, the implemented breakdown of the portfolio corresponds to the asset classes as defined in the Regulation no. 575/2013 of the European Parliament and of the Council which implements the BASEL III rules.

Individually significant loans predominantly include loans from the Group's corporate portfolio. These loans are additionally split into the following sub-portfolios:

- Large corporate clients with an annual turnover exceeding CZK 1,000 million (the exposure of which is managed using a unified method throughout Erste Group Bank and its subsidiaries ,the Erste Group', or at the Group level);
- Project finance and corporate mortgages;
- Small and medium sized enterprises (turnover from CZK 60 to 1,000 million);
- Municipality loans; and
- Loans in the Workout Department.

Corporate loans match the 'corporate' or 'special funding' asset class (segment) under BASEL III.

Individually insignificant loans (below CZK 5 million), including MSE loans, principally encompass the Group's retail loans. These loans are divided into 16 product portfolios. The key portfolios include mortgage retail loans, credit card loans, overdraft loans and consumer loans. The Group's retail loans match the 'Retail' asset class (segment) under BASEL III.

### Internal Rating Tools

The internal ratings of the Group reflect the ability of counterparties to meet their financial obligations. The degree of risk is reflected in the internal rating and corresponding probability of default of the debtor in the following twelve months. The definition of default is in line with the requirements set out in the Regulation no. 575/2013 of the European Parliament and of the Council and CNB Regulation 23/2014 (BASEL III).

In addition to the internal ratings outlined above, the Group allocates each exposure a risk group according to CNB Regulation No. 23/2014. In accordance with this regulation, the Group maintains five groups of risk profiles, namely standard, watched, substandard, doubtful and loss making.

In compliance with the regulatory requirements arising from BASEL III, rating instruments are subject to annual validations performed by the Credit Risk Controlling Department, Erste Group Bank Competence Centre and Internal Audit.

### Risk Parameters

The Group uses its own internal models in determining the risk parameters, namely PD, LGD and CCF risk parameters. All of the models are developed according to BASEL III requirements and were subject to review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for the quantitative management of portfolio credit risk.

### Impairment Allowance for Loan Losses

The Group recognises impairment allowances for incurred losses. These losses are determined and recognised in accordance with IAS 39. The Group uses adjusted risk parameters estimated as part of the implementation of the BASEL III rules to assess the amount of loss.

## Market Risk

### Commodity risk

The commodity instruments appear solely in the trading portfolio as supporting instruments for client transactions (clients of Erste Energy Services). With the exception of electricity products. all commodity derivatives represent sporadic transactions within the Group's portfolio and are secured on a 'back-to-back' basis with a third party.

For electricity products, which started to be traded in June 2014, 'back-to-back' close process is not in place (as in the past) and market risk exists. Therefore new set of limits has been introduced and is monitored on daily basis.

## Operational Risk

In accordance with CNB Regulation No. 23/2014, the Group defines operational risk as the risk of losses arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of losses arising from external events, including losses due to the breach of or failure to fulfil legal regulations.

## New structure of the consolidated financial statements

In 2014, as a result of the harmonization of the new regulatory reporting (FINREP) by the European Banking Authority (EBA), the Group restructured the statement of financial position and the income statement.

The following tables reconcile the changes between the previous and the new structure of the individual items in the statement of financial position and in the income statement.

## Income statement

| CZK million | | Switch of dividend income | Switch of rental and leasing income | Switch of investment property depreciation | Split of general administ-rative expenses | Switch of deposit insurance fund payment | Consoli-dation of net trading and fair value result | Reallo-cation of other operating result | Switch of Commitments and guarantees given | Switch of realised AfS or HtM gains/ losses | Switch of off statement of financial position provisions and rounding | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1–6 2013** | **Old structure** | | | | | | | | | | **New structure** | **1–6 2013** | |
| 14,044 | Net interest income | (45) | (430) | 109 | | | | | | 3 | Net interest income | 13,681 | |
| (1,815) | Risk provisions for loans and advances | | | | | | | | (190) | | 2,005 | | |
| 5,725 | Net fee and commission income | | | | | | | | | | | Net fee and commission income | 5,725 |
| | | 45 | | | | | | | | | | Dividend income | 45 |
| 1,364 | Net trading result | | | | | | (1,364) | | | | | | |
| (8,880) | General administrative expenses | | | | 8,880 | | | | | | | | |
| (146) | Other operating result | | | | | 468 | | (322) | | | | | |
| (274) | Result from financial instruments – at fair value through profit or loss | | | | | | 1,364 | | | | | Net trading and fair value result | 1,090 |
| | | | | | | | | | | | | Net result from equity method investments | – |
| | | | 430 | | | | | | | | | Rental income from investment properties & other operating leases | 430 |
| | | | | | (4,684) | | | | | | (1) | Personnel expenses | (4,685) |
| | | | | | (3,154) | (468) | | | | | | Other administrative expenses | (3,622) |
| | | | | (109) | (1,042) | | | | | | (3) | Depreciation and amortisation | (1,154) |
| | | | | | | | | | | 152 | (1) | Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | 151 |
| 18 | Result from financial assets – available for sale | | | | | | | | | (18) | | | |
| 134 | Result from financial assets – held to maturity | | | | | | | | | (134) | | | |
| | | | | | | | | | | | (2,005) | Net impairment loss on financial assets not measured at fair value through profit or loss | (2,005) |
| | | | | | | | | 322 | 190 | | 2 | Other operating result | 514 |
| | | | | | | | | | | | | Levies on banking activities | – |
| **10,170** | **Pre–tax profit** | | | | | | | | | | | **Pre–tax result from continuing operations** | **10,170** |
| (2,026) | Taxes on income | | | | | | | | | | | Taxes on income | (2,026) |
| 8,144 | Post–tax profit | | | | | | | | | | | Post–tax result from continuing operations | 8,144 |
| **8,144** | **Net profit/loss for the period** | | | | | | | | | | | **Net result for the period** | **8,144** |
| (9) | Attributable to non–controlling interests | | | | | | | | | | | Net result attributable to non–controlling interests | (9) |
| **8,153** | **Attributable to owners of the parent** | | | | | | | | | | | **Net result attributable to owners of the parent** | **8,153** |

## Statement of financial position

### Assets

| CZK million | | Reallocation of movable other property | Switch to net book value of loans and receivables | Product split into measurement categories | | |
|---|---|---|---|---|---|---|
| **December 2013** | **Old structure** | | | | **New structure** | **December 2013** |
| 77,581 | Cash and balances with central banks | | | | Cash and cash balances | 77,581 |
| 75,348 | Loans and advances to credit institutions | | (75,348) | | | |
| 507,483 | Loans and advances to customers | | (507,483) | | | |
| (18,289) | Risk provisions for loans and advances | | 18,289 | | | |
| | | | | | Financial assets – held for trading | |
| 22,113 | Derivative financial instruments | | | (945) | Derivatives | 21,168 |
| 26,550 | Trading assets | | | | Other trading assets | 26,550 |
| 4,223 | Financial assets – at fair value through profit or loss | | | | Financial assets – at fair value through profit or loss | 4,223 |
| 82,295 | Financial assets – available for sale | | | | Financial assets – available for sale | 82,295 |
| 154,720 | Financial assets – held to maturity | | | | Financial assets – held to maturity | 154,720 |
| | | | 75,348 | | Loans and receivables to credit institutions | 75,348 |
| | | | 489,194 | | Loans and receivables to customers | 489,194 |
| | | | | 945 | Derivatives – hedge accounting | 945 |
| 14,166 | Property and equipment | | | | Property and equipment | 14,166 |
| 8,330 | Investment properties | | | | Investment properties | 8,330 |
| 468 | Property under construction | (468) | | | | |
| 3,333 | Intangible assets | | | | Intangible assets | 3,333 |
| 102 | Current tax assets | | | | Current tax assets | 102 |
| 126 | Deferred tax assets | | | | Deferred tax assets | 126 |
| 10,174 | Other assets | 468 | | | Other assets | 10,642 |
| **968,723** | **Total assets** | | | | **Total assets** | **968,723** |

## Statement of financial position

### Liabilities and equity

| CZK million | | Reallocation of subordinated liabilities | Reallocation derivatives | Product split into measurement categories | | |
|---|---|---|---|---|---|---|
| **December 2013** | **Old structure** | | | | **New structure** | **December 2013** |
| | | | | | Financial liabilities – held for trading | |
| | | | 24,024 | | Derivatives | 24,024 |
| | | | | | Financial liabilities – at fair value through profit or loss | |
| | | | | 12,616 | Deposits from customers | 12,616 |
| | | | | 1,818 | Debt securities issued | 1,818 |
| | | | | | Financial liabilities measured at amortised cost | |
| 73,036 | Deposits by banks | | | | Deposits from banks | 73,036 |
| 713,977 | Customer deposits | | | | Deposits from customers | 713,977 |
| 26,550 | Debt securities issued | 2,096 | | | Debt securities issued | 28,646 |
| | | | | | Other financial liabilities | – |
| | | | 422 | | Derivatives – hedge accounting | 422 |
| 24,446 | Derivative financial instruments | | (24,446) | | | |
| 14,434 | Trading liabilities | | | (14,434) | | |
| 2,594 | Provisions | | | | Provisions | 2,594 |
| 414 | Current tax liabilities | | | | Current tax liabilities | 414 |
| 100 | Deferred tax liabilities | | | | Deferred tax liabilities | 100 |
| 10,100 | Other liabilities | | | | Other liabilities | 10,100 |
| 2,096 | Subordinated liabilities | (2,096) | | | | |
| | Total equity | | | | Total equity | |
| 316 | Attributable to non-controlling interests | | | | Equity attributable to non-controlling interests | 316 |
| 100,660 | Attributable to owners of the parent | | | | Equity attributable to owners of the parent | 100,660 |
| **968,723** | **Total liabilities and equity** | | | | **Total liabilities and equity** | **968,723** |

The new structure of the consolidated financial statements affects references to line items in the accounting policies. Therefore, accounting and measurement methods are disclosed in full form in the interim report.

## Foreign currency translation

The consolidated financial statements are presented in CZK, which is the functional currency of the Group. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, exchange rates quoted by the central banks in each country are used. For Group entities with the euro as functional currency, these are the European Central Bank reference rates.

### (i) Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement under the line item 'Net trading and fair value result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

### (ii) Translation of the statements of Group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Group's presentation currency, at the rate of exchange as of the balance sheet date (closing rate). Their statements of comprehensive income are translated at average exchange rates calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement under the line item 'Other operating result'.

## Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the statement of financial position and measured in accordance with their assigned categories.

The Group uses the following categories of financial instruments:
- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

IAS 39 categories of financial instruments are not necessarily the line items presented on the statement of financial position. Relationships between the statement of financial position line items and categories of financial instruments are described in the table at point (xi).

### (i) Initial recognition

Financial instruments are initially recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, which is the date on which an asset is delivered. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

### (ii) Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

### (iii) Cash and cash balances

Cash balances include only claims (deposits) AGainst central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

### (iv) Derivative financial instruments

Derivatives used by the Group include mainly interest rate swaps, futures, forward rate AGreements, interest rate options, currency swaps and currency options as well as credit default swaps. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into
- derivatives – held for trading; and
- derivatives – hedge accounting

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book are presented in this line item.

Changes in fair value (clean price) of derivatives – held for trading are recognised in the income statement in the line item 'Net trading and fair value result'.

Interest income/expense related to derivatives – held for trading is recognised in the income statement under the line item 'Net interest income' if held in the banking book or under the line item 'Net trading and fair value result' if held in the trading book.

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges fulfilling the conditions of IAS 39. In the statement of financial position, they are presented in the line item 'Derivatives – hedge accounting' on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement in the line item 'Net trading and fair value result'. Effective part of changes in fair value (dirty price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve'. Ineffective part of changes in fair value (dirty price) of derivatives in cash flow hedges is recognised in profit or loss under the line item 'Net trading and fair value result'.

Interest income/expense related to derivatives in fair value hedges is recognised in the income statement in the line item 'Net interest income'. Interest income/expense from hedging derivatives in cash flow hedges is part of the dirty price measurement which is split into effective part and ineffective part as described above.

### (v) Financial assets and financial liabilities – held for trading

Financial assets and financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed above in (iv).

Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the statement of financial position, they are presented as 'Other trading assets' or 'Other trading liabilities' under the heading 'Financial assets / financial liabilities – held for trading'.

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the income statement under the line item 'Net trading and fair value result'. Interest income and expenses are reported in the income statement under the line item 'Net interest income'. Dividend income is shown under the line item 'Dividend income'.

If securities purchased under AGreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Other trading liabilities'.

### (vi) Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

The Group uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio contains mostly items of Funds, Financials and Sovereigns.

Financial assets – designated at fair value through profit or loss are recorded on the statement of financial position at fair value under the line item 'Financial assets – designated at fair value through profit or loss', with changes in fair value recognised in the income statement under the line item 'Net trading and fair value result'. Interest earned on debt instruments is reported under the line item 'Net interest income'. Dividend income on equity instruments is shown under the line item 'Dividend income'.

Furthermore, the Group uses the fair value option in case of some hybrid financial liabilities. This is relevant when:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk for financial liabilities designated at fair value through profit or loss is calculated by the method described by IFRS 7. This amount is the difference between the present value of the liability and the observed market price of the liability at the end of the period. The rate used for discounting the liability is the sum of the observed (benchmark) interest rate at the end of the period and the instrument-specific component of the internal rate of return determined at the start of the period.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item 'Financial liabilities designated at fair value through profit or loss' further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are recognised in the income statement under the line item 'Net trading and fair value result'. Interest incurred is reported under the line item 'Net interest income'.

### (vii) Financial assets – available for sale

Available-for-sale financial assets include debt and equity securities as well as other interests in entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. On the statement of financial position, available-for-sale financial assets are disclosed under the line item 'Financial assets – available for sale'.

Unrealised gains and losses are recognised in other comprehensive income and reported in the 'Available for sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported in the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net' in case of sale or in the line item 'Net impairment loss on financial assets' in case of impairment.

Interest income on available-for-sale financial assets is reported under the line item 'Net interest income'. Dividend income is reported under the line item 'Dividend income'.

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost less impairment. This is the case when the range of reasonable fair value estimates as calculated by valuation models is significant and the probabilities of the various estimates cannot be reasonably assessed. There is no market for such investments.

### (viii) Financial assets – held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported on the statement of financial position as 'Financial assets – held to maturity' if the Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement under the line item 'Net interest income'. Losses arising from impairment of such financial assets are presented as 'Net impairment loss on financial assets'. Occasional realised gains or losses from selling are recognised in the income statement under the line item 'Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net'.

### (ix) Loans and receivables

The statement of financial position line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these statement of financial position line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group, upon initial recognition, designates as available for sale; or
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter 'Leasing'. Interest income earned is included under the line item 'Net interest income' in the income statement.

Impairment losses arising from loans and receivables are recognised in the income statement under the line item 'Net impairment loss on financial assets'.

### (x) Financial liabilities measured at amortised cost

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

For presentation in the statement of financial position the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down by 'Deposits from banks', 'Deposits from customers' and, 'Debt securities issued'.

Interest expenses incurred are reported in the line item 'Net interest income' in the income statement. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item 'Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net'.

(xi) Relationships between statement of financial position items, measurement methods and categories of financial instruments

| Statement of financial position item | Measurement principle | | | Financial instrument category |
|---|---|---|---|---|
| | Fair value | At amortised cost | Other | |
| **Assets** | | | | |
| Cash and cash balances | | – | Nominal value | n/a / Loans and receivables |
| Financial assets – held for trading | | | | |
| Derivatives | – | | | Financial assets at fair value through profit or loss |
| Other trading assets | – | | | Financial assets at fair value through profit or loss |
| Financial assets – at fair value through profit or loss | – | | | Financial assets at fair value through profit or loss |
| Financial assets – available for sale | – | | | Available for sale financial assets |
| Financial assets – held to maturity | | – | | Held to maturity investments |
| Loans and receivables to credit institutions | | – | | Loans and receivables |
| Finance lease | | | IAS 17 | n/a |
| Loans and receivables to customers | | – | | Loans and receivables |
| Finance lease | | | IAS 17 | n/a |
| Derivatives – hedge accounting | – | | | n/a |
| **Liabilities and equity** | | | | |
| Financial liabilities – held for trading | | | | |
| Derivatives | – | | | Financial liabilities – at fair value through profit or loss |
| Other trading liabilities | – | | | Financial liabilities – at fair value through profit or loss |
| Financial liabilities – at fair value through profit or loss | – | | | Financial liabilities – at fair value through profit or loss |
| Financial liabilities measured at amortised cost | | – | | Financial liabilities measured at amortised cost |
| Derivatives – hedge accounting | – | | | n/a |

Furthermore, two additional classes of financial instruments which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

## Embedded derivatives

The Group, as part of its business, is confronted with debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host debt instruments if

– the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
– the embedded derivative meets the IAS 39 definition of derivative; and
– the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the statement of financial position under the line item 'Derivatives' in financial assets – held for trading.

At the Group, derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits that contain interest caps, floors or collars in the money, Constant maturity swap bonds without appropriate cap, contractual features linking payments to non-interest variables such as FX rates, equity and commodity prices and indices, or third-party credit risk.

## Reclassifications of financial assets

IAS 39 provides various possibilities to reclassify financial assets between categories of financial instruments. It also places restrictions on some reclassifications. The Group makes use of reclassification alternatives only in the case of held-to-maturity financial assets. If a significant credit deterioration in a held-to-maturity financial asset results in a change in the intention and ability to hold the asset until maturity, the asset is reclassified into available-for-sale financial assets category. Such reclassifications are not included in the limit that triggers automatic reclassification of the entire held-to-maturity portfolio.

### Derecognition of financial assets and financial liabilities

A financial asset (or where applicable part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the contractual rights to receive cash flows from the asset have expired;
- or the Group has transferred its rights to receive cash flows from the asset
- or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

and either:
- it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
- has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

### Repurchase and reverse repurchase AGreements

Transactions where securities are sold under an AGreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase AGreements'. Securities sold are not derecognised from the statement of financial position, as the Group retains substantially all the risks and rewards of ownership because the securities are repurchased when the repo transaction ends. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Group or are reflected in the repurchase price.

The corresponding cash received is recognised on the statement of financial position with a corresponding obligation to return it as a liability under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' and is accrued over the life of the AGreement. Financial assets transferred out by the Group under repurchase AGreements remain on the Group's statement of financial position and are measured according to the rules applicable to the respective statement of financial position item.

Conversely, securities purchased under AGreements to resell at a specified future date are not recognised on the statement of financial position. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the statement of financial position under the respective line items 'Loans and receivables to credit institutions' or 'Loans and receivables to customers', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the AGreement and recorded in the income statement under the line item 'Net interest income'.

### Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the AGreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lendings.

Securities borrowed are not recognised on the statement of financial position unless they are then sold to third parties. In this case, the obligation to return the securities is recorded as 'Other trading liability'.

### Impairment of financial assets and credit risk losses of contingent liabilities

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

The Group uses the BASEL II definition of default as a primary indicator of loss events. Default, as a loss event, occurs when:
- the obligor is more than 90 days past due on any material credit obligation;
- as a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- the obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- the obligor is subject to bankruptcy or similar protection proceedings.

For assessment at portfolio level, the Group uses the incurred but not reported losses concept. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the bank at the moment of default.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

### (i) Financial assets carried at amortised cost

The Group first assesses individually for significant loans and held-to-maturity securities whether objective evidence of impairment exists. If no objective evidence of impairment exists for an individually assessed financial asset, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset also reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Impairment losses on financial assets carried at amortised cost are recognised as loss allowance. On the statement of financial position, loss allowances decrease the value of the assets. I.e. the net carrying amount of the financial asset presented in the statement of financial position is the difference between the gross carrying amount and the cumulative loss allowance. This treatment holds for loss allowances for loans and receivables and for incurred but not reported losses (i.e. portfolio allowances) on held-to-maturity financial assets. Reconciliation of changes in these loss allowance accounts is disclosed in the notes. However, individual loss allowances for held to maturity financial assets are treated as direct reduction of the asset carrying amount and therefore reconciliation of changes is not disclosed in the notes.

In the income statement, impairment losses and their reversals are presented in the line item 'Net impairment loss on financial assets'.

Loans together with the associated allowance are removed from the statement of financial position when there is no realistic prospect of future recovery and all collaterals have been realised by the Group.

If in a subsequent year, the amount of the estimated impairment loss increases or decreases the previously recognised impairment loss is increased or reduced by adjusting the loss allowance.

### (ii) Available-for-sale financial assets

In cases of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement. On recognising impairment, any amount of losses retained in the other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss under the line item 'Net impairment loss on financial assets'.

If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement under the line item 'Net impairment loss on financial assets'. Impairment losses and their reversals are recognised directly AGainst the assets on the statement of financial position.

In cases of equity investments classified as available for sale, objective evidence also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose at the Group, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline refers to a market price that is permanently below the acquisition cost for a period of nine months up to the reporting date.

Where there is evidence of impairment on equity investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is shown as an impairment loss in the income statement under the line item 'Net impairment loss on financial assets'. Any amount of losses previously recognised under the other comprehensive income item 'Available for sale reserve' has to be reclassified to the income statement as part of an impairment loss under the line item 'Net impairment loss on financial assets'.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly AGainst the assets on the statement of financial position.

For investment in unquoted equity instruments carried at cost because their fair value cannot be determined reliably the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

### (iii) Contingent liabilities

Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included under the statement of financial position line item 'Provisions'. The related expense or its reversal is reported in the income statement under the line item 'Other operating result'.

### Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Group are specified internally in hedge policy.

#### (i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item 'Net trading and fair value result'. Interest income and expenses on hedging derivatives are reported under the line item 'Net interest income'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading and fair value result' and adjusts the carrying amount of the hedged item.

The Group also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. Currently only interest rate risk from issued bonds is being hedged (i.e. no assets are included as hedged items). The change in the fair value of the hedged items attributable to the hedged interest risk is presented on the statement of financial position under the line item 'Changes in fair value of portfolio hedged items'. The Group does not make use of the relaxation of hedge accounting requirements provided for portfolio fair value hedges by the EU carve-out.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised to the income statement under the line item 'Net interest income' until maturity of the financial instrument.

#### (ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item 'Net trading and fair value result'. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly 'Net interest income'). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in 'Cash flow hedge reserve' until the transaction occurs.

### Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Leasing

A lease is an AGreement whereby the lessor conveys to the lessee the right to use an asset for an AGreed period of time in return for a payment or series of payments. A finance lease at the Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease AGreements at the Group are classified as operating leases.

#### The Group as a lessor

The lessor in the case of a finance lease reports a receivable from the lessee under the line item 'Loans and receivables to customers' or 'Loans and receivables to credit institutions'. The receivable is equal to the present value of the contractually AGreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement under the line item 'Net interest income'.

In the case of operating leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement under the line item 'Rental income from investment properties & other operating leases'.

Lease AGreements in which the Group is the lessor almost exclusively comprise finance leases.

### The Group as a lessee
As a lessee, the Group has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the income statement on the line item 'Other administrative expenses' on a straight-line basis over the lease term.

## Business combinations and goodwill

### (i) Business combinations
Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement under the line item 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the income statement line item 'Other operating result'.

### (ii) Goodwill and goodwill impairment testing
Goodwill arising on acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and unamortised intangible assets recognised for the CGU at the time of business combination.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. Where available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as AGreed by the management while taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU.

The cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target Tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement under the line item 'Other operating result'. The impairment loss is allocated first to write down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

## Property and equipment
Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item ‘Depreciation and amortisation’ and impairment under the line item ‘Other operating result’.

The estimated useful lives are as follows:

| | Useful life in years |
|---|---|
| Buildings | 15-50 |
| Office furniture and equipment | 4-10 |
| Passenger cars | 4-8 |
| Computer hardware | 4-6 |

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item ‘Other operating result’.

### Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented in the statement of financial position in the line item ‘Investment properties’.

Rental income is recognised in the line ‘Rental income from investment properties and other operating leases’. Depreciation is presented in the income statement in the line item ‘Depreciation and amortisation’ using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised under the income statement line item ‘Other operating result’.

### Property Held for Sale (Inventory)

The Group also invests in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. This property is presented as ‘Other assets’ and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.

The cost of acquiring inventory includes not only the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised to the extent to which they directly relate to the acquisition of real estate.

Sales of these assets/apartments are recognised as revenues under the income statement line item ‘Other operating result’, together with costs of sales and other costs incurred in selling the assets.

### Intangible assets

In addition to goodwill, the Group’s intangible assets include computer software and customer relationships, the brand, the distribution network and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the case of the Group, these are brands, customer relationships and distribution networks, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item ‘Depreciation and amortisation’.

The estimated useful lives of intangible assets are 4 -6 years.

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within the cash-generating unit to which they belong, and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the income statement under the line item ‘Other operating result’.

### Impairment of non-financial assets (property and equipment, investment properties, intangible assets)

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring 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 risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

## Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of their being classified as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the statement of financial position line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the statement of financial position under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. The Group recognises this difference as a provision under the statement of financial position line item 'Provisions'.

## Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39, a financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If the Group is in a position of being a guarantee holder, the financial guarantee is not recorded on the statement of financial position but is taken into consideration as collateral when determining impairment of the guaranteed asset.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. If no premium is received at contract inception, the fair value of a financial guarantee is nil, as this is the price that would be paid to transfer the liability in an orderly transaction between market participants. Subsequent to initial recognition, the financial guarantee contract is reviewed for the possibility that provisioning will be required under IAS 37. Such provisions are presented in the statement of financial position under the line 'Provisions'.

The premium received is recognised in the income statement under the line item 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

## Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. On the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions are reported under the line item 'Other operating result'.

## Taxes

### (i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

### (ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available AGainst which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date. For the subsidiaries, local tax environments apply.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

### Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

### Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders.

### Recognition of income and expenses

Revenue is recognised to the extent that the economic benefits will flow to the entity and the revenue can be reliably measured. The description and revenue recognition criteria of the line items reported in the income statement are as follows:

#### (i) Net interest income

Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in all financial assets categories.

Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all financial liabilities categories. In addition, net interest income includes interest on derivative financial instruments held in the banking book.

#### (ii) Net fee and commission income

The Group earns fee and commission income from a diverse range of services that it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

#### (iii) Dividend income

Dividend income is recognised when the right to receive the payment is established.

This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale. It also contains dividends from subsidiaries and from associates or joint ventures which are not consolidated or not accounted for using the equity method due to their insignificance. Such non-consolidated associates, joint ventures and subsidiaries are presented as 'Other assets'.

#### (iv) Net trading and fair value result

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, for derivative financial instruments held in the trading book, net trading result also contains interest income or expense. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of net trading result as they are reported as 'Net interest income'. It also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses.

Fair value result relates to changes in the clean price of assets and liabilities designated at fair value through profit or loss.

#### (vi) Rental income from investment properties & other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

### (vii) Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include expenses and income for severance payment.

### (viii) Other administrative expenses

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses.

### (ix) Depreciation and amortisation

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

### (x) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

This line item includes selling and other derecognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of net impairment loss.

### (xi) Net impairment loss on financial assets

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the statement of financial position.

### (xii) Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Group's ordinary activities. Furthermore, levies on banking activities are considered as part of other operating result.

Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. Also included here are any impairment losses on goodwill.

In addition, other operating result encompasses the following: expenses for other taxes (including levies on banking activities); income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

## Application of amended and new IFRS/IAS

Following standards, interpretations and their amendments which are relevant for the business of the Group are applicable for the first time in 2014:

- IAS 27 (revised 2011) Separate Financial Statements
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures
- Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
- Amendments to IAS 36 – Recoverable Amounts Disclosures for Non-financial Assets
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guidance
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities
- IFRIC 21 Levies

In comparison with the annual financial statements, there were no other material changes in accounting policies resulting from the new or amended standards.

## 1. Financial liabilities – at fair value through profit or loss

| CZK million | June 2014 | December 2013 |
|---|---|---|
| Deposits from customers | 11,950 | 12,616 |
| Debt securities issued | 1,636 | 1,818 |
| **Financial liabilities – at fair value through profit and loss** | **13,586** | **14,434** |

### Debt securities issued

| CZK million | ISIN | Date of issue | Maturity | Interest rate | June 2014 | December 2013 |
|---|---|---|---|---|---|---|
| Bonds | CZ0003702284 | February 2010 | February 2014 | x) | – | 140 |
| Bonds | CZ0003702474 | October 2010 | November 2014 | x) | 839 | 853 |
| Bonds | CZ0003702516 | December 2010 | January 2015 | x) | 797 | 825 |
| **Bonds issued** | | | | | **1,636** | **1,818** |

x) Bonds bear no interest, yield is determined as the difference between the rate of issue and the bond value payable at its final maturity date.

## 2. Financial liabilities measured at amortised costs

### Debt securities issued – Bonds

| CZK million | ISIN | Date of issue | Maturity | Interest rate | June 2014 | December 2013 |
|---|---|---|---|---|---|---|
| Mortgage bonds | CZ0002000623 | October 2005 | October 2015 | 4.75% | 5,071 | 4,953 |
| Mortgage bonds | CZ0002000755 | February 2006 | February 2016 | 4.80% | 4,506 | 4,625 |
| Mortgage bonds | CZ0002000904 | October 2006 | October 2014 | 3.65% | 1,070 | 1,044 |
| Mortgage bonds | CZ0002001068 | June 2007 | October 2015 | 4.50% | 777 | 761 |
| Mortgage bonds | CZ0002001084 | July 2007 | July 2014 | floating | 1,507 | 1,517 |
| Mortgage bonds | CZ0002001274 | November 2007 | November 2014 | floating | 520 | 568 |
| Mortgage bonds | CZ0002001282 | November 2007 | November 2017 | 5.90% | 2,044 | 1,998 |
| Mortgage bonds | CZ0002001415 | November 2007 | November 2023 | 6.15% | 477 | 481 |
| Mortgage bonds | CZ0002001423 | December 2007 | December 2017 | 5.85% | 5,100 | 5,095 |
| Mortgage bonds | CZ0002001647 | December 2007 | December 2017 | 3.90% | 978 | 974 |
| Mortgage bonds | CZ0002001654 | December 2007 | December 2022 | floating | 134 | 179 |
| Mortgage bonds | CZ0002002165 | November 2009 | November 2014 | 3.55% | 617 | 615 |
| Mortgage bonds | CZ0002002306 | April 2011 | April 2015 | 0.30% | 120 | 124 |
| Mortgage bonds | CZ0002002330 | June 2011 | June 2016 | 0.30% | 41 | 41 |
| Mortgage bonds | CZ0002002744 | December 2012 | December 2021 | 2.75% | 22 | 18 |
| Mortgage bonds | CZ0002002751 | December 2012 | June 2023 | 3.25% | 123 | 125 |
| Mortgage bonds | CZ0002002769 | December 2012 | December 2016 | 1.50% | 53 | 53 |
| Mortgage bonds | CZ0002002777 | December 2012 | June 2018 | 1.75% | 42 | 40 |
| Mortgage bonds | CZ0002002785 | December 2012 | December 2019 | 2.50% | 74 | 55 |
| Bonds | CZ0003701054 | September 2005 | September 2017 | [x]) | 267 | 262 |
| Bonds | CZ0003702011 | July 2009 | January 2014 | [xx]) | – | 623 |
| Bonds | CZ0003702037 | October 2009 | October 2016 | [xx]) | 534 | 521 |
| Bonds | CZ0003702078 | November 2009 | November 2016 | [xx]) | 547 | 563 |
| Depository bills of exchange | | | | | – | 1 |
| Cumulative change in carrying amount due to fair value hedging | | | | | 1,291 | 1,314 |
| **Bonds issued** | | | | | **25,915** | **26,550** |

[x]) Bonds were issued with a combined yield.

[xx]) Bonds bear no interest, yield is determined as the difference between the rate of issue and the bond value payable at its final maturity date.

### Debt securities issued – Subordinated debt

| CZK million ISIN | Date of issue | Maturity | Interest rate | Nominal value | June 2014 | December 2013 |
|---|---|---|---|---|---|---|
| CZ0003701906 | 12 March 2009 | 12 March 2019 | 5% p.a. | 2,000 | – | 1,784 |
| CZ0003702342 | 24 March 2010 | 24 March 2020 | 6M PRIBOR+0.40% | 1,000 | 267 | 312 |
| **Subordinated debt** | | | | | **267** | **2,096** |

ISIN CZ0003701906 issue of subordinated debt was made in certificate form with option for premature repayment. The Bank exercised its option in March 2014 and repaid the debt after a lapse of 5 years.

## 3. Contingent assets and liabilities

| CZK million | June 2014 | December 2013 |
|---|---|---|
| Amounts owed under guarantees and letters of credit | 21,237 | 21,975 |
| Undrawn loan commitments | 73,245 | 75,248 |

### Contingent liabilities – litigations

There have not been any material changes since year-end 2013 in the assessment of the influence of the outcome of the litigation cases in which Česká spořitelna, a. s. and some of its subsidiaries are involved with respect of the financial and/or earnings situation of the Group.

## 4. Cash and cash equivalents

| CZK million | June 2014 | December 2013 |
|---|---|---|
| Cash | 18,298 | 20,631 |
| Nostro accounts with the CNB | 1,738 | 569 |
| Overnight deposits with the CNB | 40,000 | 47,072 |
| Treasury bills and treasury bonds with maturity of less than three months | 10,763 | 27,163 |
| Nostro accounts with financial institutions | 2,130 | 2,070 |
| Loro accounts with financial institutions | (2,292) | (1,514) |
| **Cash and cash equivalents** | **70,637** | **95,991** |

## 5. Fair value of financial instruments

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

| June 2014<br>CZK million | Carrying value | Estimated fair value | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | |
| Loans and receivables to credit institutions | 49,311 | – | – | 49,315 |
| Loans and receivables to customers | 489,483 | – | – | 489,518 |
| Financial assets – held to maturity | 144,013 | 128,470 | 35,964 | – |
| Investment properties | 8,208 | – | – | 8,529 |
| **Financial liabilities** | | | | |
| Deposits from banks | 61,971 | – | – | 63,224 |
| Deposits from customers | 661,608 | – | – | 674,988 |
| Debt securities issued | 25,915 | – | 27,778 | – |
| Other financial liabilities – Subordinated debt | 267 | – | 286 | – |

| December 2013<br>CZK million | Carrying value | Estimated fair value | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | |
| Loans and receivables to credit institutions | 75,348 | – | – | 71,854 |
| Loans and receivables to customers | 489,194 | – | 202 | 467,452 |
| Financial assets – held to maturity | 154,720 | 136,950 | 22,119 | – |
| Investment properties | 8,330 | – | – | 8,634 |
| **Financial liabilities** | | | | |
| Deposits from banks | 73,036 | – | – | 70,887 |
| Deposits from customers | 713,977 | – | – | 696,564 |
| Debt securities issued | 26,550 | – | 28,940 | – |
| Other financial liabilities – Subordinated debt | 2,096 | – | 2,285 | – |

Classes of assets and liabilities for which the carrying amount approximates fair value are not shown in the table (cash, payables and receivables from securities trading, various receivables, payables from the loyalty programme, various creditors, payables and receivables from factoring, payables from payment transactions, other payables).

## 6. Fair value hierarchy

The table below details the methods used to determine the fair value with respect to levels of fair value hierarchy.

| CZK million | Quoted market prices in active markets (Level 1) | | Marked to model based on observable market data (Level 2) | | Marked to model based on non-observable inputs (Level 3) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **Jun 2014** | **Dec 2013** | **Jun 2014** | **Dec 2013** | **Jun 2014** | **Dec 2013** | **Jun 2014** | **Dec 2013** |
| **Assets** | | | | | | | | |
| Financial assets – held for trading | 2,537 | 3,394 | 26,896 | 44,324 | – | – | 29,433 | 47,718 |
| Derivatives | – | 88 | 16,575 | 21,080 | – | – | 16,575 | 21,168 |
| Other trading assets | 2,537 | 3,306 | 10,321 | 23,244 | – | – | 12,858 | 26,550 |
| Financial assets – at fair value through profit or loss | 594 | 1,240 | 2,247 | 2,874 | 126 | 109 | 2,967 | 4,223 |
| Financial assets – available for sale | 57,032 | 53,814 | 23,872 | 28,150 | 394 | 331 | 81,298 | 82,295 |
| Derivatives – hedge accounting | – | – | 1,088 | 945 | – | – | 1,088 | 945 |
| **Total assets** | **60,163** | **58,448** | **54,103** | **76,293** | **520** | **440** | **114,786** | **135,181** |
| **Liabilities** | | | | | | | | |
| Financial liabilities – held for trading | 17 | – | 18,409 | 24,024 | – | – | 18,426 | 24,024 |
| Derivatives | – | – | 18,409 | 24,024 | – | – | 18,409 | 24,024 |
| Other trading liabilities | 17 | – | – | – | – | – | 17 | – |
| Financial liabilities – at fair value through profit or loss | – | – | 13,586 | 14,434 | – | | 13,586 | 14,434 |
| Deposits from customers | – | – | 11,950 | 12,616 | – | – | 11,950 | 12,616 |
| Debt securities issued | – | – | 1,636 | 1,818 | – | – | 1,636 | 1,818 |
| Derivatives – hedge accounting | – | – | 486 | 422 | – | – | 486 | 422 |
| **Total liabilities** | **17** | **–** | **32,481** | **38,880** | **–** | **–** | **32,498** | **38,880** |

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

### Changes in volumes of Level 1 and Level 2

The amount of securities that have been reclassified from Level 1 to Level 2 in the first half of 2014 (due to changed market activity and change of number of price contributors) was CZK 2.2 billion.

### Movements in Level 3 of financial instruments measured at fair value

The following table shows the development of fair value of securities for which valuation models are based on non-observable inputs.

| CZK million | As of | Gain/ loss in profit or loss | Gain/ loss in other compre-hensive income | Purchases | Sales/ redemption | Transfer out of Level 3 | Currency translation | As of |
|---|---|---|---|---|---|---|---|---|
| | **December 2013** | | | | | | | **June 2014** |
| **Assets** | | | | | | | | |
| Financial assets – at fair value through profit or loss | 109 | 6 | – | 11 | – | – | – | 126 |
| Financial assets – available-for-sale | 331 | – | 74 | 2 | (16) | – | 3 | 394 |
| **Total assets** | **440** | **6** | **74** | **13** | **(16)** | **–** | **3** | **520** |
| | **December 2012** | | | | | | | **December 2013** |
| **Assets** | | | | | | | | |
| Financial assets – at fair value through profit or loss | 110 | (13) | – | 12 | – | – | – | 109 |
| Financial assets – available-for-sale | 226 | | 16 | 109 | – | (20) | – | 331 |
| **Total assets** | **336** | **(13)** | **16** | **121** | **–** | **(20)** | **–** | **440** |

There have been no material reclassifications of securities in or out of Level 3 in the first half of 2014.

Gains or losses on Level 3 instruments held at the reporting period's end and which are included in profit and loss are as follow:

| CZK million | Gain/loss in profit or loss | |
|---|---|---|
| | **1–6 2014** | **1-12 13** |
| **Assets** | | |
| Financial assets – at fair value through profit or loss | 6 | (13) |

## 7. Segment reporting

The Group structure of segment reporting is in line with that of Erste Group Bank and has been divided into the following segments:
- Retail;
- Corporate Clientele;
- Real Estate ('RE');
- Asset and Liability Management ('ALM');
- Large corporate ('LC');
- Group Markets ('GM');
- Corporate Center; and
- Free Capital.

For segment reporting the rules used in the Group's management report apply. The report is prepared monthly for the Board of Directors as well as for the Erste Group Bank Board of Directors. The report is reconciled to the monthly reporting package and the same segments used in the Group's controlling report are used for Erste Group Bank segment reporting.

Retail, Corporate Clientele, RE, ALM and the Corporate Center form the main activities of Česká spořitelna's finance group for which it is primarily responsible. Fully consolidated subsidiaries are allocated to the respective segments in the segment report (see the definitions below).

### Retail
The retail segment comprises branch networks within which the Bank sells products to citizens, traders, entrepreneurs and micro-businesses. In addition, the retail segment contains the capital results of the subsidiaries Stavební spořitelna České spořitelny, a. s., ČSPS, ČS do domu, a.s, and Věrnostní program iBod, a. s..

Retail provides services to their clients through the branch network, external sales channels and indirect banking. The product range is very broad: from lending products to assets under management. In order to better understand the retail clients (understanding their opportunities and meeting their needs) they are differentiated into the following subsegments:
- Mass market;
- Mass affluent;
- Erste Premier;
- MSE; and
- Municipality.

### Corporate Clientele
The segment of corporate clients comprises:
- SME Segment – Clients with an annual turnover of between CZK 30 million and CZK 1,000 million, where service is provided by 13 Regional Corporate Centers and headquarters in Prague;
- Non-profit sector – Clients from non-governmental organizations (organizations that are neither part of the government nor conventional profit generating businesses) such as foundations, political parties, churches, trade unions. Service is provided from the headquarters in Prague; and
- Public sector – Governmental (mainly state branches, counties, statutory towns, health insurance funds, state funds, public universities and cities). Service is provided from the headquarters in Prague and by the Regional Corporate Centres (for cities, public universities and health care organizations).

In addition, the segment contains the capital results of the subsidiaries s Autoleasing, a. s., s Autoleasing SK, s. r. o., Factoring České spořitelny, a. s., Erste Leasing, a. s. and REICO investiční společnost České spořitelny, a. s.

### Real Estate
The real estate segment covers commercial property projects financed by Česká spořitelna´s finance group.

### Asset and Liability Management (ALM)
The Asset and Liability Management Section is responsible for the management of the statement of financial position structure (banking book) taking into account market conditions in order to monitor the Group's liquidity position and to secure a high return from capital. ALM also monitors the transformation margin that arose as a result of the mismatch in the statement of financial position from a time and currency perspective. The transformation margin, as well as ALM's own activities (financial assets held-to-maturity, financial assets available-for-sale, financial assets designated upon initial recognition as at fair value through profit or loss on the asset side and bonds issued on the liability side) are the main parts of this segment/section.

### Large corporate
Segment comprises international and biggest domestic companies.

### Group Markets
The group markets segment is responsible for trading in foreign exchange and interest rate products, as well as in securities for all customer groups. Moreover, it is tasked to design and develop products that cater to market demand in core markets. GM comprises the divisionalised business units such as Treasury Trading and Treasury Sales (retail, corporate and institutional transactions).

### Corporate Center
The Corporate Center segment includes the positions and items that cannot be directly allocated to a business segment.

### Free capital
Free capital does not represent a segment, but the difference between total equity and allocated capital.

## Business segments (1)

| CZK million | Retail | | Corporate clientele | | Real estate | | ALM | | Corporate Center | | Core Bank | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **1–6 2014** | **1–6 2013** | **1–6 2014** | **1–6 2013** | **1–6 2014** | **1–6 2013** | **1–6 2014** | **1–6 2013** | **1–6 2014** | **1–6 2013** | **1–6 2014** | **1–6 2013** |
| Net interest income | 9,350 | 8,922 | 1,770 | 1,647 | 349 | 251 | 842 | 1,678 | (71) | 136 | 12,240 | 12,634 |
| Net fee and commission income | 4,853 | 5,052 | 614 | 564 | 42 | 5 | (168) | (113) | (32) | (88) | 5,309 | 5,420 |
| Dividend income | – | – | 3 | 2 | – | – | – | – | 43 | 43 | 46 | 45 |
| Net trading and fair value result | 210 | 175 | 121 | 129 | 4 | 5 | 15 | (156) | (20) | 289 | 330 | 442 |
| Rental income from investment properties & other operating leases | 4 | 4 | – | – | – | – | – | – | 409 | 426 | 413 | 430 |
| General administrative expenses | (7,064) | (7,498) | (973) | (990) | (57) | (49) | (41) | (41) | (477) | (448) | (8,612) | (9,026) |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | – | – | 91 | 134 | – | – | 1 | – | 46 | 16 | 138 | 150 |
| Net impairment loss on financial assets not measured at fair value through profit or loss | (1,329) | (1,388) | (206) | (342) | (191) | (130) | – | – | (131) | 55 | (1,857) | (1,805) |
| Other operating result | 72 | 105 | (58) | (31) | – | 7 | (22) | 51 | (4) | 239 | (12) | 371 |
| **Pre-tax result from continuing operations** | **6,096** | **5,372** | **1,362** | **1,113** | **147** | **89** | **627** | **1,419** | **(237)** | **668** | **7,995** | **8,661** |
| Taxes on income | (1,134) | (996) | (269) | (221) | (28) | (17) | (101) | (233) | (44) | (269) | (1,576) | (1,736) |
| Post-tax result from continuing operations | 4,962 | 4,376 | 1,093 | 892 | 119 | 72 | 526 | 1,186 | (281) | 399 | 6,419 | 6,925 |
| **Net result for the period** | **4,962** | **4,376** | **1,093** | **892** | **119** | **72** | **526** | **1,186** | **(281)** | **399** | **6,419** | **6,925** |
| Net result attributable to non-controlling interests | (16) | (15) | – | – | – | – | – | – | – | 24 | (16) | 9 |
| **Net result attributable to owners of the parent** | **4,946** | **4,361** | **1,093** | **892** | **119** | **72** | **526** | **1,186** | **(281)** | **423** | **6,403** | **6,934** |
| | | | | | | | | | | | | |
| Operating income | 14,417 | 14,153 | 2,508 | 2,342 | 395 | 261 | 690 | 1,409 | 329 | 806 | 18,338 | 18,971 |
| Operating expenses | (7,064) | (7,498) | (973) | (990) | (57) | (49) | (41) | (41) | (477) | (449) | (8,612) | (9,026) |
| **Operating result** | **7,353** | **6,655** | **1,535** | **1,352** | **338** | **212** | **649** | **1,368** | **(148)** | **357** | **9,726** | **9,945** |
| | | | | | | | | | | | | |
| Risk-weighted assets (credit risk, eop) | 128,570 | 138,028 | 123,796 | 131,542 | 29,804 | 21,185 | 2,112 | 2,153 | 25,555 | 37,293 | 309,838 | 330,202 |
| Average allocated capital | 13,796 | 17,875 | 11,125 | 13,437 | 2,388 | 2,150 | 3,372 | 7,378 | 3,711 | 3,914 | 34,393 | 44,755 |
| | | | | | | | | | | | | |
| Cost/income ratio | 49.0% | 53.0% | 38.8% | 42.3% | 14.4% | 18.8% | 5.9% | 2.9% | 145.2% | 55.7% | 47.0% | 47.6% |
| Return on allocated capital | 71.7% | 48.8% | 19.6% | 13.3% | 10.0% | 6.7% | 31.2% | 32.1% | (15.1%) | 21.6% | 37.2% | 31.0% |
| | | | | | | | | | | | | |
| Total assets (eop) | 378,658 | 423,021 | 142,384 | 141,827 | 30,582 | 30,359 | 241,178 | 256,345 | (15,283) | (16,956) | 777,518 | 834,596 |
| Total liabilities excluding equity (eop) | 574,086 | 600,110 | 78,647 | 73,847 | 3,025 | 3,458 | 105,432 | 107,251 | (30,823) | (12,862) | 730,367 | 771,803 |

## Business segments (2)

| CZK million | Large corporate | | GM | | Free Capital | | Total group | |
|---|---|---|---|---|---|---|---|---|
| | **1–6 2014** | **1–6 2013** | **1–6 2014** | **1–6 2013** | **1–6 2014** | **1–6 2013** | **1–6 2014** | **1–6 2013** |
| Net interest income | 376 | 365 | 80 | 206 | 608 | 477 | 13,305 | 13,681 |
| Net fee and commission income | 230 | 239 | 16 | 66 | – | – | 5,555 | 5,725 |
| Dividend income | – | – | – | – | – | – | 46 | 45 |
| Net trading and fair value result | 17 | 39 | 848 | 609 | – | – | 1,195 | 1,090 |
| Rental income from investment properties & other operating leases | – | – | – | – | – | – | 412 | 430 |
| General administrative expenses | (174) | (162) | (259) | (272) | – | – | (9,045) | (9,461) |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | – | – | (2) | 1 | – | – | 136 | 151 |
| Net impairment loss on financial assets not measured at fair value through profit or loss | (60) | (201) | – | – | – | – | (1,917) | (2,005) |
| Other operating result | 19 | 12 | 3 | 129 | – | – | 10 | 514 |
| **Pre-tax result from continuing operations** | **408** | **292** | **686** | **739** | **608** | **477** | **9,697** | **10,170** |
| Taxes on income | (77) | (59) | (131) | (140) | (116) | (90) | (1,898) | (2,026) |
| Post-tax result from continuing operations | 331 | 233 | 555 | 599 | 492 | 387 | 7,799 | 8,144 |
| **Net result for the period** | **331** | **233** | **555** | **599** | **492** | **387** | **7,799** | **8,144** |
| Net result attributable to non-controlling interests | – | – | – | – | – | – | 17 | (9) |
| Net result attributable to owners of the parent | 331 | 233 | 555 | 599 | 492 | 387 | 7,782 | 8,153 |
| | | | | | | | | |
| Operating income | 623 | 643 | 944 | 881 | 608 | 477 | 20,513 | 20,971 |
| Operating expenses | (174) | (162) | (259) | (272) | – | – | (9,045) | (9,461) |
| **Operating result** | **449** | **481** | **685** | **609** | **608** | **477** | **11,468** | **11,510** |
| | | | | | | | | |
| Risk-weighted assets (credit risk, eop) | 46,103 | 36,287 | 18,379 | 20,010 | – | – | 374,319 | 386,499 |
| Average allocated capital | 3,700 | 3,682 | 2,094 | 2,561 | – | – | 40,187 | 50,997 |
| | | | | | | | | |
| Cost/income ratio | 27,8% | 25,2% | 27,4% | 30,9% | 0,0% | 0,0% | 44,1% | 45,1% |
| Return on allocated capital* | 17.9% | 12.7% | 53.0% | 46.8% | – | – | 15.0% | 17.1% |
| | | | | | | | | |
| Total assets (eop) | 36,167 | 34,008 | 86,647 | 89,575 | – | – | 900,332 | 958,178 |
| Total liabilities excluding equity (eop) | 21,405 | 22,977 | 51,740 | 72,464 | (3,249) | (2,299) | 800,264 | 864,946 |

*Return on allocated capital on Total Group level is calculated based on total equity.

The majority of revenue from external customers is generated in the Czech Republic.

## 8. Related party transactions

Related parties involve connected entities or parties that have a special relationship to the Group.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other in making financial or operational decisions. The Group is controlled by Erste Group Bank over which DIE ERSTE österreichische Spar-Casse Privatstiftung ('Erste Stiftung') exercises significant influence. The remaining investment in Erste Group Bank AG is held by minority shareholders and institutional investors via publicly traded shares on the stock exchanges in Vienna, Prague and Bucharest.

The parties that have a special relationship to the Group are considered to be members of the Group's statutory and supervisory bodies and management, legal entities exercising control over the Group (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Group's statutory and supervisory bodies, management, and entities exercising control over the Group, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Group and any other legal entity under their control, members of the CNB's Banking Board, and legal entities which the Group controls.

Pursuant to the definitions outlined above, the categories of the Group's related parties principally comprise Erste Group Bank, members of its Board of Directors and Supervisory Board, and other related parties, which include companies directly or indirectly controlled by Erste Group Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis and were settled exclusively in cash. The interest rates charged to and by related parties are at normal commercial rates. Outstanding balances at the year-end are unsecured.

Guarantees received represent payment guarantees related to the Bank's credit exposures. Issued guarantees relate to amounts owed by the Bank's subsidiaries to financial institutions outside of the Group. They are provided under standard market conditions.

For the period ended 30 June 2014 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (30 June 2013: CZK 0).

| CZK million | Erste Group Bank | | Other | |
|---|---|---|---|---|
| | 1–6 2014 | 1–6 2013 | 1–6 2014 | 1–6 2013 |
| Financial assets – held for trading | 4,871 | 3,138 | 446 | 180 |
| Loans and receivables to credit institutions | 28,550 | 26,982 | 2,007 | 1,590 |
| Loans and receivables to customers | – | – | 217 | 236 |
| Other assets | 401 | 3 | 52 | 62 |
| **Total assets** | **33,822** | **30,123** | **2,722** | **2,068** |
| Financial liabilities – held for trading | 4,926 | 4,760 | – | – |
| Financial liabilities measured at amortised cost | 17,887 | 14,071 | 1,395 | 1,300 |
| Deposits from banks | 17,887 | 14,071 | 850 | 503 |
| Deposits from customers | – | – | 545 | 797 |
| Other liabilities | – | – | 16 | 16 |
| **Total liabilities** | **22,813** | **18,831** | **1,411** | **1,316** |
| Net interest income | 215 | 205 | 2 | (2) |
| Net fee and commission income | 4 | 14 | 147 | 157 |
| Net trading and fair value result | 1,111 | 951 | 14 | 104 |
| Other administrative expenses | 5 | 13 | 217 | 207 |
| Other operating result | 14 | 11 | 8 | 6 |
| **Total income and expenses** | **1,349** | **1,194** | **388** | **472** |

## 9. Dividends

Shareholders, who attended the Annual General Meeting on 23 April 2014, approved the declaration of dividends in respect of the profit for the year ended 31 December 2013 in the amount of CZK 9,120 million, which represents CZK 60 per both ordinary and preference share (2012: CZK 7,600 million, that is, CZK 50 per both ordinary and preference share). Dividends were payable as at 1 June 2014. Dividends paid to shareholders are subject to withholding tax of 15% or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of a European Union member country and whose interest in a subsidiary's share capital is no less than 10% and that hold the entity's shares for at least one year are not subject to withholding tax.

## 10. Events after the reporting date

There are no significant events after the balance sheet date.

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