

Half-Year Report 2015

International Financial Reporting Standards
Consolidated & Unaudited

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Macroeconomic Development of the Czech Republic

in the First Half of 2015

The pace of growth of the Czech economy picked up in the first half of this year. This was reflected in favorable development in the labor market and a gradual rise in inflationary pressures from the domestic economy. Due to improved economic activity in the Eurozone, the exchange rate of the Czech koruna grew significantly closer to the level of the Czech National Bank's exchange rate commitment of CZK 27/EUR.

In the first quarter of 2015, the Czech economy grew by 4%; this trend was influenced by cyclical and non-cyclical factors. Among the former factors, both domestic and foreign demand had a positive impact on the economy. Increased household consumption resulted from falling unemployment and real wage growth, which subsequently boosted consumer confidence and household expectations regarding future economic developments. Higher foreign demand contributed to an increase in the volume of exports and private investments. Growth in gross domestic product (GDP) was also positively affected by government consumption. In addition to these factors, GDP this year will also be strongly supported by government investments stemming from the need to draw the remaining subsidies from EU funds, the amount of which was additionally enhanced by the mild winter at the beginning of the year.

In early 2015, the inflation rate was only slightly above zero, resulting primarily from low economic activity abroad that caused importing of anti-inflationary pressures into the Czech economy and affected energy and food prices. Also, the relatively moderate growth in nominal wages did not push for faster price increases. In the second quarter of 2015, the inflation rate began to grow to 0.8% as recorded in June. Besides the positive contribution of indirect taxes and regulated prices, domestic inflationary pressures reflecting growth in demand in the Czech economy also accelerate

inflation growth. Fuel prices continue to push down inflation, but their negative impact has been dwindling. The monetary policy driven inflation, targeted by the Czech National Bank, reached 0.6% in June.

The trend in the labor market reflects solid economic growth, resulting in a declining unemployment rate and wage growth. Although nominal wage growth has been moderate due to the current stage of the economic cycle in the Czech Republic, real wages have been climbing as a result of low inflation, boosting household consumption.

In contrast to the situation at the end of 2014, there has been a shift in the Eurozone toward faster GDP and inflation growth rates. This, along with a favorable impact on Czech economy growth, is also reflected in the pressure to strengthen the koruna exchange rate, backed by relatively large surpluses on the balance of payments current account. The aforementioned pressure contributed to the near convergence of the exchange rate of the koruna against the euro with the current level of the exchange rate commitment at CZK 27/EUR, which CNB is prepared to maintain through interventions in the foreign exchange market. Interest rates in the Czech economy remained low in the first half of 2015 in conjunction with CNB's low rates.

After dropping to all-time lows, yields of Czech government bonds began to climb again in April. This trend follows yields of German bonds in particular, which in the same period responded positively to the boost in economic activity in the Eurozone and increasingly favorable expectations about its future economic development. Programs of the European Central Bank contributed to the upturn as well.

Česká spořitelna's Consolidated Results of Operations

for the Six Months Ended 30 June 2015

Income statement

For the six months ended 30 June 2015, Česká spořitelna posted an unaudited consolidated net profit after non-controlling interests of CZK 7.3 billion under International Financial Reporting Standards, accounting for a 5.9% decline compared to the first half of 2014. The drop in profit was primarily impacted by a new regulatory obligation to recognize an estimate of the annual statutory contribution to the Resolution Fund (a joint fund for resolving banking crises) in the amount of CZK 444 million. With regard to the profit decrease and due to a capital increase, the return on equity ratio (ROE) dropped from 15.0% to 13.3%. The return on assets ratio (ROA) fell to 1.6% from 1.7%.

Operating profit, calculated as the difference between operating income and expenses, declined by 5.3% to CZK 10.9 billion, compared to the previous half-year. Operating income, including net interest income, net fee and commission income, dividend income, net trading income and rental property investment income, amounted to CZK 19.9 billion for the first half of 2015, representing a year-on-year drop of 2.8%. However, **the Bank recorded growth in revenues in the second quarter, when net interest income and income from fees and commissions increased compared to the first quarter.** The proportion of non-interest income to operating income remained unchanged at 35.1%. Operating expenses were also stable, amounting to CZK 9.1 billion.

Positive growth in the volume of customer loans did not suffice to curb an ongoing decline in interest rates that once again fell to an all-time low. Continuously maturing assets with higher interest income contributed to the low figures. **The rate reduction resulted in another drop in net interest margin on interest-earning assets**, which fell to 3.34% from 3.55% recorded in the same period last year. Compared to the first quarter, net interest margin rose moderately. Under the aforementioned conditions, Česká spořitelna's net interest income fell by 2.8% to CZK 12.9 billion.

Net income from fees and commissions, as another essential component of operating income, totaled CZK 5.6 billion, a decrease of 7.9% compared to the first half of 2014. All revenues declined with the exception of margin income from securities transactions, including asset management and custody services. **These transactions grew in conjunction with a shift in customer demand from low-interest deposits to investment products**, in particular the popular mutual funds of Investiční společnost ČS. The year-on-year decline resulted also from falling prices of financial

services as customers increasingly opt for cheaper types of services and discounted programs and products. In addition, income from fees was adversely affected by new regulations of the European Union related to profit margins of card transactions.

Net trading income and income from assets measured at fair value significantly increased by 20.1% year-on-year to CZK 1.4 billion. In particular, income from derivative transactions climbed substantially. Change in the methodology of determining fair value of derivatives also had a positive one-off effect. Conversely, income from securities and foreign exchange transactions decreased.

General administrative costs remained stable, increasing only slightly by 0.4% year-on-year to CZK 9.1 billion. Costs of information technology and advertising and marketing rose most significantly. **Conversely, the Bank succeeded in cutting expenses for office space, consumption of materials and depreciation and amortization charges related to tangible and intangible assets.** An increase in personnel costs pertained mainly to employee benefits. **The administrative costs included a contribution to the Deposit Insurance Fund in the amount of CZK 486 million**, which in comparison with the first half of 2014 climbed by 3.7% due to an increased volume of insured deposits.

Net income from financial assets and liabilities not recognized at fair value through profit or loss rose by 5.1%, primarily due to higher realized gains on bonds in the portfolio of securities available-for-sale.

Net impairment losses on financial assets not recognized at fair value through profit or loss (i.e. the balance of recognized allowances against balance sheet credit risks) amounted to CZK 1.4 billion, which represents an increase of 27.5% compared to the same period in 2014. Risk expenses declined in line with a significant improvement in the quality of the loan portfolio, in addition to successful recovery of some receivables in the corporate segment.

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, depreciation of tangible assets, etc. A new item is an estimate of the annual statutory contribution to the Resolution Fund (a joint fund for resolving banking crises) in the amount of CZK 444 million. The contribution is stipulated by an EU regulation.

Statement of financial position

Compared to the first half of 2014, the Bank's total assets grew by 2.6% to 923.5 billion. There were structural changes to the assets as well. **The volume of lending to customers and the volume of bonds in the portfolio of available-for-sale and held-to-maturity financial assets increased.** The volume of inter-bank receivables and the portfolio of held-for-trading financial assets decreased. **On the liability side, the volume of client deposits and equity rose.** Conversely, the volume of financial liabilities measured at fair value and the volume of issued securities fell.

The expanding Czech economy and Česká spořitelna's active approach contributed to a year-on-year 4.3% increase in the aggregate net portfolio of client loans to CZK 510.8 billion. **The segments contributing to the increase in lending business, representing CZK 21.3 billion, comprised mortgage loans, loans to large corporate clientele and a growing volume of lending for commercial real estate.**

The net portfolio of loans to households increased by 4.8% year-on-year to CZK 291.8 billion. However, different types of retail loans reflect varying trends; whereas mortgage loans showed impressive growth, the volume of new consumer loans still grew at a slower pace than loan repayment.

The gross **portfolio of mortgage loans to individuals increased by a significant 9.7% year-on-year to CZK 175.8 billion.** 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. **During the Mortgage Days campaign, Česká spořitelna introduced a free mortgage (Svobodná hypotéka),** allowing clients flexibility in setting the terms of the loan and its repayment, in addition to a guaranteed interest rate of 1.99% per annum with a long-term fixation for 8 years and other benefits. The average maturity of mortgage loans across the portfolio is 23.2 years and the residual maturity is 19 years. **An important indicator of the average loan value to the property value (loan to value ratio) shows a comfortable ratio of 64.5%.**

Consumer loans, including credit card loans and overdraft facilities, fell by 4.6% year-on-year to CZK 64.6 billion. Construction savings loans declined compared to the first half of 2014 by 4.9% to CZK 35.3 billion. Lower demand for construction savings loans resulted from low interest rates of mortgage loans as their substitute product.

Net loans to corporate entities rose year-on-year by 2.8% to CZK 196.5 billion. **The bulk of the loans went to large corporate clients and small businesses and loans for commercial real estate,** especially in the segments of logistics parks and shopping centers. Both lease companies of the ČS financial group also

did well in lending. The total net volume of lending to public sector clients rose significantly by 13.7% to CZK 22.4 billion.

The indicator of the proportion of net client loans to client deposits (including deposits measured at fair value) represents 74.0%, compared to 72.7% reported as at 30 June 2014. **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 at 4.2% as at 30 June 2015. In the same period last year, the indicator stood at 4.6%. The proportion of impairment allowances to loans in default remained unchanged at a high level of 81% and, including collateral, this indicator stands at 118%.

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 259.5 billion as at 30 June 2015, representing an increase of 7.6% compared to 30 June 2014. **Almost the entire securities portfolio comprises bonds, in particular government bonds,** while shares and other financial assets account for 1.4% of the total volume.

Compared to the balance as at 30 June 2014, the aggregate balance of tangible and intangible fixed assets decreased by 2.2% to CZK 16.5 billion. Tangible assets totaled CZK 13.1 billion, of which land and buildings accounted for 88.9%. Intangible assets amounted to CZK 3.4 billion.

Available-for-sale assets include the upcoming sale of Trenčín Retail Park, a.s. from the portfolio of real estate funds of the consolidated Česká spořitelna Group.

Amounts due to customers, including deposits measured at fair value, climbed by 2.5% year-on-year to CZK 690.5 billion. **Household deposits increased by 3.4% to a total of CZK 522.0 billion.** Principal additions were specifically related to Private Account and Personal Account deposits. Savings products, in particular ČS Savings and Premier Savings Account, were also in demand. In contrast, construction savings deposits declined as a result of termination of contracts where the target amount of savings was exceeded. Corporate client deposits grew by 2.3% to CZK 106.1 billion. Conversely, public sector deposits fell due to the high volume of loans received within repurchase transactions executed in the first half of 2014.

Amounts due to financial institutions increased by 5.1% to CZK 65.1 billion. This is primarily due to an increase in financial institutions' term deposits. Specific purpose loans received from the European Investment Bank and similar organizations amounted to nearly CZK 30 billion.

Payables from debt securities, including subordinated debt, reported in the consolidated statement of financial position fell by 18.0%

to CZK 22.8 billion, resulting from a decrease in mortgage and other bonds whose issues matured. **The Bank's excellent capital position also facilitated early repayment of the last issue of subordinated debt.**

Equity attributable to equity holders of the parent amounted to CZK 103.1 billion. **Compared to the same period in 2014, equity increased by 3.3%, primarily due to an increase in retained earnings.**

Consolidated capital adequacy Core Tier I under BASEL III rules **reached a comfortably high level** of 19.2% as at 30 June 2015. It stood at 18.6% in mid-2014 under BASEL III. Total Tier I capital under BASEL III used in calculating the capital adequacy ratio amounted to CZK 89.7 billion and total risk exposure amounted to CZK 466.1 billion. As at 30 June 2014, these figures represented CZK 81.9 billion and CZK 439.6 billion, respectively.

Significant Events and Business Operations

in the First Half of 2015

190 Years

On 12 February 2015, Česká spořitelna marked a significant anniversary. 190 years ago its legal predecessor, Savings Treasury for the City of Prague and Bohemia (Schraňovací pokladnice pro hlavní město Prahu a pro Čechy), began its operations. It was founded based on its model – the then Erste Oesterreichisches Spar-Casse in Vienna. In 2000, when Erste Bank became the parent company of Česká spořitelna, the Bank symbolically returned to its roots. To celebrate the anniversary of its founding, Česká spořitelna made a unique commercial. **Today's Česká spořitelna does not forget why it has been here for 190 years and what has always been in the center of its operations – socially responsible activities of the Bank as a whole, its branches in regions and municipalities and their employees.**

A new service My Healthy Finance (Moje zdravé finance) is a clear contemporary reference to the history of Česká spořitelna. The Bank's predecessors provided advisory and care of customers' money that contributed to a higher standard of life of both individuals and families, and to the fulfillment of their small or large wishes. Česká spořitelna's service My Healthy Finance can now help clients better manage their money and reduce their recurring monthly expenses.

My Healthy Finance

In June, Česká spořitelna launched in 19 selected branches a unique service My Healthy Finance (Moje zdravé finance, MZF), envisioning the future of banking advisory. The MZF service allows the Bank to reclaim its original mission of helping clients. **Through the MZF service, Česká spořitelna helps clients better manage their money and, as the only bank in the market, really reduce their regular monthly payments,** such as charges for energies or for telephone services. Česká spořitelna also assists clients in choosing the desired products and services to avoid unnecessary costs on their side. It provides them with the tools to control monthly expenses and reduce monthly loan repayments. In addition, the Bank is also able to provide a financial reserve in the event of unexpected expenses. In this way, Česká spořitelna can teach clients to better manage their money and wisely invest their savings.

General meeting

The shareholders of Česká spořitelna, who attended the Annual General Meeting on 24 April 2015 in Prague, approved

the distribution of 2014 profits and **payment of the gross dividend of CZK 75 per both ordinary and preference share.** The total dividend payment was CZK 11.4 billion. Česká spořitelna posted a non-consolidated profit after taxes in the amount of CZK 14.8 billion for 2014. The remaining profit not distributed as dividends was transferred to retained earnings to strengthen Česká spořitelna's equity position.

Mortgage loans

Česká spořitelna was again successful in the mortgage loan market in the first half of 2015. Customer demand for mortgage loans continued. The already low interest rates further dropped, the situation in the real estate market remained favorable, and Česká spořitelna was again highly active in the mortgage business with the support of professional advisors and regular special offers. As a result, in the first half of 2015 **the volume of new mortgage loans grew by 33% year-on-year.** The total gross volume of the portfolio of mortgage loans provided to individuals increased by 9.7% to 175.8 billion, compared to the first half of 2014.

One of the most popular promotional events is undoubtedly Česká spořitelna's Mortgage Days, which usually run for several weeks twice every six months. **Among mortgage products offering significant benefits is the Bank's free mortgage (Svobodná hypotéka), providing customers with considerable flexibility in setting the terms of the loan and its repayment.** The principal advantage of Svobodná hypotéka is a guaranteed interest rate of 1.99% per annum with a long-term fixation for 8 years. The long-term fixation ensures very low payments of the loan over a long period. Other advantages include change in loan payments allowing for a reduction or an increase in payments of up to 30%; variability of payments allowing for the start of loan repayment after three months, and payment holiday allowing for suspending payments for up to three months. Moving to a larger home grants clients two years to complete the move from the original to the new home, whereas drawing a loan without submitting invoices during construction helps obtain funds quickly, and money for home furnishings provides the needed funds along with the free mortgage.

The current market conditions together with the Bank's other events and services, such as free property appraisals, contribute to the attractiveness of **Česká spořitelna's Svobodná hypotéka.** In addition to its original purpose, i.e. long-term home financing, it also serves as a source of short-term financing, e.g. bridging the gap between buying a new property and selling the existing one when purchasing a new home.

A special offer applies for **refinancing a mortgage loan provided by another bank**, which is a smooth and easy process with Česká spořitelna – it is entirely **paperless**: no unnecessary paperwork, no need for proof of income and property appraisal. When refinancing mortgage loans provided by other banks, clients may also reserve a special interest rate free of charge for up to a year ahead.

Card program

The total number of issued active payment cards amounted to 3.1 million, which is roughly the same figure as in the previous period. Of the total, there were 280,000 credit cards. The volume of lending provided through credit cards totaled CZK 3.7 billion as at 30 June 2015.

The volume of transactions executed by vendors of Česká spořitelna cards from January to June 2015 rose by 8.6% year-on-year to CZK 58.0 billion, of which contactless card transactions accounted for 65%. This figure has doubled, compared to the first half of 2014. The number of transactions totaled in excess of 90 million. Cardholders executed payment transactions amounting to CZK 72.0 billion within the network of retail partners of Česká spořitelna. This figure represents a 4.3% rise year-on-year.

Česká spořitelna currently operates 1,565 ATMs and payment machines, with 19 new machines installed over the last 12 months. From the beginning of 2015, cardholders executed 43.9 million ATM transactions totaling CZK 149.7 billion.

Customers have been increasingly using ATMs for cashless transactions; the use of these services grew year-on-year. In addition to querying account balance, making payments via ATMs or payment machines have grown popular. **In May, bank customers carried out a record number of 330 thousand payments totaling CZK 1.5 billion via Česká spořitelna ATMs.** Making payments via ATMs is the third most frequently used service after cash withdrawals and balance inquiries. Since the introduction of the service in November 2004, clients made in excess of 16 million payments via ATMs totaling more than CZK 61 billion, whereby the average amount of payment has doubled over the last five years. In 2010, Česká spořitelna also began to offer loans via ATMs; the number of loans acquired or increased through ATMs amounted to nearly 200 thousand and their volume exceeded CZK 2.6 billion.

Česká spořitelna's ATMs are equipped to perform many other functions, such as selection of banknote denominations, PIN change, cash deposit, checking the current account balance, making a single or standing payment order, charging mobile phone credit for all operators, card activation, verifying payment card limits, information about impending expiration of the card, checking the number of points in the iBod customer loyalty program, and personal settings or menu of preset single payment orders for certain types of recipients, such as insurance premiums, telecom charges or energy bills.

In the summer, Erste Premier launched a practical innovation for its clients that solves the problem of getting sufficient cash abroad. As of 1 June 2015, cardholders may withdraw cash from all foreign ATMs free of charge. **Holders of Premier debit cards (VISA Infinite and MasterCard World Elite) may withdraw cash free of charge in any country worldwide; the number of withdrawals is unlimited.**

Erste corporate banking

A new agreement signed with the European Investment Fund (EIF) allows Česká spořitelna to provide Czech innovative firms with funding in the amount of approximately CZK 2.8 billion (EUR 100 million) in the next two years. The funding comes complete with EIF guarantees provided within the scope of the Horizon 2020 program (EU Framework Research and Innovation programme). It is one of the first two InnovFin SME guarantees in the Czech Republic from among a total of eight in Europe, allowing Česká spořitelna to allocate additional financing to innovative companies under favorable terms.

Česká spořitelna was a leading co-arranger and agent of acquisition financing totaling EUR 69 million, which enabled the Czech-Slovak Kofola soft drinks manufacturer to carry out the largest acquisition in its history. The Kofola Group completed the purchase of the Slovenian company Radenska, which is the market leader in the production of mineral water in Slovenia. The Kofola Group's product portfolio now includes, in addition to Radenska and the company's flagship drink Kofola, also Rajec mineral water, Ugo fruit and vegetable juices and Semtex energy drink.

Česká spořitelna was one of the two banks providing club financing for an acquisition of Moravia IT by a US private equity fund, Clarion Capital Partners, LLC. Moravia IT was founded as a Czech family company and has grown into one of the global leaders in software and web content localization.

Česká spořitelna provided a loan of CZK 345 million to finance PENAM's strategic investment plan to modernize its main bakery in Rosice. The new investment is intended to foster the company's sustainable competitiveness and its position as a leading bakery in the market.

Profimedia is the largest Czech photo bank granting licenses for the use of over 100 million photos taken by the world's best photographers. Česká spořitelna funded an acquisition of Profimedia by the Genesis Capital fund in 2010 and since then has been its key business partner supporting its activities. In 2015, Česká spořitelna reclaimed its position as a domestic bank in the sale of the company as it provided a senior acquisition loan to a new owner in the amount of CZK 125 million on the one hand, and provided advisory to the Genesis Capital fund for the duration of the sale process on the other hand.

One of the two key managers of a new bond issue of Škoda Transportation was Česká spořitelna, which is also the administrator of the issue. Škoda Transportation is a leading European company in the field of transport engineering. Its products comprise primarily low-floor trams, electric locomotives, suburban commuter trains, metro trains, trolleybuses, as well as traction engines and complete drives for transport systems.

Česká spořitelna provided a multi-currency short-term credit in the amount of CZK 500 million to finance operational needs of T-Mobile Czech Republic a.s. **The new funding deal was closed in connection with signing up of Erste Group Bank as a partner bank of the Deutsche Telekom Group.**

Česká spořitelna provided a loan totaling EUR 1 billion for financing general corporate needs of Pražská energetika, a. s. under exceptionally favorable terms. Pražská energetika ranks among the largest power suppliers in the Czech Republic.

Česká spořitelna was the leading arranger and agent of a bank syndicate that provided operating funding for Pražská plynárenská, a. s., one of the leading energy suppliers. The total credit line provided to the client amounted to CZK 4 billion.

Česká spořitelna was one of the top arrangers participating in a long-term club loan totaling EUR 250 million to finance a strategic investment plan of Duslo, a.s. for the construction of an Ammonia 4 manufacturing facility. The new investment is intended to foster the company's sustainable competitiveness and its position as a leading producer of fertilizers in Europe. The loan is one of the largest transactions executed in the Slovak market in 2015.

Česká spořitelna provided financing in the form of purchase of receivables of ŠKODA ELECTRIC a.s. from Latvia's transit company of the city of Riga, Rigas Satiksme, in the amount of EUR 17.5 million. The receivables ensued from a second delivery of 25 trolleybuses under a five-year framework contract for the export of 125 trolleybuses. The first delivery (25 trolleybuses) was also co-financed by Česká spořitelna. The transaction was insured by Export Guarantee and Insurance Corporation.

Digital banking

Česká spořitelna has launched a new mobile application called My Status (MŮJ STAV) that passively displays the client's balances of all savings products quickly, easily and safely. It was designed to complement the purely transactional application SERVIS 24 Mobile Bank. The new application is intended for operating systems Android 4.0 and iOS 7 and requires an activated SERVIS 24 Internetbanking service. In addition, Česká spořitelna has recently amended its internet banking website SERVIS 24 to include an

option to display a debit card PIN and send a PIN for a new or replacement card.

The SERVIS 24 Mobile Bank application scored high in the survey Mobile Application 2015, ranking third in the Customer Service category and **placing on top among the best banking applications.** The quality of the application was judged by both a jury and the general public, i.e. its direct users. SERVIS 24 Mobile Bank thus reclaimed the top spot it took last year. The objective of the survey was to find the most popular, as well as imaginative and innovative applications for mobile phones and tablets in different categories and support Czech designers. The survey was organized by Internet Info, which operates the server Lupa.cz. More than 180 thousand clients currently use the SERVIS 24 Mobile Bank application.

Retail banking

Since the beginning of 2015, Česká spořitelna's clients have spent in excess of CZK 27.8 billion on retail investment products. Most in demand are mutual funds (more than CZK 18.5 billion), as well as conservative bonds and debt securities (more than CZK 4.7 billion). For example, a new three-year premium debt security SPEKTRUM 1 may appreciate the invested funds by up to 28% with a return of 95% of the nominal value of the security. The premium debt security SPEKTRUM 1 is comprised of 21 stocks of reputable companies traded in the US, Europe and Asia.

In May 2015, Investiční společnost České spořitelny was awarded the title of the Best Investment Company in Central and Eastern Europe for 2015 by The European magazine. Both conservative and dynamic funds boasted attractive yields.

Investiční společnost ČS is a member of the Erste Group, selling its products in the Czech Republic through Česká spořitelna's branch network. The company **specializes in asset management for both the retail customer segment,** where it currently manages 36 mutual funds with a volume of managed assets totaling CZK 77 billion, **and the private and corporate customer segment,** where the volume of managed assets amounts to CZK 120 billion. Part of the customer base includes clients of Česká spořitelna's Erste Private Banking and Erste Premier.

In the spring, Česká spořitelna once again launched a unique campaign, Consolidation with Benefit 5+5, which was first introduced in 2014. The combination of a variety of credit (loans, credit cards, overdrafts) into one is advantageous. Česká spořitelna not only reduces the clients' monthly payments, but also refunds 5% of each payment to a special savings account, where all rewards are appreciated with a 5% interest rate. **This is the first time when merged credit rewards customers' for duly repay-**

ing their debts while appreciating the reward. Other advantages of the campaign include payment holidays, reduction or increase in the monthly payment of up to 50%, change in the monthly payment date, issuance of all documents pertaining to the credit for the clients free of charge, rescission of the contract within 60 days without any penalties.

During May and June, Česká spořitelna prepared for students over 18 years who opened a FRESH account an offer of an unlimited number of cash withdrawals from Česká spořitelna's ATMs and outgoing payments free of charge for two years.

Tomáš Salomon elected new member of the board of directors

On 1 January 2015, the composition of Česká spořitelna's Board of Directors changed as Tomáš Salomon became a new Board member responsible for retail banking. Mr. Salomon joined Česká spořitelna after two years on the Board of Directors of Slovenská spořitelna, where he was also in charge of retail banking. He started his banking career in 1997 at GE Capital Multiservis, where he became Chairman of the Board of Directors and Chief Executive Officer. In 2000, he was responsible for retail banking as a member of GE Capital Bank's Board of Directors. From 2004 to 2007, he was CEO and Chairman of the Board of Directors of Poštová banka in Slovakia. In the period from 2008 to 2012 he focused on private investment projects and initiated a project for creating a platform for making mobile payments in the Czech Republic. He participated in the founding of Mopet CZ, where he held the positions of member of the Board of Directors and CEO. In 2013, he left to join Slovenská spořitelna. Tomáš Salomon is a graduate of the Faculty of Economics of Services and Tourism of University of Economics in Bratislava.

Social activities

Česká spořitelna is the general partner of the Year of Industry and Technical Education, in tandem with the Depositum Bonum Foundation that promotes quality education in technology and science fields. **The project aims to highlight the lack of skilled employees and encourage linking academia and the private sector.**

The Česká spořitelna Foundation awarded the Floccus Prize to organizations and individuals who help people on the margins of society. Some 6,000 voters from the ranks of the general public and Česká spořitelna staff elected the winner. The following award recipients were selected by a professional jury.

Česká spořitelna and University of Economics (VŠE) in Prague have signed an agreement on mutual cooperation for the 13th time. Česká spořitelna also became a sponsor of the

newly opened accelerator center X-PORT. Thanks to the newly established Palacký University Endowment Fund (UPOL), students and university staff will receive financial contributions to outstanding science and research activities.

The Česká spořitelna Foundation distributed CZK 1 million among 31 most successful non-profit projects. In the third year of the Foundation's Grant Program, the Bank's clients could receive up to CZK 70,000 for a non-profit organization with which they collaborate. The Bank also allocated CZK 1 million in the grant program for employees who applied for funding for the non-profit organizations where they volunteer.

The oldest Czech university, **Charles University**, and the oldest bank in the country, **Česká spořitelna**, have decided to team up to support education and science in the Czech Republic. Both organizations **signed a Memorandum of Partnership and Cooperation, in which they expressed their interest in collaborating on the Elixir for Schools project managed by the Depositum Bonum Foundation.** The partners want to support other activities of the Foundation aimed to promote education in general and improve the knowledge of university graduates. Charles University also plans to cooperate with Česká spořitelna on the preparation of financial programs to support innovation in the Czech economy. In addition, Česká spořitelna is a general partner of University of Hradec Králové and collaborates with universities in Brno, Ostrava, Olomouc and Jindřichův Hradec.

Česká spořitelna has become a partner of the Economic Chamber of the Czech Republic. The cooperation will be based primarily on exchange of experience and information about their respective activities with the aim to improve services provided to the business sector and implement joint projects. Both organizations want to cooperate, for example, in popularizing technical education that has been systematically supported by the Depositum Bonum Foundation established by Česká spořitelna. In particular, the partners intend to develop regional projects.

Awards received

Česká spořitelna received from the Ministry of Finance and the General Tax Directorate **an award for a significant contribution to public budgets in corporate income tax for 2014.** Česká spořitelna was the second largest taxpayer in the Czech Republic and, in the long run, has been the largest taxpayer in the banking sector.

Česká spořitelna became the recipient of the Zlatá Koruna (Golden Crown) award for social responsibility, which was a new category in this year's competition. The awards were based on an exclusive survey conducted for Zlatá koruna by Ipsos. The longest-running socially responsible project supported by Česká spořitelna is Domov Palata (Palata Home), a facility caring

for people with impaired sight. More than 120 years ago, the Bank participated in founding the home and has been partnering with it up to this day. During April and May, Česká spořitelna's clients could also help Domov Palata through the Your Card Can Help Too project. For each card payment, Česká spořitelna contributed to the purchase of special adjustable beds for the home. The Bank's contribution amounted to CZK 1,017,655 this year and more than CZK 1 million the previous year.

Facebook awarded Česká spořitelna's marketing campaign, in which the Bank used the social network for direct sale of mortgages, **by placing it on its global website as one of the case studies of international brands**. In this way Facebook highlights the companies that utilize the network in a unique and creative manner.

Česká spořitelna's Anticipated Development in the Second Half of 2015

Česká spořitelna's strategic ambition is to be a key bank for its clients, maintain high-level customer loyalty and, as a result, achieve financial results above the Czech banking market average. Česká spořitelna aspires to sustain and strengthen its top place in the retail segment, surpass the competitors in the corporate segment, and become the main bank in the target segments. In the long term, the Bank wants to become a leading bank for small and medium enterprises and a key bank for large and international corporations.

To achieve this strategic ambition, in 2014 Česká spořitelna adopted an updated strategy "MIDI 17" whose name is made up of the initial letters of four key areas:

- **M**ulti-channel bank,
- **I**ntelligent use of customer data,
- **D**igital transformation of banking transactions,
- **I**ntegration of financial and non-financial services aimed to achieve tangible added value.

In everyday business, the implementation of this strategy entails the development of new technologies for clients and teaching them to use them so that both the Bank and its clients have more time and energy for advisory and seeking the right life solutions. Part of this effort will be better work with a variety of customer data, resulting in a range of tailor-made products and services offered at the right time, in the right place and using the right method.

In line with the ongoing 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 2015.

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 increase moderately. This trend is to result in a stagnation or just a slight increase in the loans to deposits ratio.

In the latter part of the year, the Bank expects a similar trend regarding the principal items of the income statement as in the first half, with the exception of a contribution to the joint fund for resolving banking crises, which has already been recognized as expenses in the first half-year. Net interest income will again be adversely affected primarily by continued low interest rates. Net commission income will be positively influenced by the Bank's increased activity in the segment of loan management and offerings 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, including the European Union's regulatory requirements, will have a negative impact. Benefits ensuing from the implementation of selected Group and local projects, along with the constant focus on cutting operating expenses, will play a significant role in generating projected profits, in addition to an anticipated decline in allowances against credit risks.

Selected Financial Indicators

Key ratios

	30/6/2015	30/6/2014
Return on equity (ROE)	13.3 %	15.0 %
Return on assets (ROA)	1.6 %	1.7 %
Cost/income	45.6 %	44.1 %
Net interest margin in relation to interest-earning assets	3.34 %	3.55 %
Non-interest income / operating income	35.1 %	34.5 %
Loans and advances to customers / amounts owed to customers	74.0 %	72.7 %
Consolidated capital adequacy (BASEL III, Core Tier I)	19.2 %	18.6 %

Selected operating figures

	30/6/2015	30/6/2014
Average headcount of Česká spořitelna Financial Group	10,545	10,474
Total number of clients	4,982,584	5,091,138
Servis 24 and Business 24 direct banking active clients	1,633,851	1,668,303
Number of cards	3,136,494	3,146,490
of which credit cards	281,069	300,699
Number of ATMs and payment machines	1,565	1,546
Number of Česká spořitelna branches	633	644

Net profit after tax of selected subsidiaries of Česká spořitelna under International Financial Reporting Standards (Unaudited)

CZK million	30/6/2015	30/6/2014
Česká spořitelna – penzijní společnost, a. s.	9	(11)
Erste Leasing	37	29
Factoring České spořitelny	1	30
S Autoleasing	57	50
Stavební spořitelna České spořitelny	352	324

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 2015

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

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I. Consolidated Condensed Statement of Comprehensive Income

Income statement

in CZK million	Notes	1–6 2015	1–6 2014
Net interest income	1	12,933	13,305
Net fee and commission income	2	5,115	5,555
Dividend income	3	57	46
Net trading and fair value result	4	1,435	1,195
Rental income from investment properties & other operating leases	5	401	412
Personnel expenses	6	(4,368)	(4,311)
Other administrative expenses	6	(3,645)	(3,582)
Depreciation and amortisation	6	(1,071)	(1,152)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	143	136
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(1,390)	(1,917)
Other operating result	9	(577)	10
Pre-tax result from continuing operations		9,033	9,697
Taxes on income	10	(1,713)	(1,898)
Post-tax result from continuing operations		7,320	7,799
Net result for the period		7,320	7,799
Net result attributable to non-controlling interests		(1)	17
Net result attributable to owners of the parent		7,321	7,782

Statement of comprehensive income

in CZK million	Notes	1–6 2015	1–6 2014
Net result for the period		7,320	7,799
Items that may be reclassified to profit or loss			
Available for sale reserve			
Gain/(loss) during the period		(530)	542
Cash flow hedge reserve			
Gain/(loss) during the period		(223)	117
Currency translation			
Gain/(loss) during the period		(37)	5
Deferred taxes relating to items that may be reclassified			
Gain/(loss) during the period		141	(160)
Total		(649)	504
Total other comprehensive income		6,671	8,303
Total comprehensive income		6,671	8,303
Total comprehensive income attributable to non-controlling interests		(1)	17
Total comprehensive income attributable to owners of the parent		6,672	8,286

II. Consolidated Condensed Statement of Financial Position

in CZK million	Notes	Jun 2015	Dec 2014
Assets			
Cash and cash balances	11	70,975	54,489
Financial assets – held for trading		17,890	23,231
Derivatives	12	14,596	18,740
Other trading assets	13	3,294	4,491
Financial assets – designated at fair value through profit or loss	14	925	1,272
Financial assets – available for sale	15	94,087	99,289
Financial assets – held to maturity	16	161,158	151,513
Loans and receivables to credit institutions	17	34,942	38,533
Loans and receivables to customers	18	510,765	500,039
Derivatives – hedge accounting	19	823	878
Property and equipment		13,081	13,431
Investment properties		5,894	7,342
Intangible assets		3,413	3,593
Current tax assets		969	543
Deferred tax assets		144	159
Non-current assets and disposal groups classified as held for sale		1,634	–
Other assets	20	6,799	8,277
Total assets		923,499	902,589
Liabilities and equity			
Financial liabilities – held for trading		24,985	23,431
Derivatives	12	16,013	20,654
Other trading liabilities	21	8,972	2,777
Financial liabilities – designated at fair value through profit or loss	22	6,467	9,664
Deposits from customers		6,467	8,874
Debt securities issued		–	790
Financial liabilities measured at amortised cost	23	774,850	751,959
Deposits from banks		65,124	54,570
Deposits from customers		683,988	671,565
Debt securities issued		22,811	23,043
Other financial liabilities		2,927	2,781
Derivatives – hedge accounting	19	267	169
Provisions	24	2,885	2,418
Current tax liabilities		104	45
Deferred tax liabilities		310	474
Liabilities associated with disposal groups held for sale		904	–
Other liabilities	25	9,636	6,646
Total equity		103,091	107,783
Equity attributable to non-controlling interests		(27)	(26)
Equity attributable to owners of the parent		103,118	107,809
Total liabilities and equity		923,499	902,589

These interim consolidated financial statements were prepared by the Group and authorized for issue by the Board of Directors on **11 August 2015**.



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

in CZK million	Subscribed capital	Additional paid-in-capital	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency translation	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2014	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
As of 1 January 2015	15,200	11	90,660	26	2,052	(140)	107,809	(26)	107,783
Dividends paid	-	-	(11,400)	-	-	-	(11,400)	-	(11,400)
Transfers among components of Equity	-	-	-	-	-	-	-	-	-
Other changes	-	-	37	-	-	-	37	-	37
Total comprehensive income	-	-	7,321	(183)	(429)	(37)	6,672	(1)	6,671
Net result for the period	-	-	7,321	-	-	-	7,321	(1)	7,320
Other comprehensive income	-	-	-	(183)	(429)	(37)	(649)	-	(649)
As of 30 June 2015	15,200	11	86,618	(157)	1,623	(177)	103,118	(27)	103,091

IV. Consolidated Statement of Cash Flows

in CZK million	Notes	1–6 2015	1–6 2014
Pre-tax result from continuing operations		9,033	9,697
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets		1,593	2,001
Allocation to and release of provisions (including credit risk provisions)		1,241	(1,061)
Gains/(losses) from the sale of assets		(37)	(4)
Change in fair values of derivatives		(568)	(1,104)
Accrued interest, amortisation of discount and premium		553	609
Other adjustments		16	(660)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with the CNB		5,733	2,391
Loans and receivables to credit institutions		3,438	30,073
Loans and receivables to customers		(12,585)	(2,302)
Financial assets – held for trading		1,234	9,037
Financial assets – designated at fair value through profit or loss		369	1,205
Financial assets – available for sale		(1,756)	(4,105)
Other assets from operating activities		(227)	322
Deposits from banks		209	(29,340)
Deposits from customers		11,698	(62,356)
Financial liabilities – held for trading		2,998	26,546
Increase in non-controlling interests		–	(92)
Payments for taxes on income		(2,047)	(2,438)
Other liabilities from operating activities		4,010	4,979
Cash flow from operating activities		24,905	(16,602)
Proceeds of disposal			
Financial assets – held to maturity and associated companies		5,929	11,175
Property and equipment, intangible assets and investment properties		(12)	1,815
Equity investments		–	7
Acquisition of			
Financial assets – held to maturity and associated companies		(13,989)	(10,200)
Property and equipment, intangible assets and investment properties		831	140
Disposal of subsidiaries		–	–
Cash flow from investing activities		(7,241)	2,937
Dividends paid to equity holders of the parent		(11,400)	(9,026)
Dividends paid to non-controlling interests		–	(116)
Other financing activities (mainly changes of subordinated liabilities)		(261)	(1,759)
Proceeds from bonds issued		2,450	1,412
Repurchase of bonds in issue		(2,500)	(2,200)
Cash flow from financing activities		(11,711)	(11,689)
Cash and cash equivalents at beginning of period		32,768	95,991
Cash flow from operating activities		24,905	(16,602)
Cash flow from investing activities		(7,241)	2,937
Cash flow from financing activities		(11,711)	(11,689)
Cash and cash equivalents at end of period	11	38,721	70,637
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(2,047)	(2,438)
Interest received		14,683	15,557
Dividends received		57	46
Interest paid		(754)	(1,406)
Dividends paid to equity holders of the parent		(11,400)	(9,142)

V. Consolidated Condensed Notes to the Group Financial Statements of Česká spořitelna, a. s.

for the Period from 1 January to 30 June 2015

General information

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 bank offering retail, corporate and investment banking services within the Czech Republic.

The Bank's majority shareholder is Erste Group Bank AG ('Erste Group Bank'). 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'), the banking Act and EU guidelines/directives. 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 other risks.

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 2015 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.

The number of legal entities and funds included in Česká spořitelna Group's IFRS consolidation scope evolved during the first six months of 2015 as follows:

As of 31 December 2014	36
Additions	
Entities newly added to the scope of consolidation	–
Disposals	
Companies sold / deconsolidated	–
As of 30 June 2015	36

There were no changes in the number of legal entities and funds included in Česká spořitelna Group's IFRS consolidation scope compared to 31 December 2014.

Other changes

The Group is currently committed to a sale plan involving loss of control of a fully consolidated subsidiary Trenčín Retail Park a.s. and that's why in accordance with IFRS 5 classifies all the assets and liabilities of that fully consolidated subsidiary as held for sale i.e. within the position Non-current assets and disposal groups classified as held for sale.

All IFRS 5 requirements that lead to a separate disclosure of that fully consolidated subsidiary within the position Non-current assets and disposal groups classified as held for sale were met and are as follows:

- Fully consolidated subsidiary is available for immediate sale
- sale is highly probable
- concrete sale intention exists
- sale occur within 12 months

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 2014.

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual consolidated financial statements for the year ended 31 December 2014.

Application of amended of 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 2015:

Annual Improvements to IFRSs 2010 2012 and 2011 2013 Cycle

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

Notes to the statement of comprehensive income and the statement of financial position of Česká spořitelna, a. s.

1. Net interest income

in CZK million	1–6 2015	1–6 2014
Interest income		
Financial assets held for trading	34	21
Financial assets designated at fair value through profit or loss	6	27
Available-for-sale financial assets	341	307
Loans and receivables	11,596	12,563
Held-to-maturity investments	2,522	2,546
Derivatives – Hedge accounting, interest rate risk	26	13
Other assets	3	12
Total interest income	14,528	15,489
Interest expenses		
Financial liabilities held for trading	(13)	(17)
Financial liabilities measured at amortised cost	(1,748)	(2,343)
Derivatives – Hedge accounting, interest rate risk	353	314
Total interest expenses	(1,595)	(2,184)
Net interest income	12,933	13,305

2. Net fee and commission income

in CZK million	1–6 2015	1–6 2014
Securities	438	308
Clearing and settlement	130	158
Asset management	254	252
Custody	50	39
Payment services	2,744	2,905
Customer resources distributed but not managed	402	411
Lending business	1,047	1,516
Other	50	(34)
Net fee and commission income	5,115	5,555

3. Dividend income

in CZK million	1–6 2015	1–6 2014
Financial assets – designated at fair value through profit or loss	23	10
Financial assets – available for sale	34	36
Dividend income	57	46

4. Net trading and fair value result

in CZK million	1–6 2015	1–6 2014
Net trading result	1,487	1,206
Securities and derivatives trading	1,129	759
Foreign exchange transactions	358	447
Result from financial assets and liabilities designated at fair value through profit or loss	(82)	(10)
Result from measurement/sale of financial assets designated at fair value through profit or loss	(32)	87
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(50)	(97)
Gains or losses from hedge accounting	30	(1)
Net trading and fair value result	1,435	1,195

5. Rental income from investment properties & other operating leases

in CZK million	1–6 2015	1–6 2014
Investment properties	352	384
Other operating leases	49	28
Rental income from investment properties & other operating leases	401	412

6. General administrative expenses

in CZK million	1–6 2015	1–6 2014
Personnel expenses	(4,368)	(4,311)
Wages and salaries	(3,126)	(3,111)
Compulsory social security	(1,003)	(991)
Other personnel expenses	(239)	(209)
Other administrative expenses	(3,645)	(3,582)
Deposit insurance contribution	(486)	(468)
IT expenses	(1,222)	(1,025)
Expenses for office space	(713)	(745)
Office operating expenses	(432)	(564)
Advertising / marketing	(399)	(348)
Legal and consulting costs	(170)	(194)
Sundry administrative expenses	(223)	(238)
Depreciation and amortization	(1,071)	(1,152)
Software and other intangible assets	(402)	(410)
Owner occupied real estate	(326)	(339)
Investment property	(100)	(109)
Office furniture and equipment and sundry property and equipment	(243)	(294)
General administrative expenses	(9,084)	(9,045)

7. Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

in CZK million	1–6 2015	1–6 2014
From sale of financial assets available for sale	99	30
From sale of financial assets held to maturity	45	87
From sale of loans and receivables	1	–
From repurchase of liabilities measured at amortised cost	(2)	19
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	143	136

8. Net impairment loss on financial assets not measured at fair value through profit or loss

in CZK million	1–6 2015	1–6 2014
Loans and receivables	(1,394)	(1,916)
Allocation to risk provisions	(2,594)	(2,970)
Release of risk provisions	1,001	912
Direct write-offs	(14)	(46)
Recoveries recorded directly to the income statement	213	188
Financial assets – held to maturity	4	(1)
Net impairment loss on financial assets not measured at fair value through profit or loss	(1,390)	(1,917)

9. Other operating result

in CZK million	1–6 2015	1–6 2014
Result from properties/moveables/other intangible assets other than goodwill	86	113
Allocation to/release of other provision	(442)	–
Allocation to/release of provisions for commitments and guarantees given	(54)	56
Other taxes	(46)	(40)
Result from other operating expenses/income	(121)	(119)
Other operating result	(577)	10

In the line item “Allocation to/release of other provisions” the expected contribution for the full-year 2015 to resolution fund (according to the Bank Recovery and Resolution Directive) of CZK 444 million (2014: CZK 0 million) is included.

10. Taxes on income

Group’s consolidated net tax expense for the first six months of 2015 amounted to CZK 1,713 million, thereof CZK 31.6 million net deferred tax expense.

11. Cash and cash balances

in CZK million	Jun 2015	Dec 2014
Cash on hand	21,119	21,814
Cash balances at central banks	44,596	27,110
Other demand deposits	5,260	5,565
Cash and cash balances	70,975	54,489

A portion of ‘Cash balances at central banks’ includes mandatory reserve deposits in amount of CZK 7,619 million (2014: CZK 13,047 million). Mandatory reserve deposits accrue interest at the CNB’s two week repo rate. The Group is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB’s regulations.

Cash and cash equivalents

in CZK million	Jun 2015	Dec 2014
Cash on hand	21,119	21,814
Nostro accounts at central banks	36,976	14,062
Treasury bills and treasury bonds with maturity of less than three months	4,273	9,910
Nostro accounts with financial institutions	2,116	2,258
Loro accounts with financial institutions	(25,763)	(15,276)
Total cash and cash equivalents	38,721	32,768

12. Derivatives – held for trading

in CZK million	As of 30 June 2015			As of 31 December 2014		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book						
Interest rate	298,029	10,813	10,214	311,185	13,899	12,668
Equity	5,550	214	10	7,318	235	13
Foreign Exchange	231,123	3,458	5,651	256,930	4,338	7,650
Credit	327	2	2	333	3	3
Commodity	5,412	109	136	4,675	265	320
Total	540,441	14,596	16,013	580,441	18,740	20,654

13. Other trading assets

in CZK million	Jun 2015	Dec 2014
Equity instruments	–	1
Debt securities	1,188	3,144
General governments	652	2,360
Credit institutions	527	784
Non-financial corporations	9	–
Loans and advances	2,106	1,346
Other trading assets	3,294	4,491

Money-market instruments classified as trading assets amounted to CZK 2,106 million CZK (2014: CZK 1,346 million).

14. Financial assets – at fair value through profit and loss

in CZK million	Jun 2015	Dec 2014
Equity instruments	589	898
Debt securities	336	374
General governments	17	30
Credit institutions	319	344
Financial assets – at fair value through profit and loss	925	1,272

15. Financial assets – available for sale

in CZK million	Jun 2015	Dec 2014
Equity instruments	858	802
Debt securities	93,229	98,487
General governments	81,514	89,300
Credit institutions	7,287	6,644
Other financial corporations	273	278
Non-financial corporations	4,155	2,265
Financial assets – available for sale	94,087	99,289

16. Financial assets – held to maturity

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	Jun 2015	Dec 2014	Jun 2015	Dec 2014	Jun 2015	Dec 2014
General governments	145,977	138,121	–	(5)	145,977	138,116
Credit institutions	13,662	11,856	(1)	(1)	13,661	11,855
Other financial corporations	858	472	–	–	858	472
Non-financial corporations	665	1,073	(3)	(3)	662	1,070
Financial assets – held to maturity	161,162	151,522	(4)	(9)	161,158	151,513

17. Loans and receivables to credit institutions

Loans and receivables to credit institutions

in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 30 June 2015				
Debt securities	1,740	–	(7)	1,733
Credit institutions	1,740	–	(7)	1,733
Loans and receivables	33,212	(2)	(1)	33,209
Credit institutions	33,212	(2)	(1)	33,209
Total	34,952	(2)	(8)	34,942
As of 31 December 2014				
Debt securities	1,356	–	(7)	1,349
Credit institutions	1,356	–	(7)	1,349
Loans and receivables	37,186	(1)	(1)	37,184
Credit institutions	37,186	(1)	(1)	37,184
Total	38,542	(1)	(8)	38,533

Allowances for loans and receivables to credit institutions

in CZK million	As of 31 December 2014	Alloca-tions	Release	Transfer between allowances	As of 30 June 2015
Specific allowances	(1)	(1)	–	–	(2)
Loans and receivables	(1)	(1)	–	–	(2)
Credit institutions	(1)	(1)	–	–	(2)
Collective allowances	(8)	(2)	2	–	(8)
Debt securities	(7)	–	–	–	(7)
Credit institutions	(7)	–	–	–	(7)
Loans and receivables	(1)	(2)	2	–	(1)
Credit institutions	(1)	(2)	2	–	(1)
Total	(9)	(3)	2	–	(10)

in CZK million	As of 31 December 2013	Alloca-tions	Release	Transfer between allowances	As of 30 June 2014
Specific allowances	(31)	(23)	20	11	(23)
Loans and receivables	(31)	(23)	20	11	(23)
Credit institutions	(31)	(23)	20	11	(23)
Collective allowances	–	(3)	2	(11)	(12)
Debt securities	–	–	–	–	–
Credit institutions	–	–	–	–	–
Loans and receivables	–	(3)	2	(11)	(12)
Credit institutions	–	(3)	2	(11)	(12)
Total	(31)	(26)	22	–	(35)

18. Loans and receivables to customers

Loans and receivables to customers

in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 30 June 2015				
Debt securities with customers	423	–	(1)	422
Non-financial corporations	423	–	(1)	422
Loans and receivables to customers	528,064	(15,856)	(1,865)	510,343
General governments	22,454	(8)	(1)	22,445
Other financial corporations	12,774	(129)	(30)	12,615
Non-financial corporations	191,310	(6,621)	(1,193)	183,496
Households	301,526	(9,098)	(641)	291,787
Total	528,487	(15,856)	(1,866)	510,765
As of 31 December 2014				
Debt securities with customers	342	–	–	342
Non-financial corporations	342	–	–	342
Loans and receivables to customers	517,847	(16,366)	(1,784)	499,697
General governments	20,418	(4)	(1)	20,413
Other financial corporations	17,231	(132)	(32)	17,067
Non-financial corporations	184,489	(6,771)	(1,174)	176,544
Households	295,709	(9,459)	(577)	285,673
Total	518,189	(16,366)	(1,784)	500,039

Allowances for loans and receivables to customers

in CZK million	As of 31 December 2014	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of 30 June 2015	Amounts written off	Recoveries of amounts previously written off
Specific allowances	(16,366)	(2,092)	1,774	612	232	(34)	18	(15,856)	15	(213)
Loans and receivables to customers	(16,366)	(2,092)	1,774	612	232	(34)	18	(15,856)	15	(213)
General governments	(2)	(4)	-	-	-	-	-	(6)	-	-
Other financial corporations	(131)	(7)	-	9	-	-	-	(129)	-	-
Non-financial corporations	(6,776)	(840)	656	249	97	(31)	18	(6,627)	3	(118)
Households	(9,457)	(1,241)	1,118	354	135	(3)	-	(9,094)	12	(95)
Collective allowances	(1,784)	(498)	-	386	-	29	1	(1,866)	-	-
Loans and receivables to customers	(1,784)	(498)	-	386	-	29	1	(1,866)	-	-
General governments	(1)	-	-	0	-	-	-	(1)	-	-
Other financial corporations	(32)	(25)	-	27	-	-	-	(30)	-	-
Non-financial corporations	(1,175)	(348)	-	302	-	25	1	(1,195)	-	-
Households	(576)	(125)	-	57	-	4	-	(640)	-	-
Total	(18,150)	(2,590)	1,774	998	232	(5)	19	(17,722)	15	(213)

in CZK million	As of 31 December 2013	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of 30 June 2014	Amounts written off	Recoveries of amounts previously written off
Specific allowances	(16,857)	(2,533)	1,476	792	268	-	(1)	(16,855)	46	(188)
Loans and receivables to customers	(16,857)	(2,533)	1,476	792	268	-	(1)	(16,855)	46	(188)
General governments	(19)	(2)	-	8	-	-	-	(13)	-	-
Other financial corporations	-	(13)	-	-	-	(9)	-	(22)	-	-
Non-financial corporations	(7,598)	(1,191)	914	484	91	98	(6)	(7,208)	27	(114)
Households	(9,240)	(1,327)	562	300	177	(89)	5	(9,612)	19	(74)
Collective allowances	(1,432)	(413)	-	99	-	-	-	(1,746)	-	-
Loans and receivables to customers	(1,432)	(413)	-	99	-	-	-	(1,746)	-	-
General governments	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	(4)	-	6	-	(41)	-	(39)	-	-
Non-financial corporations	(879)	(332)	-	22	-	41	-	(1,148)	-	-
Households	(553)	(77)	-	71	-	-	-	(559)	-	-
Total	(18,289)	(2,946)	1,476	891	268	-	(1)	(18,601)	46	(188)

19. Derivatives – hedge accounting

in CZK million	As of 30 June 2015			As of 31 December 2014		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	12,000	594	9	12,071	670	22
Interest rate	12,000	594	9	12,071	670	22
Cash flow hedge	21,153	229	258	7,550	208	3
Interest rate	21,153	229	258	7,550	208	3
Hedge of net investments in a foreign operation	-	-	-	1,178	-	144
Total	33,153	823	267	20,799	878	169

ALM department decided to terminate net investment hedge (i.e. hedging of FX risk of the Bank's EUR foreign operations) due to the fail of effectiveness test. The date of the hedge termination was the date of the last efficiency measurement i.e. 31 March 2015.

The portion of the loss on the hedging instrument (CZK 58.5 million) recognised within equity up to the moment of termination is retained in equity until the disposal or partial disposal of foreign operations.

20. Other assets

in CZK million	Jun 2015	Dec 2014
Prepayments and accrued income	1,105	1,267
Assets under construction/unfinished goods/inventory	198	282
Sundry assets	5,496	6,728
Other assets	6,799	8,277

21. Other trading liabilities

in CZK million	Jun 2015	Dec 2014
Short positions	3	328
Equity instruments	3	-
Debt securities	-	328
Deposits	8,969	2,449
Credit institutions	2,424	200
Other financial corporations	2,544	2,248
Non financial corporations	4,001	1
Other trading liabilities	8,972	2,777

22. Financial liabilities designated at fair value through profit and loss

in CZK million	Jun 2015	Dec 2014
Deposits	6,467	8,874
General governments	3	3
Non financial corporations	34	48
Households	6,430	8,823
Debt securities issued	-	790
Bonds	-	790
Financial liabilities designated at fair value through profit and loss	6,467	9,664

Debt securities issued

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Jun 2015	Dec 2014
Bonds	CZ0003702516	December 2010	January 2015	x)	–	790
Bonds issued					–	790

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.

23. Financial liabilities measured at amortised costs

in CZK million	Jun 2015	Dec 2014
Deposits	749,112	726,135
Deposits from banks	65,124	54,570
Deposits from customers	683,988	671,565
Debt securities issued	22,811	23,043
Bonds	22,811	22,781
Subordinated debt	–	262
Other financial liabilities	2,927	2,781
Financial liabilities measured at amortised costs	774,850	751,959

Deposits from banks

in CZK million	Jun 2015	Dec 2014
Overnight deposits	28,173	17,574
Term deposits	34,393	34,857
Repurchase agreements	2,558	2,139
Deposits from banks	65,124	54,570

Deposits from customers

in CZK million	Jun 2015	Dec 2014
Current accounts/Overnight deposits	558,520	535,151
General governments	50,300	42,035
Other financial corporations	4,510	15,687
Non financial corporations	99,237	92,466
Households	404,473	384,963
Term deposits	113,461	124,712
General governments	82	104
Other financial corporations	228	732
Non financial corporations	2,080	2,293
Households	111,071	121,583
Repurchase agreements	12,007	11,702
General governments	12,007	8,042
Other financial corporations	–	3,660
Deposits from customers	683,988	671,565
General governments	62,389	50,181
Other financial corporations	4,738	20,079
Non financial corporations	101,317	94,759
Households	515,544	506,546

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Jun 2015	Dec 2014
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	5,224	4,958
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	4,663	4,607
Mortgage bonds	CZ0002001068	June 2007	October 2015	4.50%	775	759
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,202	1,977
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	504	460
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,238	4,932
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	929	938
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	98	110
Mortgage bonds	CZ0002002306	April 2011	April 2015	0.30%	-	123
Mortgage bonds	CZ0002002330	June 2011	June 2016	0.30%	40	40
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	22	22
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	143	137
Mortgage bonds	CZ0002002769	December 2012	December 2016	1.50%	53	55
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	42	42
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	77	74
Bonds	CZ0003701054	September 2005	September 2017	x)	277	272
Bonds	CZ0003702037	October 2009	October 2016	xx)	561	547
Bonds	CZ0003702078	November 2009	November 2016	xx)	600	587
Depository bills of exchange					1,000	1,000
Cumulative change in carrying amount due to fair value hedging					363	1,141
Bonds issued					22,811	22,781

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

ISIN	Date of issue	Maturity	Interest rate	Nominal value	Jun 2015	Dec 2014
CZ0003702342	24 March 2010	24 March 2020	6M PRIBOR+0.40%	1,000	-	262
Subordinated debt					-	262

24. Provisions

in CZK million	Jun 2015	Dec 2014
Pending legal issues and tax litigation	1,833	1,834
Commitments and guarantees given	303	248
Provisions for guarantees – off balance (defaulted customers)	66	67
Provisions for guarantees – off balance (non defaulted customers)	237	181
Other provisions	749	336
Provisions for onerous contracts	-	1
Other	749	335
Provisions	2,885	2,418

Other provisions include an estimated amount for the Group's constructive obligation to meet any potential future claims of clients resulting from statute-barred deposits on anonymous passbooks and provision for expected annual contribution to Resolution Fund in 2015.

25. Other liabilities

in CZK million	Jun 2015	Dec 2014
Deferred income and accrued expenses	689	422
Sundry liabilities	8,947	6,224
Other liabilities	9,636	6,646

26. 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 ('SME');
- Real Estate ('RE');
- Asset and Liability Management and Local Corporate Center ('ALM & LCC');
- Large Corporate ('LC');
- Group Markets ('GM').

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 the 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 results of the subsidiaries Stavební spořitelna České spořitelny, a. s., Česká spořitelna penzijní společnost, a. s., ČS do domu, a. s., Věrnostní program iBod, a. s. and MOPET CZ, a. s.

Retail provides services to their clients through the branch network, external sales channels and internet 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 healthcare organizations).

In addition, the segment contains the 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 and Local Corporate Center (ALM&LCC)

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.

The corporate center segment includes the positions and items that cannot be directly allocated to a business segment. In addition, it contains the capital result of the subsidiaries Brokerjet České spořitelny, a. s., Czech TOP Venture Fund B.V., s IT Solutions CZ, s. r. o., CS Investment Limited, Grantika České spořitelny, a. s. and Erste Energy Services, a. s.

Corporate center also includes free capital which does not represent a segment, but the difference between total equity and allocated capital.

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).

Business segments

in CZK million	Retail		SME		Real estate		ALM & LCC		Large Corporate		GM		Total group	
	1–6 2015	1–6 2014	1–6 2015	1–6 2014	1–6 2015	1–6 2014	1–6 2015	1–6 2014	1–6 2015	1–6 2014	1–6 2015	1–6 2014	1–6 2015	1–6 2014
Net interest income	9,875	9,350	1,755	1,770	404	349	502	1,380	351	376	46	80	12,933	13,305
Net fee and commission income	4,238	4,853	465	614	60	42	53	(200)	145	230	154	16	5,115	5,555
Dividend income	22	–	–	3	–	–	35	43	–	–	–	–	57	46
Net trading and fair value result	170	210	158	121	3	4	384	(5)	25	17	695	848	1,435	1,195
Rental income from investment properties & other operating leases	3	4	–	–	–	–	398	408	–	–	–	–	401	412
General administrative expenses	(7,025)	(7,064)	(1,014)	(973)	(55)	(57)	(551)	(518)	(184)	(174)	(255)	(259)	(9,084)	(9,045)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	(2)	–	–	91	–	–	145	47	–	–	–	(2)	143	136
Net impairment loss on financial assets not measured at fair value through profit or loss	(831)	(1,329)	(176)	(206)	100	(191)	(192)	(131)	(291)	(60)	–	–	(1,390)	(1,917)
Other operating result	30	72	(61)	(58)	–	–	(528)	(26)	(18)	19	–	3	(577)	10
Pre-tax result from continuing operations	6,480	6,096	1,127	1,362	512	147	246	998	28	408	640	686	9,033	9,697
Taxes on income	(1,203)	(1,134)	(222)	(269)	(97)	(28)	(55)	(259)	(13)	(77)	(123)	(131)	(1,713)	(1,898)
Net result for the period	5,277	4,962	905	1,093	415	119	191	739	15	331	517	555	7,320	7,799
Net result attributable to non-controlling interests	(1)	16	–	–	–	–	–	1	–	–	–	–	(1)	17
Net result attributable to owners of the parent	5,278	4,946	905	1,093	415	119	191	738	15	331	517	555	7,321	7,782
Operating income	14,308	14,417	2,378	2,508	467	395	1,372	1,626	521	623	895	944	19,941	20,513
Operating expenses	(7,025)	(7,064)	(1,014)	(973)	(55)	(57)	(551)	(518)	(184)	(174)	(255)	(259)	(9,084)	(9,045)
Operating result	7,283	7,353	1,364	1,535	412	338	821	1,108	337	449	640	685	10,857	11,468
Risk-weighted assets (credit risk, eop)	138,387	128,570	125,952	123,796	32,055	29,804	31,565	27,667	45,862	46,103	10,833	18,379	384,654	374,319
Average allocated capital	14,974	13,796	10,192	11,125	2,430	2,388	5,837	7,084	3,111	3,700	1,898	2,094	38,442	40,187
Cost/income ratio	49.1%	49.0%	42.6%	38.8%	11.8%	14.4%	40.2%	31.9%	35.2%	27.8%	28.5%	27.4%	45.6%	44.1%
Return on allocated capital	70.5%	71.7%	17.8%	19.6%	34.1%	10.0%	6.5%	20.8%	1.0%	17.9%	54.6%	53.0%	38.1%	38.8%
Total assets (eop)	384,704	378,658	143,405	142,384	33,061	30,582	302,444	225,894	36,319	36,167	23,566	86,647	923,499	900,332
Total liabilities excluding equity (eop)	566,047	574,086	97,731	78,647	4,443	3,025	115,012	71,361	13,526	21,405	23,649	51,740	820,408	800,264

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

27. 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 AG.

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.

For the year ended 30 June 2015 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2014: CZK 0).

Loans and advances to and amounts owed to related parties

in CZK million	Jun 2015		Dec 2014	
	Erste Group Bank AG	Other related parties	Erste Group Bank AG	Other related parties
Assets				
Cash and cash balances	1,594	1,900	1,636	2,310
Financial assets – held for trading	4,398	382	5,910	491
Financial assets designated at fair value through profit or loss	3	–	9	–
Financial assets – available for sale	–	39	–	97
Loans and receivables to credit institutions	25,285	14	26,355	1
Loans and receivables to customers	–	202	–	211
Derivatives Hedge Accounting	2	–	2	–
Other assets	280	7	–	43
Liabilities				
Financial liabilities held for trading	6,364	–	5,967	–
Financial liabilities measured at amortised costs	24,000	1,760	14,990	2,483
Other Liabilities	57	241	75	79
Profit & Loss statement				
Net interest income	197	(4)	423	(3)
Net fee and commission income	6	209	5	375
Dividend income	–	–	–	10
Net trading and fair value result	103	(13)	1,341	6
Rental income from investment properties & other operating lease	–	5	–	12
Other administrative expenses	(83)	(440)	(151)	(632)
Other operating result	26	21	12	6
Loans commitments, financial guarantees and other commitments given	19	42	20	36
Loan commitments, financial guarantees and other commitments received	159	551	576	771

28. Risk management

Risk management strategy

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Group's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

Concerning risk policy and strategy as well as regarding risk management organization, reference is made to the chapter of the same name in the annual consolidated financial statements as of 31 December 2014.

Credit risk

The classification of credit assets into risk grades is based on the Group's internal ratings.

For the purpose of external reporting, internal rating grades of the Group are clustered into the following four risk categories, applied uniformly with parent company reporting standards:

Low risk: Typically regional customers with well-established and rather long-standing relationships with the Group or large internationally recognised customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the bank, or clients with a wide product pool

use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention: Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Non-performing: One or more of the default criteria under Basel 2 are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, the Group applies a customer view in non-retail segments. Accordingly, if a non-retail customer defaults on one product then all of that customer's performing products are classified as non-performing. However, in the retail and SME segment the Group uses the product view, so that only the product actually in default is counted as a non-performing exposure, whereas the other products of the same customer are considered performing.

a) Structure of Credit Risk by On-balance Sheet and Off-balance Sheet Items

The Group is exposed to credit risk arising from the following items:

in CZK million	Jun 2015	Dec 2014
Credit risk NET exposures relating to on-balance sheet items		
Balances at central banks and other demand deposits	49,856	32,675
Financial assets held for trading – derivatives	14,596	18,740
Financial assets held for trading – debt securities, loans and advances	3,294	4,490
Financial assets designated at fair value through profit or loss – debt securities	336	374
Available-for-sale financial assets – debt securities	93,229	98,487
Loans and receivables to credit institutions	34,942	38,533
Loans and receivables to customers	510,765	500,039
– General governments	22,445	20,413
– Other financial corporations	12,615	17,067
– Non-financial corporations	183,919	176,887
– Households	291,786	285,672
Held-to-maturity investments	161,158	151,513
Derivatives – Hedge accounting	823	878
Credit risk exposure relating to off-balance sheet items		
Irrevocable financial guarantees given	21,308	21,410
Irrevocable loan commitments given	80,969	72,413
Total	971,276	939,552

Collateral securing the above receivables is as follows:

in CZK million	Jun 2015	Dec 2014
Loans and advances to credit institutions	2,231	1,965
Loans and advances to customers	267,352	265,302
Contingent liabilities	17,592	10,477
Total	287,175	277,744

b) Credit risk exposure by industry and financial instrument

The following tables present Group's credit risk exposure by industry, broken down by financial instruments, as of each reporting date indicated.

Gross credit risk exposure by industry and financial instrument in June 2015

in CZK million	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers					Debt instruments	Contingent liabilities	Credit risk exposure
				Held to maturity	Trading assets	At fair value through profit or loss	Available for sale			
				At amortised cost				Fair value		
Agriculture and forestry	–	–	14,381	–	–	–	–	124	1,120	15,625
Mining	–	–	1,869	–	–	–	–	–	334	2,203
Manufacturing	–	–	42,884	129	–	–	278	518	20,143	63,952
Energy and water supply	–	–	19,197	–	–	–	800	829	6,169	26,995
Construction	–	–	7,693	–	–	–	–	13	11,177	18,883
Trade	–	–	35,658	–	–	–	–	203	8,757	44,618
Transport and communication	–	–	12,020	907	–	–	3,107	763	7,506	24,303
Hotels and restaurants	–	–	3,166	–	–	–	–	7	249	3,422
Financial and insurance services	49,856	34,952	12,422	14,234	2,633	336	7,559	9,538	2,176	133,706
Real estate and housing	–	–	62,787	3	9	–	–	223	5,609	68,631
Services	–	–	10,878	–	–	–	–	46	3,128	14,052
Public administration	–	–	21,545	145,889	652	–	81,485	3,060	4,406	257,037
Education, health and art	–	–	6,950	–	–	–	–	91	1,156	8,197
Private households	–	–	277,037	–	–	–	–	4	30,347	307,388
Other	–	–	–	–	–	–	–	–	–	–
Total	49,856	34,952	528,487	161,162	3,294	336	93,229	15,419	102,277	989,012

Gross credit risk exposure by industry and financial instrument in December 2014

in CZK million	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers					Debt instruments	Contingent liabilities	Credit risk exposure
				Held to maturity	Trading assets	At fair value through profit or loss	Available for sale			
				At amortised cost				Fair value		
Agriculture and forestry	–	–	14,176	–	–	–	–	167	1,094	15,437
Mining	–	–	1,997	–	–	–	–	1	102	2,100
Manufacturing	–	–	39,164	127	–	–	200	634	17,333	57,458
Energy and water supply	–	–	16,555	–	–	–	–	1,027	5,528	23,110
Construction	–	–	6,593	–	–	–	–	19	10,316	16,928
Trade	–	–	33,732	–	–	–	–	170	8,793	42,695
Transport and communication	–	–	11,667	943	–	–	2,065	734	4,036	19,445
Hotels and restaurants	–	–	3,287	–	–	–	–	5	224	3,516
Financial and insurance services	32,675	38,542	16,697	12,417	2,131	374	6,921	12,728	873	123,358
Real estate and housing	–	–	64,373	3	–	–	–	368	5,420	70,164
Services	–	–	9,904	–	–	–	–	51	4,498	14,453
Public administration	–	–	19,466	138,032	2,359	–	89,301	3,576	5,401	258,135
Education, health and art	–	–	7,561	–	–	–	–	108	1,369	9,038
Private households	–	–	271,239	–	–	–	–	28	28,836	300,103
Other	–	–	1,778	–	–	–	–	2	–	1,780
Total	32,675	38,542	518,189	151,522	4,490	374	98,487	19,618	93,823	957,720

c) Credit risk exposure by risk category

The following table presents the credit risk exposure of Group divided by risk category as of 30 June 2015, compared with the credit risk exposure as of 31 December 2014.

Gross credit risk exposure by risk category

in CZK million	Nizkorizikové	Vyžadující pozornost vedení	Nestandardní	Non-performing	Credit risk exposure
Total exposure as of 30 Jun 2015	889,711	67,480	10,224	21,597	989,012
Share of credit risk exposure	90.0%	6.8%	1.0%	2.2%	100.0%
Total exposure as of 31 Dec 2014	864,696	59,217	10,715	23,092	957,720
Share of credit risk exposure	90.3%	6.2%	1.1%	2.4%	100.0%
Change in credit risk exposure in 2014	25,015	8,263	(491)	(1,495)	31,292
Change	2.9%	14.0%	(4.6%)	(6.5%)	3.3%

Credit risk exposure by industry and risk category:

The following tables present the credit risk exposure of the Group broken down by industry and risk category as of 30 June 2015 and 31 December 2014, respectively.

Gross credit risk exposure by industry and risk category in June 2015

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	12,995	2,002	300	328	15,625
Mining	2,132	64	4	3	2,203
Manufacturing	49,990	9,063	1,274	3,625	63,952
Energy and water supply	21,897	4,341	432	325	26,995
Construction	13,055	3,503	694	1,631	18,883
Trade	32,977	7,856	843	2,942	44,618
Transport and communication	22,465	1,016	505	317	24,303
Hotels and restaurants	1,424	910	627	461	3,422
Financial and insurance services	129,096	4,445	–	165	133,706
Real estate and housing	54,916	10,377	1,066	2,272	68,631
Services	10,467	2,417	286	882	14,052
Public administration	252,374	4,616	40	7	257,037
Education, health and art	6,120	1,858	105	114	8,197
Private households	279,803	15,012	4,048	8,525	307,388
Total	889,711	67,480	10,224	21,597	989,012

Gross credit risk exposure by industry and risk category in December 2014

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	13,338	1,528	249	322	15,437
Mining	2,076	14	1	9	2,100
Manufacturing	45,339	7,111	2,023	2,984	57,457
Energy and water supply	18,415	3,372	979	343	23,109
Construction	11,143	3,321	1,155	1,310	16,929
Trade	32,592	6,850	1,381	1,846	42,669
Transport and communication	17,544	937	565	399	19,445
Hotels and restaurants	1,499	905	525	587	3,516
Financial and insurance services	117,941	5,416	177	213	123,747
Real estate and housing	56,823	9,385	1,645	2,311	70,164
Services	10,899	2,581	152	822	14,454
Public administration	255,628	2,462	39	7	258,136
Education, health and art	7,194	1,610	99	135	9,038
Private households	272,487	13,725	1,725	11,804	299,741
Other	1,778	–	–	–	1,778
Total	864,696	59,217	10,715	23,092	957,720

Market risk

The Group is exposed to the impact of market risks. Market risks arise from open positions in interest rate, currency, equity, commodity and credit spread risk types.. The value of open positions changes subject to general and specific financial market movements. Generally the group business can be split to Trading book (financial instruments positions bank intends to trade) and Banking book (the rest of the bank, i.e. retail and corporate loans and deposits, investment to bonds, hedging derivatives).

Trading book

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Managing open positions in the interbank, derivative and capital markets arising from above mentioned activities.

The Group trades in the following derivative financial instruments through the OTC market:

- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps;
- Interest rate options such as swaptions, caps and floors;
- Commodity derivatives; and
- Credit derivatives.

In the area of exchange traded derivatives, the Group trades the following instruments:

- Bond futures;
- Equity and equity indices futures;
- Interest rate futures;
- Commodity futures; and
- Options in respect of bond futures.

The Group also trades, on behalf of its clients, with other less common currency options, such as digital or barrier. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the banking book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (foreign exchange swaps and cross currency swaps).

The majority of open positions arising from client transactions in the Group's trading book are transferred to the Erste Group Bank portfolio through back-to-back transactions. As such, the market risk arising from the Group's OTC transactions is managed within the Erste Group Bank portfolio. The Group retains in the trading portfolio the money market risk due to liquidity management (money market), equity risk and partially a residual risk from previously closed transactions. This residual risk is dynamically hedged at a macro level in line with the Group's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Group uses the value at risk methodology to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The VaR values are

calculated on a confidence level of 99% for a period of one trading day. To calculate the values, the KvaR+ system is used along with historical simulations based on the last 520 trading days. Assuming a normal distribution of losses, VaR is also determined for a period of one month, or possibly one year and for higher probability levels (99.9%, 99.98%). The Board of Directors establishes VaR limits for the trading and banking book portfolio as the Group's maximum acceptable exposure to market risk. For the trading portfolio VaR sub-limits (1 day, 99%) in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, equity prices, interest rates, volatility, commodity and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

Banking book

The market risk of the banking book has two forms – market value volatility (economic value risk) and net interest income volatility

(earning risks). Economic value is measured via VaR indicator using special models for current accounts and other liabilities without specified maturity. The VaR (1 month, 99%) of the banking book is reported to the Assets and Liabilities Committee ('ALCO') on a monthly basis while compliance with the limit is monitored by Risk Management on a daily basis. Earning risk is monitored through sensitivities (i.e. NII change) under different scenarios for yield curve movements which is regularly performed by Asset Liabilities management unit. Results of this analysis are reported on a monthly basis to ALCO as well to support strategic decision related to the structure of the bank's balance sheet.

The table below summarizes the VaR values as at 31 December 2014 and 30 June 2015 on the confidence level of 99%. The table shows only the Bank's amounts:

As at 30 June 2015 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Volatility Risk	Com- modity Risk	Credit Spread risk
Trading book								
Daily value	12	(3)	11	3	–	–	–	1
Monthly value	57	(11)	50	13	–	1	–	4
Average of daily values per year	6	(3)	5	2	–	–	–	2
Average of monthly values per year	30	(13)	23	10	1	–	1	8
Banking book								
Daily value	320	(27)	213	6	–	–	–	128
Monthly value	1,501	(133)	1,001	30	–	1	–	602
Average of daily values per year	273	(96)	201	6	5	2	–	155
Average of monthly values per year	1,280	(453)	944	28	24	10	1	726

As at 31 December 2014 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Com- modity Risk	Credit Spread risk
Trading book							
Daily value	5	(3)	3	3	–	–	2
Monthly value	23	(13)	14	12	–	–	10
Average of daily values per year	7	(3)	5	3	–	–	2
Average of monthly values per year	31	(23)	26	14	1	2	11
Banking book							
Daily value	238	(124)	197	2	6	–	157
Monthly value	1,114	(581)	923	9	27	–	736
Average of daily values per year	212	(86)	153	2	10	–	133
Average of monthly values per year	994	(400)	719	8	45	–	622

In addition, the Group uses stress testing or an analysis of impacts of adverse developments in market risk factors on the market value of the trading book and on the parts of the banking book revalued to market values. Scenarios are developed on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to FMRMC.

Commodity risk

For Trading Book commodity risk was added, due to positions in electricity.

Liquidity risk

With the CNB introduction of extended list of eligible collateral for intraday liquidity facility, the Intraday Liquidity Buffer which was introduced in 2013 will be reassessed. Currently, eligible collateral for CNB intraday liquidity facility includes all CZ government bonds (previously only CZ T-Bills were eligible). Therefore the Intraday Liquidity Buffer will increase to the amount of CZK Counterbalancing capacity and therefore its separate monitoring will not be necessary any more. Before the cancellation of the Intraday Liquidity Buffer, tests of Intraday Liquidity Facility withdrawals are scheduled to assure the correctness of the process settings.

ICAAP (Internal Capital Adequacy Assessment Process)

The acceptable level of risk (risk capacity) is based on the assessment of the capital available to cover risks based on the 'ICAAP' methodology. The overall risk is measured via economic capital quantifications for individual types of risks: market, credit, operational, liquidity, business and reputation risks. Economic capital is subsequently allocated to individual sub-portfolios or client's segments to perform risk adjusted performance measurement and economic value added (EVA) analysis which support strategic management of the bank.

The capital adequacy, i. e. the ratio between total economic capital and available capital resources, is a basis for Risk appetite statement (RAS) which define the overall acceptable risks taken by the bank's group by means of quantitative indicators and qualitative statements. The whole ICAAP is supplemented by stress testing of a negative market and economic development on earning and capital adequacy on net profit a capital adequacy. The comprehensive picture of the banking risks and ability of the bank to absorb their risks in going concern regime are regularly reported to the Board.

Hedge accounting

The interest rate and foreign exchange risk of the banking book are managed by the ALM department using hedge accounting. Under the hedge accounting changes in the value of hedged item are compensated by the changes in the value of hedging derivatives. Hedge accounting principles are in accordance with IAS39. The main internal guideline for hedge accounting is the Group hedge accounting policy that is approved by the Group ALCO.

In March 2015, the new Group hedge accounting policy has been adopted in the ČS Group. In accordance with the new policy, the representation of the hedged risk of fair value hedges has been changed; a hypothetical loan is used instead of hypothetical derivative for the hedged risk representation.

In March 2015, OIS discounting standard has been implemented across the ČS Group. The impact of that methodological change on all OTC derivative valuations was significant so that the fair value of derivatives under hedge accounting has also been affected.

29. Fair value of financial instruments

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.

The best indication of an asset's or liability's fair value is provided by quoted market prices in an active market. Where quoted market prices in an active market are available, they are used to measure the asset's or liability's value (level 1 of the fair value hierarchy).

The measurement of fair value by the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Where no market prices are available, fair value is determined on the basis of valuation models that are based on observable market information (level 2 of the fair value hierarchy). In some cases, the fair value of an asset or liability can be determined neither on the basis of market prices nor of valuation models that rely entirely on observable market data. In such cases, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions (level 3 of the fair value hierarchy). For level 3 valuations typically market PDs determined from historical PDs mapped to a basket of liquid bonds/CDS are used as unobservable parameters.

If any unobservable input in the valuation model is significant and the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy.

Fair values of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the statement of financial position

The Group's measurement of fair value is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of the valuation models and inputs

The Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Securities

For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including also methods described for OTC-derivatives. The fair value of financial liabilities designated at Fair Value through Profit and Loss under the fair value option is determined in consistency with similar instruments held as assets. The spread adjustment for Erste Group's own credit risk is derived from buy-back levels of own issuances. Techniques for equity securities may also include models based on earnings multiples.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps, commodity swaps) are valued by standard valuation models. These models include discounting cash flow models and option models of Black-

Scholes. Models are calibrated on quoted market data (including implied volatilities). Valuation model for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

The Group values derivatives at mid-market levels. During the year 2015 we will setup close-out adjustment to take into account impact of bid/ask spread to the valuation.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. Modelling of the expected exposure is based on option replication strategies for the most of the counterparties and the products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counterparties with small threshold amounts no CVA/DVA was taken into account. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Group's probability of default has been derived from the buy-back levels of the Erste Group's issuances.

According to the described methodology the cumulative CVA-adjustments amounts to CZK (434) million and the total DVA-adjustment amounts to CZK 287 million.

Description of the valuation process for fair value measurements categorised within Level 3

A level 3 position involves one or more significant inputs that are not directly observable on the market. The responsibility for valuation of a position of measured at fair value is independent from trading units.

Fair value hierarchy

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

in 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 2015	Dec 2014	Jun 2015	Dec 2014	Jun 2015	Dec 2014	Jun 2015	Dec 2014
Assets								
Financial assets – held for trading	573	2,345	16,409	19,757	908	1,129	17,890	23,231
Derivatives	–	–	13,688	17,611	908	1,129	14,596	18,740
Other trading assets	573	2,345	2,721	2,146	–	–	3,294	4,491
Financial assets designated at fair value through profit or loss	17	30	858	1,134	50	108	925	1,272
Financial assets – available for sale	71,952	62,989	21,701	35,887	434	413	94,087	99,289
Derivatives Hedge Accounting	–	–	823	878	–	–	823	878
Total assets	72,542	65,364	39,791	57,656	1,392	1,650	113,725	124,670
Liabilities								
Financial liabilities held for trading	3	329	24,896	23,102	86	–	24,985	23,431
Derivatives	–	–	15,927	20,654	86	–	16,013	20,654
Other trading liabilities	3	329	8,969	2,448	–	–	8,972	2,777
Financial liabilities designated at fair value through profit or loss	–	–	6,467	9,664	–	–	6,467	9,664
Deposits from customers	–	–	6,467	8,874	–	–	6,467	8,874
Debt securities issued	–	–	–	790	–	–	–	790
Derivatives Hedge Accounting	–	–	267	169	–	–	267	169
Total liabilities	3	329	31,630	32,935	86	–	31,719	33,264

Changes in volumes of Level 1 and Level 2

This paragraph describes the changes in Volumes of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

in CZK million	1–6 2015		1–12 2014	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	(78)	78	(1,397)	1,397
Net transfer from Level 2	1,401	(1,401)	345	(345)
Purchases/sales/expiries	5,855	(12,619)	8,056	(16,220)
Changes in derivatives	–	(3,923)	(88)	(3,469)
Total year-to-date change	7,178	(17,865)	6,916	(18,637)

Due to lower market activity the relevant unquoted bonds were reclassified from Level 1 to Level 2. Due to improved market liquidity, quoted bonds could be reclassified from Level 2 to Level 1.

Equity instruments were reclassified from Level 2 to Level 1 as a result that quoted prices (prices based on observable inputs) exists as at 30th of June 2015.

Movements in Level 3 of financial instruments measured at fair value

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in CZK million	Dec 2014	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales/Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	Jun 2015
Assets									
Financial assets – held for trading	1,129	53	–	65	–	28	(367)	–	908
Derivatives	1,129	53	–	65	–	28	(367)	–	908
Financial assets designated at fair value through profit or loss	108	(10)	–	8	–	–	(56)	–	50
Financial assets – available for sale	413	–	38	12	(29)	–	–	–	434
Total assets	1,650	43	38	85	(29)	28	(423)	–	1,392

in CZK million	Dec 2013	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales/Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	Jun 2014
Assets									
Financial assets designated 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

A part of the OTC derivatives was categorized as Level 3/was re-categorized into Level 3 because credit valuation adjustment (CVA) has a material impact in market value for these derivatives and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).

Part of Level 3 derivatives was re-categorized into Level 2 because CVA has not a material impact in market value of these derivatives any more.

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

in CZK million	1–6 2015 Unrealized gain/loss in profit or loss	1–6 2014 Unrealized gain/loss in profit or loss
Assets		
Financial assets – held for trading	53	–
Derivatives	53	–
Financial assets designated at fair value through profit or loss	(10)	6
Total	43	6

Sensitivity analysis for Level 3 measurements

The following table shows the sensitivity analysis using reasonably possible alternatives per product type:

in CZK million	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
	Jun 2015	Dec 2014	Jun 2015	Dec 2014
Derivatives	71	84	(110)	(124)
Income statement	71	84	(110)	(124)
Equity instruments	19	18	(38)	(37)
Income statement	2	2	(5)	(5)
Other comprehensive income	17	16	(33)	(32)
Total	90	102	(148)	(161)
Income statement	73	86	(115)	(129)
Other comprehensive income	17	16	(33)	(32)

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding market values.

- for debt securities range of credit spreads between +100 basis points and – 75 basis points,
- for equity related instruments the price range between -10% and +5%,
- for CVA on derivatives PDs rating upgrade/downgrade by one notch, the range for LGD between -5% and +10%.

Following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

Financial instruments whose fair value is disclosed in the notes

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the 30 June 2015 and for the year-end 2014.

June 2015 in CZK million	Carrying amount	Fair value	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
Assets					
Cash and cash balances	70,975	70,975	–	–	–
Financial assets – held to maturity	161,158	180,350	147,661	32,689	–
Loans and receivables to credit institutions	34,942	36,743	–	1,739	35,003
Loans and receivables to customers	510,765	507,891	–	897	506,994
Liabilities					
Financial liabilities measured at amortised costs	774,850	784,117	–	24,598	754,846
Deposits from banks	65,124	65,847	–	–	65,847
Deposits from customers	683,988	686,072	–	–	686,072
Debt securities issued	22,811	29,271	–	24,598	–
Other financial liabilities	2,927	2,927	–	–	2,927
Financial guarantees and commitments					
Financial guarantees	21,308	27,261	–	–	27,261
Irrevocable commitments	80,969	79,793	–	–	79,793

December 2014 in CZK million	Carrying amount	Fair value	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
Assets					
Cash and cash balances	54,489	54,489	–	–	–
Financial assets – held to maturity	151,513	175,215	160,498	14,717	–
Loans and receivables to credit institutions	38,533	38,384	–	–	38,384
Loans and receivables to customers	500,039	493,145	–	371	492,774
Liabilities					
Financial liabilities measured at amortised costs	751,959	755,936	–	23,573	732,363
Deposits from banks	54,570	54,520	–	–	54,520
Deposits from customers	671,565	674,062	–	–	674,062
Debt securities issued	23,043	24,573	–	23,573	1,000
Other financial liabilities	2,781	2,781	–	–	2,781
Financial guarantees and commitments					
Financial guarantees	21,410	27,108	–	–	27,108
Irrevocable commitments	72,413	71,288	–	–	71,288

30. Contingent assets and liabilities

in CZK million	Jun 2015	Dec 2014
Amounts owed under guarantees and letters of credit	21,308	21,410
Undrawn loan commitments	80,969	72,413
Total	102,277	93,823

Contingent liabilities – litigations

There have not been any material changes since year-end 2014 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.

31. Events after the balance sheet date

There are no significant events after the balance sheet date.

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