

Half-Year Report 2016

International Financial Reporting Standards,
Consolidated & Unaudited

How successful was ČS

in the first half of 2016



FINANCIAL RESULTS

WE HELP PEOPLE FULFIL THEIR DREAMS ABOUT HOUSING

13,098 NUMBER OF THE NEWLY GRANTED MORTGAGES OF VOLUME 25.6 CZK BN

HISTORICALLY HIGHEST VOLUME EVER

YEAR ON YEAR GROWTH

11%

WE HELP PEOPLE FULFIL THEIR NEEDS AND WISHES

84,488 NUMBER OF THE NEW CONSUMER LOANS OF VOLUME 15.9 CZK BN

YEAR ON YEAR GROWTH

17%

WE HELP COMPANIES IN THEIR DEVELOPMENT AND INNOVATION

215.5 CZK BN VOLUME OF THE LOANS TO CORPORATE CLIENTS

YEAR ON YEAR GROWTH

6,3%

WE HAVE THE TRUST OF SOCIETY

CORPORATE DEPOSITS

138.3 CZK bn

RETAIL DEPOSITS

553.0 CZK bn

PUBLIC SECTOR DEPOSITS

71.7 CZK bn



NET INTEREST INCOME

-1.2%

1H 2015

12.9 CZK bn

1H 2016

12.8 CZK bn

1H 2015

5.1 CZK bn

1H 2016

4.6 CZK bn

NET FEE AND COMMISSION INCOME

-9.2%

OPERATING EXPENSES

-3.3%

1H 2015

9.1 CZK bn

1H 2016

8.8 CZK bn

1H 2015

7.3 CZK bn

1H 2016

8.2 CZK bn

NET PROFIT

+12.5%

LOANS TO CUSTOMERS (BRUTTO)

+7.7%

1H 2015

528.5 CZK bn

1H 2016

569.0 CZK bn

1H 2015

690.5 CZK bn

1H 2016

763.1 CZK bn

DEPOSITS FROM CUSTOMERS

+10.5%

TOTAL ASSETS

+12.3%

1H 2015

923.5 CZK bn

1H 2016

1,037.3 CZK bn

SPORITELNA IN 1H 2016

4.74 M CLIENTS



10,329 HEADCOUNT

1,595 ATMS

125 BARRIER-FREE ATMS

606 BRANCHES IN 430 CITIES

235 BARRIER-FREE BRANCHES



SERVIS 24

1,71 M ACTIVE CLIENTS OF SERVIS 24 AND BUSINESS 24

OVER **3 M** PAYMENT AND CREDIT CARDS

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Macroeconomic Development in the Czech Republic

in the First Half of 2016

The Czech economy continued to develop favorably in H1 2016. Increased GDP was driven by strong domestic and foreign demand and the labor market continued to gain in strength in H1. Nonetheless, inflation remained low, with the negative impact of oil prices being exacerbated by anti-inflationary Eurozone policy.

The Czech economy grew 3% in Q1 2016 due primarily to domestic and foreign demand. The German economic recovery and resultant effect on Czech exports was the chief driver of foreign demand. A follow-on effect can be seen in a stronger Czech labor market and increased domestic demand. Economic growth slowed compared to the previous year mainly owing to last year's extraordinary amount of public investment co-funded by European Union funds. The cyclical development of the Czech economy improved slightly year on year. Low oil prices and the Czech National Bank's exchange rate commitment further contributed to higher growth.

Prices continued to increase moderately. Inflation grew slightly earlier this year before reverting to just below zero in Q2. Low inflation is adversely affected by economic development in the Eurozone, whence anti-inflationary effects were imported into the Czech economy. Oil, gas and food prices also exerted anti-inflationary pressure. In contrast, favorable Czech economic growth is reflected in growing domestic demand-pull inflation, though its

impact is far less pronounced than that of the Eurozone and supply-side factors.

The labor market continued to improve in H1. Strong staffing demand was reflected in an ongoing drop in unemployment, which now sits at just above 4%. Due to the limited possibilities for a further drop in unemployment, favorable Czech economic development translated to a greater degree into wage growth. Real wage growth approached 4% in Q1, which offered a boost to household consumption.

In H1, the Czech National Bank used the koruna exchange rate as a monetary policy instrument by adhering to its exchange rate commitment at CZK 27/EUR. For most of the period under review, robust foreign trade and an influx of capital into the Czech Republic kept the exchange rate at the commitment level with the aid of CNB interventions.

Czech government bond yields remained low given the negative impacts of loosening monetary conditions in the Eurozone, excess liquidity in the Czech banking sector and low inflation. The influx of capital into the Czech economy and heightened post-Brexit uncertainty also played a role.

Česká Spořitelna Consolidated Results of Operations

for the Six Months Ended 30 June 2016

Income Statement

For H1 2016, Česká spořitelna posted unaudited consolidated net profit after non-controlling interests of CZK 8.2 billion under International Financial Reporting Standards, representing 12.5% growth compared to H1 2015. The positive expression of confidence by households and businesses in the development of the Czech economy and increase in real wages is reflected in rising household consumption of long-term durable goods and growth in industrial production and new orders. In H1 2016, Česká spořitelna further accelerated growth in the volume of client loans. It has also managed to improve the quality of the loan portfolio, which is favorably reflected in net profit. Reduced operating costs and non-recurring income from the sale of VISA Europe shares contributed significantly to profit growth.

The return on equity (ROE) ratio increased from 13.3% to 13.5% due to an increase in net profit. ROE only grew by 0.2 of a percentage point due to a concurrent increase in the equity. The return on assets (ROA) ratio increased to 1.7% from 1.6%.

Despite generally excellent half-year results, operating profit, calculated as the difference between operating income and expense, declined 6.1% compared to the previous half-year to CZK 10.2 billion as a consequence of lower operating income. The drop in operating income is influenced by several factors, the most significant of which are the continuing reduction in net income from fees and commissions, a drop in net profit from trading, which was exceptionally high in H1 2015 due to the one-off impact of a change in the methodology for determining the fair value of derivatives, and a reduction in rental income owing to the gradual sell-off of investment properties. In contrast, the 3.3% reduction in operating expenses to CZK 8.8 billion favorably affected operating profit. The cost-to-income ratio increased slightly to 46.3% from 45.6%.

The Bank's active lending policy, the favorable financial position of firms and growing household demand were reflected in robust lending growth. The net volume of client loans grew 8.3% year on year, though not even the increased loan volume was enough to eliminate the long-term impact of low or negative interest rates.

Net interest income totaled CZK 12.8 billion, a year-on-year decrease by 1.2%. Low interest rates were reflected in a reduction in net interest margin on interest-bearing assets to 3.18% from 3.34%. Interest income from loans and debt securities in the held-to-maturity portfolio continues to fall; this is associated with the gradual maturity of loans and bonds with a higher interest yield. Reduced

interest income was partially offset by lower interest expense from the Bank's own bonds due to a decline in their volume.

Net income from fees and commissions reported a 9.2% decrease to CZK 4.6 billion. Net income from fees and commissions is negatively impacted by EU regulations pertaining to profit margins on card transactions. The decrease is also caused by falling income from financial services arising from the fact that clients are increasingly using cheaper forms of services and discounted programmes and products. On the other hand, income from fees for investment products, particularly asset management and the safekeeping and administration of securities, increased.

Net trading income and income from assets measured at fair value fell 13.8% to CZK 1.2 billion compared with the same period last year. The decrease was affected by a one-off change in the methodology to determine the fair value of derivatives adopted in H1 2015, whose year-to-year impact amounts to CZK 0.5 billion. The Bank was able to partially offset this decrease, however, through higher profit from securities trading and foreign exchange transactions.

Income from rental property investments and other operating leases decreased significantly to CZK 0.3 billion due primarily to the gradual reduction in Česká spořitelna's investment in real estate funds. Non-interest income accounts for a total of 32.7% of operating income (H1 2015: 35.1%).

General administrative costs decreased by 3.3% to CZK 8.8 billion year on year. Česká spořitelna succeeded in cutting expenses for office space and material consumption. Depreciation and amortization charges related to tangible and intangible assets also decreased. Nonetheless, the greatest impact came from a reduction in the Deposit Insurance Fund contribution based on a change in the CNB calculation method. Marketing costs have increased, as have information technology costs in connection with the Bank's ongoing digitalization and the ever greater demands of bank regulators. Personnel costs remain stable.

Net income from financial assets and liabilities not recognized at fair value through profit or loss totaled CZK 1.4 billion and includes the above-mentioned non-recurring income from the sale of VISA Europe shares amounting to CZK 1.4 billion before tax. Česká spořitelna exercised the option to sell these shares.

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 0.7 billion, which represents an improvement by 50.0% compared to the same period in 2015. **This good result can be attributed to the ever improving quality of the loan portfolio.**

There are numerous contributing factors to other operating profit/loss of CZK -0.5 billion, such as gains and losses on the revaluation and disposal of financial assets, appreciation or impairment of tangible assets, and the recognition and reversal of other provisions. **Another component of other operating profit/loss is the annual statutory contribution to the Resolution Fund** (a joint fund for resolving banking crises) in the amount of CZK 0.4 billion.

Statement of Financial Position

For the first time in Česká spořitelna history, consolidated total assets topped the trillion koruna mark and amounted to CZK 1,037.3 billion, a 12.3% increase compared to H1 2015. Thus, total assets have increased by 8.1% for the year to date. The structure of assets changes in comparison to the year before; the volume of client loans increased, as did the volume of deposits with the Czech National Bank. The volume of available-for-sale financial assets decreased. On the liability side, there was an increase in client deposits, interbank deposits and equity. The volume of issued securities fell.

The expanding Czech economy benefits from the confidence of households and businesses and from gradually increasing real wages, which is reflected in increased household consumption of long-term durable goods and growth in industrial production and new orders. **All these impacts coupled with the active approach of Česká spořitelna contributed to an increase in the aggregate net portfolio of client loans for the last twelve months by 8.3% to CZK 553.2 billion.** In absolute terms, this represents an increase of CZK 42.5 billion. Mortgage loans, loans to large corporate clients and consumer loans played the largest role in increased lending. The aggregate net portfolio of client loans has increased 3.9% for the year to date.

Growth in the volume of the portfolio of mortgage loans to individuals once again accelerated year on year by a significant 11.5%, an absolute volume amounting to CZK 20.1 billion. Mortgage loans thus totaled CZK 196.0 billion at 30 June 2016. In the first six months of this year, Česká spořitelna experienced its best ever half-year in new mortgage loans, which exceeded 13 thousand in total and amounted to CZK 25.6 billion. **Growth in mortgage loans is tied to** very low interest rates, a rise in household income and, no less importantly, the **attractive mortgage loans offered by Česká spořitelna.** The important indicator of average loan value to property value (loan to value ratio) shows a comfortable ratio of 63.9% for the aggregate portfolio.

Client interest in property renovation and reconstruction was reflected in a rise in lending transactions at Stavební spořitelna ČS, whose total gross loan portfolio reached CZK 35.7 billion. H1 growth is only 1.2%, but represents the first reported growth since mid-2010. **The Buřinka Loan, which received the Zlatá Koruna (Golden Crown) prize for 2016, has played a large role in this result. Cash loans also reported something of a recovery,** increasing 1.7% year on year to CZK 52.6 billion on the back of growing household consumption. The popular product Loan, where up to 12 instalments are forgiven if repayment proceeds smoothly, has played the greatest role in this growth.

Gross loans to firms, corporate clients and large public sector clients increased 6.3% year on year to CZK 215.5 billion, **with the bulk of loans going to large corporate and public sector clients.** Both ČS Financial Group lease companies performed well in lending. Together, the gross loan portfolio of sAutoleasing and Erste Leasing grew 7.8% to CZK 15.2 billion.

The indicator of the proportion of net client loans to client deposits (including deposits measured at fair value) represents 72.5% compared to 74.0% for H1 2015. **The proportion of client loans in default to the aggregate amount of client loans attests to the improving quality of the Česká spořitelna loan portfolio.** This indicator was **3.6%** as of 30 June 2016. In the same period last year, the indicator stood at 4.2%. The proportion of impairment allowances for loans in default remained stable at a high level of 76%; inclusive of collateral, this indicator stands at 108%.

The aggregate balance of the portfolios of held-for-trading securities, classified as at fair value, available-for-sale securities and securities held to maturity totaled CZK 254.7 billion for H1 2016, representing a year-to-year decrease by 1.9%. **The greatest reduction was in the volume of bonds in the portfolio of available-for-sale financial assets.** On the other hand, **the volume of loans measured at fair value increased to CZK 12.7 billion, of which CZK 9.2 billion represents a reverse repo with the CNB.** More than 94.3% of the securities portfolio comprises bonds (primarily government bonds). Shares, loans measured at fair value and other financial assets account for 5.7% of the total portfolio.

In the cash and cash balances with central banks caption, deposits with the CNB increased significantly compared to H1 2015, i.e. by 190.5% to CZK 129.5 billion. **Česká spořitelna deposits its surplus liquid funds with the CNB in the form of short-term deposits.**

The aggregate balance of tangible and intangible fixed assets fell 10.5% to CZK 14.8 billion compared to 30 June 2015. Tangible assets total CZK 10.9 billion, of which land and buildings account for 64.3%. Intangible assets amount to CZK 3.8 billion. The volume of intangible assets increased over the last 12 months in connection with the Bank's progressing digitalization.

In line with expectations, the volume of capital assets is gradually declining. Compared to H1 2015, these have fallen 18.2% to CZK 4.8 billion owing to the ongoing reduction of investments in real estate funds.

Amounts due to customers, including deposits measured at fair value, climbed by 10.5% year on year to CZK 763.1 billion, and have grown 6.9% since the beginning of the year. Household deposits alone increased 6.0% year on year to CZK 553.0 billion. **Principal additions were specifically related to Personal Account deposits**, while **savings products** such as ČS Savings **continue to rise in popularity**. Low interest rates have meant less client interest in term deposits. Construction savings deposits have also declined in popularity as a result of the termination of building savings contracts at the end of their six-month cycle. **Corporate client deposits grew by a considerable 30.4% to CZK 138.3 billion**, meaning corporate clients entrusted their surplus liquidity to Česká spořitelna. Public sector deposits increased 14.9% to CZK 71.7 billion, of which CZK 9.3 billion represents loans received within repo transactions.

Amounts due to financial institutions increased by 59.0% to CZK 103.6 billion due primarily to an increase in financial institutions'

short-term time deposits. Special purpose loans from the European Investment Bank and similar institutions amounted to nearly CZK 30.9 billion.

Payables from debt securities reported in the consolidated balance sheet fell by 50.8% to CZK 11.2 billion, resulting from a decrease in mortgage and other bonds whose issues matured.

Equity attributable to equity holders amounted to CZK 114.0 billion, a 10.6% increase. Equity increased due to growth in retained earnings and the issue of A1-rated hybrid capital totaling EUR 300 million in autumn 2015.

Consolidated capital adequacy Tier I and II under BASEL III rules **reached a comfortably high level** of 19.6% at 30 June 2016. It stood at 19.2% in mid-2015 under BASEL III. Total Tier I and II capital under BASEL III used to calculate the capital adequacy ratio amounted to CZK 99.1 billion and total risk exposure to CZK 506.1 billion. At 30 June 2015, these figures were CZK 89.7 billion and CZK 466.1 billion, respectively.

Significant Events and Business Operations

in the First Half of 2016

My Healthy Finance (Moje zdravé finance)

Česká spořitelna is in the process of launching a long-term plan to promote sound finances and help people better manage their savings and household budget. **The Bank sees the future of banking advisory in this concept.** In H1 2016, the Bank **continued its trial run of the My Healthy Finance (MZF) service whose guiding principle is to help clients** handle life's important financial situations. Through advisory, Česká spořitelna hopes to meet the needs of clients and in so doing increase their level of satisfaction with the Bank and help them better understand their finances, save on their regular expenses and increase their wealth. Pilot operation has confirmed this to be a good idea. **Thanks to MZF, client satisfaction with the services of Česká spořitelna has grown appreciably.** Currently, the MZF service is being used by more than 45 thousand clients despite only being available at 34 branches. In autumn 2016, My Healthy Finance will become available at every branch.

New products associated with the My Healthy Finance service have been introduced and **enable clients, in addition to obtaining energy savings, to open a Healthy Account (Zdravý účet), get a Healthy Card (Zdravá karta), have Money on Click (Peníze na klik) and use the MZF Application,** and enjoy a full complement of My Sound Finances services comprising financial and non-financial products and advisory. The new products cover clients' every routine financial need, from daily payments, through digital account access and a small reserve in their account, to the possibility of setting aside their saved money and having a higher amount of cash available if urgently needed.

In summer, the **MZF Application** was expanded to include a unique new function that **helps clients set their monthly spending budget** based on a comparison with the budgets of others in similar situations using demographic characteristics like region and city size, income or stage of life (e.g. single, with a family, retired). **In the tracked categories, clients then see where they are spending more or less than the majority of others like them.** The advisor then recommends categories in which less could be spent and the client can then set a better spending budget. The client also receives a host of tips on making saving easier. In setting a budget, the client has control over monthly expenditure in individual spending categories.

Czech Statistics Bureau data confirm some 40% of Czech households have insufficient financial reserves and would run into problems covering an unforeseen expense of CZK 10,000, which would completely blow their family budget. That's why Česká spořitelna is preparing **Money on Click, a simple recurring loan**

available in smaller increments as a responsible counterweight to the not always beneficial micro-loans offered on the Czech market. **In the experience of Česká spořitelna, many people put off setting aside money** as a reserve for unforeseen expenses, so when an unexpected situation arises, they deal with the unplanned expense under pressure and at a disadvantage. At Česká spořitelna, clients are advised to set aside at least a small amount every month to have a readily available financial reserve. But if they do not yet have one, Česká spořitelna now offers them an immediate solution in the form of Money on Click. Clients specify how large an amount they are able to repay in monthly instalments and the Bank sets the reserve amount based on this information. Instalments should be in amounts that do not disrupt client budgets and can be repaid quickly.

Digital Banking

Starting in April 2016, clients have access to the new mobile application Friends 24, which offers a unique way to pay small amounts between individuals. **The Friends 24 application is the only one for which the client does not need to know an account number** to be able to pay a colleague back for lunch or pay a babysitter. **All you need is a mobile phone and a telephone, e-mail, Facebook or perhaps WhatsApp** contact. Paying a friend takes all of 10 seconds, whenever and wherever, and the recipient does not need to have an account with Česká spořitelna or even a smart phone; he just enters the account to which he would like the money to be sent. The application can be accessed with a PIN, swipe or fingerprint. Friends 24 can also keep a "debtor's ledger" to easily keep track of who owes – or is owed by – the user. The application is free to download in the official App Store and Google Play.

Česká spořitelna launched another innovation at the same time: the **unique online Paper-free Loan (Půjčka bez papíru) also known as cash in your account within 15 minutes.** The Paper-free Loan is not only lightning fast, it has 4 additional advantages: **it is paperless, has no initial processing fee, no fee for an additional payment or early repayment and no need for insurance.** It is the first loan on the market that is easily managed online from start to finish in amounts from CZK 20 to 200 thousand. While it is designed for those without an account at Česká spořitelna, it can of course be used by Česká spořitelna clients, too.

In mid-May, Northern Moravia became the first region in the Czech Republic to use a biometric signature for client documentation. The client uses a special device called a signpad or tablet instead of paper. This electronic tablet takes an image not only of the shape of the signature, but also a range of other unique sig-

nature characteristics such as speed, pressure and duration of the signing process. **Biometric signing is faster, less administratively demanding and far more environmentally friendly.** Clients in Northern Moravia sign an average of 5,400 documents biometrically every day. The project will gradually be rolled out in other regions.

Clients can use free WiFi at all Česká spořitelna branches under the new “Your Spořitelna Free” label. The network is of course secure and clients may use it free of charge for as long as they want while visiting a branch. All Česká spořitelna branches display this label. The Česká spořitelna branch network coupled with the availability of this service is a huge competitive advantage. **It is important** for clients to be able to manage their accounts and other banking products comfortably and easily using their mobile phone and **for the Bank’s online environment to be fully functional at all our branches.** This initiative combines the benefits of in-branch personal advisory and mobile banking.

Česká spořitelna clients can now use PAYMENT 24 (PLATBA 24) for purchases in e-shops that use the payment gateway from the provider Global Payments, which is the most used payment gateway in the Czech Republic. Clients can now shop with comfort and ease in hundreds of e-shops that did not previously offer the PAYMENT 24 service. **PAYMENT 24 is a fast and secure way to make payments online via internet banking** – all the necessary information is filled in for the client, who just has to verify and send. In addition, there is no unnecessary waiting for an order, as the vendor immediately knows when payment is made and can dispatch the order right away. More than 800 thousand Česká spořitelna clients have used PAYMENT 24 in nearly 2 thousand e-shops, and interest is only growing. **So far this year, clients have completed almost 1.3 million transactions in an aggregate amount of CZK 1.5 billion via PAYMENT 24.** Transactions have thus increased 36% in number and 45% in volume year on year. The average paid amount has increased over recent years by nearly a half from CZK 800 to CZK 1,200.

Česká spořitelna – penzijní společnost allows clients to conclude supplementary pension savings contracts online using a new application in which they can execute contracts not only on their computer, but also with their mobile phone or tablet. Parents can also conclude savings contracts online for their kids. Clients can easily arrange pension savings online – it’s comfortable and quick and not a single document has to be printed.

ČSPS is the only pension company on the Czech market whose clients can choose how supplementary pension savings are set up. **Even when they arrange supplementary pension savings online, clients still enjoy all the benefits, such as the unique service Guarantee (Garance).** This ensures that when clients meet certain conditions, the difference in their pension account is made up if the value of assets in the pension account is lower than the aggregate amount the client and employer have contributed to the pension account at the time funds are paid out.

Using the mobile donor application Melinda, people can comfortably send charitable projects and NGOs **one-time contributions** or regular contributions by rounding up amounts paid by credit card. All donors need is, except the application, a personal account with Česká spořitelna, internet banking and a smart phone. Every client has full control of the contribution and can use the application to monitor how even small contributions help. The donor easily sets up charitable projects and donated amounts in the application. Contributions sent via Melinda are tax deductible. All funds go to a good cause and 100% of all amounts goes to the given NGO.

Card Programme

A total of 3.0 million active payment cards have been issued, of which 240 thousand are credit cards. The volume of lending extended through credit cards totaled CZK 3.2 billion at 30 June 2016.

The volume of transactions executed by vendors of **Česká spořitelna cards** from January to June 2016 **rose by 10.9% year on year to CZK 64.3 billion**, of which contactless card transactions accounted for nearly three quarters, i.e. CZK 47.3 billion. The number of transactions exceeded 100 million for H1 2016.

At the end of June 2016, Česká spořitelna operated 1,595 ATMs and payment machines; 30 new machines were installed over the last 12 months. Since the beginning of 2016, cardholders have made 43.4 million cash withdrawals totaling CZK 151.8 billion at Česká spořitelna ATMs.

Starting in June 2016, UnionPay cardholders can withdraw money from Česká spořitelna ATMs. The UnionPay Banking Association serves the largest group of cardholders in the world; it is strongly positioned in Asia and rapidly growing in Russia. UnionPay cards, the most widely used cards in China, are issued in more than 40 countries and regions and accepted in 157 countries and regions. **Česká spořitelna started accepting UnionPay cards because more and more tourists who use this card are coming to the Czech Republic.**

In early June 2016, US-based Global Payments, the world’s leading provider of payment processing technology services, CaixaBank, the biggest Spanish bank by market share, and Erste Group together completed the formation of the joint venture Global Payments s.r.o. The agreement stipulates that Global Payments and CaixaBank hold a 51% majority share in the joint venture and Erste Group the remaining 49%. The new undertaking provides payment services to vendors in the Czech Republic, Romania and Slovakia. The CaixaBank and Erste Group partnership with Global Payments brings two strong international partners to these countries, raising the standard of services for vendors and clients, introducing a whole range of benefits and providing access to important innovations and technologies.

Erste Corporate Banking

A new agreement with the European Investment Fund (EIF) allows Česká spořitelna to provide Czech start-ups with total funding of CZK 550 million over the next two years. With the EIF guarantee, Česká spořitelna can offer loans under favorable terms for a portfolio of clients from start-ups through small firms to companies with 500 employees. **Thanks to this new loan with an EIF guarantee, Česká spořitelna can support interesting projects of emerging entrepreneurs** without unnecessary administration or the need for a business history. Having a partner like the EIF reduces the need for loan collateral and allows a higher risk tolerance for start-up projects.

Česká spořitelna has provided loans of CZK 33.8 billion to Czech firms with EIF guarantees or European Investment Bank funding since 2004, making Česká spořitelna the EIB's most important partner in Central Europe.

In H1 2016, a number of large credit transactions was executed in Czech koruna or euros through Erste Corporate Banking. Česká spořitelna has acted as creditor, arranger, agent, mandated lead co-arranger or lead arranger in these transactions. Key transactions include an investment loan of CZK 4.0 billion to České Radiokomunikace, syndicated long-term and operating financing totaling EUR 230 million to Kronospan ČR, and a club term loan to Business Lease Group for EUR 185 million. Acquisition, investing and operational loans totaling CZK 2.5 billion were extended to Jet Investment as a comprehensive financing solution, a long-term development and investment loan went to Šporkovský palác totaling CZK 0.5 billion, and long-term refinancing of CZK 5.0 billion was arranged for Pražská plynárenská. An overdraft facility was extended to Central Group totaling CZK 0.5 billion, a long-term loan to the Ústi region for CZK 0.6 billion and an acquisition loan of CZK 1.0 billion to RenoEnergie.

Mutual Funds

Česká spořitelna has become a leader on the market for providers of domestic and foreign mutual funds. This is according to Q1 2016 data in a press release issued by the Czech Capital Market Association (AKAT). In Q1, Česká spořitelna managed mutual fund investments totaling CZK 98.4 billion. Česká spořitelna has long been one of the three largest distributors of mutual funds on the Czech market, a position it attained by offering high-quality mutual funds to its clients. **Mutual funds have a long history as a product used to gain a return on one's money.** Given current market conditions and extremely low interest rates, mutual funds represent one of few opportunities to effectively achieve this goal. The vast majority of the Bank's mutual funds comprise products from the Czech branch of the management investment company Erste Asset Management.

REICO investiční společnost české spořitelny

In May 2016, the fund capital of ČS Real Estate Fund, which is managed by REICO investiční společnost České spořitelny, came to exceed CZK 10 billion for the first time, and nearly 41 thousand participants had invested in the fund. **ČS Real Estate Fund** was established in 2007 and is **the largest and oldest real estate mutual fund on the Czech market.** ČS Real Estate Fund is geared toward conservative investors; its long-term objective is to achieve a return in line with government bond yields.

In April 2016, ČS Real Estate Fund broadened its portfolio to include a new office building, Rohan Business Center, near the center of Prague on Rohanské nábřeží in Karlín, which has become a popular location for office buildings. The value of this new acquisition is roughly CZK 0.7 billion. Gross leasable area is approximately 9.7 thousand square meters, virtually 100% of which is occupied.

This acquisition brings the number of buildings in the ČS Real Estate Fund portfolio to ten: 6 properties in Prague, 2 in Bratislava and 1 each in Brno and České Budějovice.

General Meeting

The Česká spořitelna shareholders attending the Annual General Meeting on 22 April 2015 in Prague approved the distribution of 2015 profit and payment of a gross dividend of CZK 84.2 for preference and ordinary shares. The total dividend payment was CZK 12.8 billion. Česká spořitelna posted a non-consolidated profit after taxes of CZK 14.1 billion for 2015 and is using the remaining profit not distributed as dividends to pay additional capital distributions (CZK 0.7 billion) and strengthen the Bank's equity position.

Tomáš Salomon New Board of Directors Chairman

On 1 January 2016, Česká spořitelna Board of Directors member Tomáš Salomon, in charge of retail banking, became the new Board of Directors chairman. Tomáš Salomon joined Erste Group, Česká spořitelna's owner, in 2013. While successfully running retail banking at Slovenská spořitelna, he assumed the same post at Česká spořitelna in January 2015. On 1 February 2016, Daniela Pešková became the new Board of Directors member responsible for retail banking. Pavel Kráčmar joined her as the new Board of Directors member in charge of corporate banking and financial markets. Daniela Pešková originally managed the Bank's branch network and external sales and Pavel Kráčmar managed retail investments on financial markets for Česká spořitelna.

Social Activities

Česká spořitelna became the general partner of the Czech Agricultural University (ČZU), thus adding a sixth post-secondary institution to the Bank's university partnerships. In all, the Bank now works with 9 universities. Even before signing an agreement, Česká spořitelna had been cooperating with the business accelerator PointOne at ČZU, where one student project involved formulating a marketing strategy to promote investing for young people. PointOne is just one of two accelerators at universities with which the Bank has partnered.

Česká spořitelna presented a check for one million koruna to the country's oldest university in honor of the anniversary of the birth of Charles IV. The Bank entered into a Memorandum of Partnership and Cooperation with Charles University in 2015.

Česká spořitelna and the University of Economics (VŠE) in Prague have signed an agreement on mutual cooperation for the 14th time. The Bank helps fund the development of educational activities at VŠE and also provides non-financial assistance. In early April, Česká spořitelna and VŠE together held an Innovation Day during which teams comprised of Bank employees and students from xPORT VŠE and other partner universities were assigned a real-world business task to perform.

In the spring, Česká spořitelna decided to adopt an unusual method for promoting financial literacy in teens. The Bank contacted leasing Czech Youtuber Vidrail and gave him a free hand to make a video about finances. His successful blog helped the Bank promote the exciting online game **The Mysterious Road** in which players use their financial knowledge while become acquainted with the beauty and intrigue of London.

Through the Česká spořitelna Social Banking programme, the Bank takes an individualized approach to funding firms and NGOs with a social component. Just two such organizations are Zelený ostrov Laundry, which gives work to the hearing impaired and Aranžerie, a workshop in which people with epilepsy bind floral bouquets. Both projects are Impact First programme finalists. Go to www.krozkrokem.cz for more information.

Impact First, a new accelerator started by Česká spořitelna and the company Impact HUB, focuses on businesses that have a social impact. In late May, Amaro Records was presented as the winner of the second round. Teams and organizations building or running a social firm may register with the programme.

Česká spořitelna has developed the donor application **Melinda**, an easy and straightforward way to help others. Clients can contribute to specific projects with a one-off donation or regularly with every card payment by having the amount rounded up. There are always dozens of projects from which to choose. New projects always appear in the application when any existing project obtains coveted financial aid. Application users themselves may suggest projects.

The Česká spořitelna Foundation awarded its **Floccus Prize to 6 organizations and 3 individuals** who offer assistance to people on the margins of society. The general public and Česká spořitelna staff selected their favorite candidates in an internet vote and a professional judging panel chose the final award recipients.

For more information on Česká spořitelna's social activities, visit www.pomahamedobrymvecem.cz.

Awards Received

In the prestigious **Euromoney Awards for Excellence 2016**, Česká spořitelna placed first in the category **Best Bank in the CR**. The prize is awarded annually by Euromoney, a trade magazine specializing in banking and financial markets. Česká spořitelna also received this award in 2013, 2012, 2009 and, for its private banking, in 2011. The award ceremony was once again held in the historic Tower of London. Euromoney magazine has handed out these awards in 110 countries since 1992. The results are based on an analysis of quantitative data and the assessment of a jury of journalists, which looks at financial indicators, level of client service, expertise and innovation.

Česká spořitelna Financial Group became a fourth-time winner in this year's **Zlatá koruna competition**, defending its previous year's win in the social responsibility category. Stavební spořitelna ČS won in the building society category with its Buřinka Loan and ČS penzijní společnost received the bronze crown in the pension company category. The Česká spořitelna Investment Loan designed for entrepreneurs also won the bronze. The Zlatá koruna competition has evaluated financial products on the Czech market for fourteen years. The high quality of awarded products is guaranteed by a Financial Academy of more than 300 economic experts who evaluate products.

Česká Spořitelna Anticipated Development in the Second Half of 2016

Based on anticipated changes in client behavior and needs, the new Česká spořitelna strategy is primarily focused on providing services with the long-term goal of achieving a significant increase in customer satisfaction in the coming years.

In day-to-day practice, this means implementing a strategy of bringing new technologies to clients and providing instruction in their use in order to leave the Bank and its clients more time and energy for advisory and finding the right solutions for important life situations. Part of this effort will be to work more effectively with diverse client data to enable the Bank to offer the right services at the right time, in the right place and in the right form.

The strategic aims of retail banking, a key area for Česká spořitelna, formed the core of the My Sound Finances project, which was proven last year in pilot operation at selected branches. The project's guiding principle is to help clients handle important life situations. Through advisory, the Bank hopes to meet client needs and in so doing increase their level of satisfaction, help them better understand their finances and save on their regular expenses.

The trial run proved this to be a good idea, which is why in H2 2016 the project will be rolled out at all Česká spořitelna branches. In H2, Česká spořitelna will thus transition from new strategy creation to gradual implementation in the form of four change programmes. Two of these will focus on the Bank's key business lines (retail and corporate banking) and the other two on improving the ability to work with available data and better utilize human potential.

In light of the ongoing Czech economic recovery, Česká spořitelna expects to continue seeing stable growth supported by implementation of a new retail strategy and increasing customer satisfaction and loyalty in H2 2016.

In respect of the basic captions of asset and liability balances, loans to customers are expected to increase in volume in the second half of the year as compared to the first half. Primary deposits are expected to continue growing. This development should result in stagnation or a slight increase in the loan to deposit ratio.

In H2 2016, the Bank expects similar development regarding principal income statement items as in H1 with the exception of some one-off transactions that were recognized in H1 and chiefly impacted other operating result. Net interest income will once again be affected by persistently low interest rates and changes in the structure of assets and liabilities. Net commission income will be favorably affected by the Bank's stepped-up lending activity; though, growing competitive pressure from new banks on the Czech market together with limitations imposed by European Union regulatory requirements will have a negative impact. Benefits ensuing from the implementation of selected Group and local projects, along with a 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 June 2016	30 June 2015
Return on equity (ROE)	13.5%	13.3%
Return on assets (ROA)	1.7%	1.6%
Cost/income	46.3%	45.6%
Net interest margin in relation to interest-earning assets	3.18%	3.34%
Non-interest income / operating income	32.7%	35.1%
Loans and advances to customers / amounts owed to customers	72.5%	74.0%
Consolidated capital adequacy (BASEL III, Tier I and II)	19.6%	19.2%

Selected Operating Figures

	30 June 2016	30 June 2015
Average headcount of Česká spořitelna Financial Group	10,329	10,545
Total number of clients	4,740,633	4,982,584
Number of SERVIS 24 and BUSINESS 24 direct banking active clients	1,707,044	1,633,851
Number of cards	3,020,751	3,136,494
of which: credit cards	241,573	281,069
Number of ATMs and payment machines	1,565	1,565
Number of Česká spořitelna branches	606	633

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

CZK million	30 June 2016	30 June 2015
Česká spořitelna – penzijní společnost, a.s.	40	9
Erste Leasing	43	37
Factoring České spořitelny	17	1
REICO investiční společnost České spořitelny	33	17
sAutoleasing	53	57
Stavební spořitelna České spořitelny	354	352

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 consolidated group for the six months just ended and on the future prospects of its financial position, business operations and financial results.



Tomáš Salomon
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 2016

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 2016	1–6 2015
Net interest income	1	12,773	12,933
Net fee and commission income	2	4,646	5,115
Dividend income	3	54	57
Net trading and fair value result	4	1,237	1,435
Net result from equity method investments		3	-
Rental income from investment properties & other operating leases	5	258	401
Personnel expenses	6	(4,395)	(4,368)
Other administrative expenses	6	(3,375)	(3,645)
Depreciation and amortisation	6	(1,011)	(1,071)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	1,423	143
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(695)	(1,390)
Other operating result	9	(543)	(577)
Pre-tax result from continuing operations		10,375	9,033
Taxes on income	10	(2,136)	(1,713)
Post-tax result from continuing operations		8,239	7,320
Net result for the period		8,239	7,320
Net result attributable to non-controlling interests		1	(1)
Net result attributable to owners of the parent		8,238	7,321

Statement of Comprehensive Income

in CZK million	Notes	1–6 2016	1–6 2015
Net result for the period		8,239	7,320
Items that may be reclassified to profit or loss			
Available for sale reserve			
Gain/(loss) during the period		(1,721)	(530)
Cash flow hedge reserve			
Gain/(loss) during the period		384	(223)
Currency translation			
Gain/(loss) during the period		15	(37)
Deferred taxes relating to items that may be reclassified			
Gain/(loss) during the period		255	141
Total		(1,067)	(649)
Total other comprehensive income		7,172	6,671
Total comprehensive income		7,172	6,671
Total comprehensive income attributable to non-controlling interests		1	(1)
Total comprehensive income attributable to owners of the parent		7,171	6,672

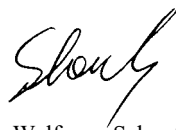
II. Consolidated Condensed Statement of Financial Position

in CZK million	Notes	Jun 2016	Dec 2015
Assets			
Cash and cash balances	11	156,290	111,027
Financial assets - held for trading		27,812	14,725
Derivatives	12	14,853	13,995
Other trading assets	13	12,959	730
Financial assets – designated at fair value through profit or loss	14	962	907
Financial assets - available for sale	15	80,837	78,053
Financial assets - held to maturity	16	159,901	160,988
Loans and receivables to credit institutions	17	33,084	34,717
Loans and receivables to customers	18	553,224	532,524
Derivatives - hedge accounting	19	895	663
Property and equipment		10,912	12,318
Investment properties		4,819	4,949
Intangible assets		3,844	3,966
Investment in joint ventures and associates		597	-
Current tax assets		919	740
Deferred tax assets		138	146
Other assets	20	3,112	3,861
Total assets		1,037,346	959,584
Liabilities and equity			
Financial liabilities - held for trading		28,859	14,956
Derivatives	12	16,074	14,944
Other trading liabilities	21	12,785	12
Financial liabilities – designated at fair value through profit or loss	22	3,078	4,019
Deposits from customers		3,078	4,019
Debt securities issued		-	-
Financial liabilities measured at amortised cost	23	877,225	811,679
Deposits from banks		103,574	83,915
Deposits from customers		759,999	709,817
Debt securities issued		11,221	15,493
Other financial liabilities		2,431	2,454
Derivatives - hedge accounting	19	528	496
Provisions	24	2,895	2,584
Current tax liabilities		164	100
Deferred tax liabilities		760	621
Other liabilities	25	9,811	5,166
Total equity		114,026	119,963
Equity attributable to non-controlling interests		(18)	(23)
Equity attributable to owners of the parent		114,044	119,986
Total liabilities and equity		1,037,346	959,584

These interim consolidated financial statements were prepared by the Group and authorized for issue by the Board of Directors on **16 August 2016**.



Tomáš Salomon
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	Other capital instruments	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 2015	15,200	11	90,660	-	26	2,052	(140)	107,809	(26)	107,783
Dividends paid	-	-	(11,400)	-	-	-	-	(11,400)	-	(11,400)
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
As of 1 January 2016	15,200	11	93,532	8,107	28	3,275	(167)	119,986	(23)	119,963
Dividends paid	-	-	(13,110)	-	-	-	-	(13,110)	-	(13,110)
Other changes	-	-	(3)	-	-	-	-	(3)	4	1
Total comprehensive income	-	-	8,238	-	312	(1,394)	15	7,171	1	7,172
Net result for the period	-	-	8,238	-	-	-	-	8,238	1	8,239
Other comprehensive income	-	-	-	-	312	(1,394)	15	(1,067)	-	(1,067)
As of 30 June 2016	15,200	11	88,657	8,107	340	1,881	(152)	114,044	(18)	114,026

IV. Consolidated Statement of Cash Flows

in CZK million	Notes	1–6 2016	1–6 2015
Pre-tax result from continuing operations		10,375	9,033
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets		1,097	1,593
Allocation to and release of provisions (including credit risk provisions)		1,208	1,241
Gains/(losses) from the sale of assets		(1,148)	(37)
Change in fair values of derivatives		456	(568)
Accrued interest, amortisation of discount and premium		(1,731)	553
Other adjustments		824	16
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with the CNB		238	5,733
Loans and receivables to credit institutions		683	3,438
Loans and receivables to customers		(21,410)	(12,585)
Financial assets - held for trading		(12,276)	1,234
Financial assets – designated at fair value through profit or loss		(53)	369
Financial assets - available for sale		(4,120)	(1,756)
Other assets from operating activities		731	(227)
Deposits from banks		(20,841)	209
Deposits from customers		50,774	11,698
Financial liabilities - held for trading		11,831	2,998
Increase in non-controlling interests		0	-
Payments for taxes on income		(1,849)	(2,047)
Other liabilities from operating activities		4,049	4,010
Cash flow from operating activities		18,838	24,905
Proceeds of disposal			
Financial assets - held to maturity and associated companies		5,174	5,929
Property and equipment, intangible assets and investment properties		(100)	(12)
Equity investments			-
Acquisition of			
Financial assets - held to maturity and associated companies		(6,433)	(13,989)
Property and equipment, intangible assets and investment properties		(230)	831
Disposal of subsidiaries		0	-
Cash flow from investing activities		(1,589)	(7,241)
Dividends paid to equity holders of the parent		(13,110)	(11,400)
Dividends paid to non-controlling interests		-	-
Other financing activities (mainly changes of subordinated liabilities)		9	(261)
Proceeds from bonds issued		698	2,450
Repurchase of bonds in issue		(4,910)	(2,500)
Cash flow from financing activities		(17,313)	(11,711)
Cash and cash equivalents at beginning of period		92,278	32,768
Cash flow from operating activities		18,838	24,905
Cash flow from investing activities		(1,589)	(7,241)
Cash flow from financing activities		(17,313)	(11,711)
Cash and cash equivalents at end of period	11	92,214	38,721
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(1,849)	(2,047)
Interest received		13,973	14,683
Dividends received		54	57
Interest paid		(2,231)	(754)
Dividends paid to equity holders of the parent		(13,110)	(11,400)

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

for the Period from 1 January to 30 June 2016

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 2016 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 2016 as follows:

As of 31 December 2015	33
Additions	
Entities newly added to the scope of consolidation	1
Disposals	
Companies sold / deconsolidated	(1)
As of 30 June 2016	33

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 2015.

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 2015.

Application of amended or 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 2016:

- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations

- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012-2014 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 2016	1–6 2015
Interest income		
Financial assets held for trading	527	34
Financial assets designated at fair value through profit or loss	6	6
Available-for-sale financial assets	351	341
Loans and receivables	11,013	11,596
Held-to-maturity investments	2,245	2,522
Derivatives - Hedge accounting, interest rate risk	54	26
Other assets	35	3
Total interest income	14,231	14,528
Interest expenses		
Financial liabilities held for trading	(484)	(13)
Financial liabilities measured at amortised cost	(1,044)	(1,748)
Derivatives - Hedge accounting, interest rate risk	70	353
Total interest expenses	(1,458)	(1,595)
Net interest income	12,773	12,933

2. Net fee and commission income

in CZK million	1–6 2016	1–6 2015
Securities	424	438
Clearing and settlement	108	130
Asset management	317	254
Custody	66	50
Payment services	2,474	2,744
Customer resources distributed but not managed	354	402
Lending business	863	1,047
Other	40	50
Net fee and commission income	4,646	5,115

3. Dividend income

in CZK million	1–6 2016	1–6 2015
Financial assets - designated at fair value through profit or loss	14	23
Financial assets – available for sale	40	34
Dividend income	54	57

4. Net trading and fair value result

in CZK million	1–6 2016	1–6 2015
Net trading result	1,272	1,487
Securities and derivatives trading	601	1,129
Foreign exchange transactions	671	358
Result from financial assets and liabilities designated at fair value through profit or loss	(53)	(82)
Result from measurement/sale of financial assets designated at fair value through profit or loss	(45)	(32)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(8)	(50)
Gains or losses from hedge accounting	18	30
Net trading and fair value result	1,237	1,435

5. Rental income from investment properties & other operating leases

in CZK million	1–6 2016	1–6 2015
Investment properties	226	352
Other operating leases	32	49
Rental income from investment properties & other operating leases	258	401

6. General administrative expenses

in CZK million	1–6 2016	1–6 2015
Personnel expenses	(4,395)	(4,368)
Wages and salaries	(3,112)	(3,126)
Compulsory social security	(1,007)	(1,003)
Other personnel expenses	(276)	(239)
Other administrative expenses	(3,375)	(3,645)
Deposit insurance contribution	(200)	(486)
IT expenses	(1,229)	(1,222)
Expenses for office space	(681)	(713)
Office operating expenses	(382)	(432)
Advertising / marketing	(454)	(399)
Legal and consulting costs	(143)	(170)
Sundry administrative expenses	(286)	(223)
Depreciation and amortization	(1,011)	(1,071)
Software and other intangible assets	(417)	(402)
Owner occupied real estate	(345)	(326)
Investment property	(71)	(100)
Office furniture and equipment and sundry property and equipment	(178)	(243)
General administrative expenses	(8,781)	(9,084)

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

in CZK million	1–6 2016	1–6 2015
From sale of financial assets available for sale	1,423	99
From sale of financial assets held to maturity	-	45
From sale of loans and receivables	-	1
From repurchase of liabilities measured at amortised cost	-	(2)
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	1,423	143

Gain from the sale of the stake in VISA Europe Ltd. in amount of CZK 1,423 million was reported as of 30 June 2016.

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

in CZK million	1–6 2016	1–6 2015
Financial assets – available for sale	2	-
Loans and receivables	(698)	(1,394)
Allocation to risk provisions	(1,808)	(2,594)
Release of risk provisions	934	1,001
Direct write-offs	(100)	(14)
Recoveries recorded directly to the income statement	276	213
Financial assets - held to maturity	1	4
Net impairment loss on financial assets not measured at fair value through profit or loss	(695)	(1 390)

9. Other operating result

in CZK million	1–6 2016	1–6 2015
Result from properties/movables/other intangible assets other than goodwill	245	86
Allocation to/release of other provision	(53)	(442)
Allocation to/release of provisions for commitments and guarantees given	(335)	(54)
Other taxes	(34)	(46)
Result from other operating expenses/income	(366)	(121)
Other operating result	(543)	(577)

In June 2015 the expected contribution for the full-year 2015 to resolution fund (according to the Bank Recovery and Resolution Directive) of CZK 444 million was included in the line item “Allocation to/release of other provisions”. In June 2016 the final annual contribution paid to resolution fund in amount of CZK 398 million was reported within the line “Result from other operating expenses/income”. The gain from the sale of stake (51%) in merchant acquiring business in amount of CZK 1,148 million and the impairment loss of non-financial assets (buildings) in amount of CZK 1,040 million were presented in the line “Result from properties/movables/other intangible assets other than goodwill” as of 30 June 2016.

10. Taxes on income

Group’s consolidated net tax expense for the first six months of 2016 amounted to CZK 2,136 million (June 2015: CZK 1,713 million), thereof CZK 402 million net deferred tax expense (June 2015: CZK 31.6 million).

11. Cash and cash balances

in CZK million	Jun 2016	Dec 2015
Cash on hand	23,401	23,777
Cash balances at central banks	129,531	82,999
Other demand deposits	3,358	4,251
Cash and cash balances	156,290	111,027

A portion of 'Cash balances at central banks' includes mandatory reserve deposits in amount of CZK 10,796 million (2015: CZK 10,141 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 2016	Dec 2015
Cash on hand	23,401	23,777
Nostro accounts at central banks	118,735	72,858
Treasury bills and treasury bonds with maturity of less than three months	345	4,301
Nostro accounts with financial institutions	2,272	3,300
Loro accounts with financial institutions	(52,539)	(11,958)
Total cash and cash equivalents	92,214	92,278

12. Derivatives – held for trading

in CZK million	As of 30 June 2016			As of 31 December 2015		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	581,592	12,987	13,227	509,663	12,277	12,274
Interest rate	323,440	10,619	10,764	315,224	9,927	9,840
Equity	2,465	37	8	3,552	65	10
Foreign Exchange	253,915	2,193	2,291	187,909	2,123	2,177
Credit	-	-	-	324	1	1
Commodity	1,772	138	164	2,654	161	246
Derivatives held in the banking book	52,517	1,866	2,847	54,161	1,718	2,670
Interest rate	9,840	1,047	20	9,818	1,073	23
Equity	-	-	-	-	-	-
Foreign exchange	42,677	819	2,827	44,343	645	2,647
Credit	-	-	-	-	-	-
Commodity	-	-	-	-	-	-
Total	634,109	14,853	16,074	563,824	13,995	14,944

13. Other trading assets

in CZK million	Jun 2016	Dec 2015
Equity instruments	12	11
Debt securities	333	619
General governments	72	120
Credit institutions	261	499
Non-financial corporations	-	-
Loans and advances	12,614	100
Other trading assets	12,959	730

Money-market instruments classified as trading assets amounted to CZK 12,614 million (2015: CZK 100 million).

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

in CZK million	Jun 2016	Dec 2015
Equity instruments	568	570
Debt securities	334	337
General governments	17	17
Credit institutions	317	320
Loans and advances	60	-
Financial assets - at fair value through profit and loss	962	907

15. Financial assets – available for sale

in CZK million	Jun 2016	Dec 2015
Equity instruments	1,323	2,222
Debt securities	79,514	75,831
General governments	63,911	64,068
Credit institutions	8,943	6,443
Other financial corporations	561	270
Non-financial corporations	6,099	5,050
Financial assets – available for sale	80,837	78,053

16. Financial assets – held to maturity

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	Jun 2016	Dec 2015	Jun 2016	Dec 2015	Jun 2016	Dec 2015
General governments	147,122	148,370	-	-	147,122	148,370
Credit institutions	11,799	11,108	-	(3)	11,799	11,105
Other financial corporations	855	852	-	(1)	855	851
Non-financial corporations	129	664	(4)	(2)	125	662
Financial assets – held to maturity	159,905	160,994	(4)	(6)	159,901	160,988

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 2016				
Debt securities	1,743	-	(9)	1,734
Credit institutions	1,743	-	(9)	1,734
Loans and receivables	31,355	(1)	(4)	31,350
Credit institutions	31,355	(1)	(4)	31,350
Total	33,098	(1)	(13)	33,084
As of 31 December 2015				
Debt securities	1,731	-	(9)	1,722
Credit institutions	1,731	-	(9)	1,722
Loans and receivables	33,000	(1)	(4)	32,995
Credit institutions	33,000	(1)	(4)	32,995
Total	34,731	(1)	(13)	34,717

Allowances for loans and receivables to credit institutions

in CZK million	As of Dec 15	Allocations	Release	Transfer between allowances	As of Jun 16
Specific allowances	(1)	(3)	3	-	(1)
Loans and receivables	(1)	(3)	3	-	(1)
Credit institutions	(1)	(3)	3	-	(1)
Collective allowances	(13)	(1)	1	-	(13)
Debt securities	(9)	-	-	-	(9)
Credit institutions	(9)	-	-	-	(9)
Loans and receivables	(4)	(1)	1	-	(4)
Credit institutions	(4)	(1)	1	-	(4)
Total	(14)	(4)	4	-	(14)

in CZK million	As of Dec 14	Alloca-tions	Release	Transfer between allowances	As of Jun 15
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)

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 2016				
Debt securities with customers	796	-	(2)	794
Non-financial corporations	796	-	(2)	794
Loans and receivables to customers	568,219	(13,528)	(2,261)	552,430
General governments	20,030	(1)	(4)	20,025
Other financial corporations	10,007	(164)	(21)	9,822
Non-financial corporations	216,409	(6,641)	(1,486)	208,282
Households	321,773	(6,722)	(750)	314,301
Total	569,015	(13,528)	(2,263)	553,224
As of 31 December 2015				
Debt securities with customers	565	-	(2)	563
Non-financial corporations	565	-	(2)	563
Loans and receivables to customers	548,271	(14,307)	(2,003)	531,961
General governments	19,934	(1)	(1)	19,932
Other financial corporations	11,846	(127)	(17)	11,702
Non-financial corporations	204,971	(6,874)	(1,254)	196,843
Households	311,520	(7,305)	(731)	303,484
Total	548,836	(14,307)	(2,005)	532,524

Allowances for loans and receivables to customers

in CZK million	As of 31 Dec 15	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of 30 Jun 2016	Amounts written off	Recoveries of amounts previously written off
Specific allowances	(14,307)	(1,643)	1,239	742	160	285	(4)	(13,528)	100	(276)
Loans and receivables to customers	(14,307)	(1,643)	1,239	742	160	285	(4)	(13,528)	100	(276)
General governments	(1)	-	-	-	-	-	-	(1)	-	-
Other financial corporations	(127)	(38)	-	1	-	-	-	(164)	-	-
Non-financial corporations	(6,874)	(996)	431	422	72	308	(4)	(6,641)	73	(23)
Households	(7,305)	(609)	808	319	88	(23)	-	(6,722)	27	(253)
Collective allowances	(2,005)	(162)	1	188	-	(285)	-	(2,263)	-	-
Debt securities with customers	(2)	(1)	1	-	-	-	-	(2)	-	-
Non-financial corporations	(2)	(1)	1	-	-	-	-	(2)	-	-
Loans and receivables to customers	(2,003)	(161)	-	188	-	(285)	-	(2,261)	-	-
General governments	(1)	(3)	-	-	-	-	-	(4)	-	-
Other financial corporations	(17)	(6)	-	2	-	-	-	(21)	-	-
Non-financial corporations	(1,254)	(104)	-	158	-	(286)	-	(1,486)	-	-
Households	(731)	(48)	-	28	-	1	-	(750)	-	-
Total	(16,312)	(1,805)	1,240	930	160	-	(4)	(15,791)	100	(276)

in CZK million	As of 31 Dec 2014	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of 30 Jun 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)	-	-	-	-	-	-	(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)

19. Derivatives – hedge accounting

in CZK million	As of 30 June 2016			As of 31 December 2015		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	5,300	267	2	8,000	342	6
Interest rate	5,300	267	2	8,000	342	6
Cash flow hedge	36,129	628	526	29,806	321	490
Interest rate	21,145	628	12	21,137	321	97
Foreign exchange	14,984	-	514	8,669	-	393
Total	41,429	895	528	37,806	663	496

20. Other assets

in CZK million	Jun 2016	Dec 2015
Prepayments and accrued income	1,229	1,215
Assets under construction/unfinished goods/inventory	130	160
Sundry assets	1,753	2,486
Other assets	3,112	3,861

21. Other trading liabilities

in CZK million	Jun 2016	Dec 2015
Short positions	1	-
Equity instruments	1	-
Debt securities	-	-
Deposits	12,784	12
Credit institutions	1,479	-
Other financial corporations	11,304	11
Non financial corporations	1	1
Other trading liabilities	12,785	12

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

in CZK million	Jun 2016	Dec 2015
Deposits	3,078	4,019
General governments	3	3
Non financial corporations	13	24
Households	3,062	3,992
Financial liabilities designated at fair value through profit and loss	3,078	4,019

23. Financial liabilities measured at amortised costs

in CZK million	Jun 2016	Dec 2015
Deposits	863,573	793,732
Deposits from banks	103,574	83,915
Deposits from customers	759,999	709,817
Debt securities issued	11,221	15,493
Bonds	11,221	15,493
Subordinated debt	-	-
Other financial liabilities	2,431	2,454
Financial liabilities measured at amortised costs	877,225	811,679

Deposits from banks

in CZK million	Jun 2016	Dec 2015
Overnight deposits	52,542	11,957
Term deposits	36,601	58,968
Repurchase agreements	14,431	12,990
Deposits from banks	103,574	83,915

Deposits from customers

in CZK million	Jun 2016	Dec 2015
Current accounts/Overnight deposits	649,026	596,080
General governments	62,336	44,619
Other financial corporations	26,018	15,449
Non financial corporations	110,118	114,234
Households	450,554	421,778
Term deposits	101,662	107,790
General governments	39	38
Other financial corporations	940	268
Non financial corporations	1,253	1,692
Households	99,430	105,792
Repurchase agreements	9,311	5,947
General governments	9,311	5,947
Other financial corporations	-	-
Non financial corporations	-	-
Deposits from customers	759,999	709,817
General governments	71,686	50,604
Other financial corporations	26,958	15,717
Non financial corporations	111,371	115,926
Households	549,984	527,570

Debt securities issued - Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Jun 2016	Dec 2015
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	-	4,701
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,209	2,095
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	518	486
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,194	5,049
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	898	891
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	72	92
Mortgage bonds	CZ0002002330	June 2011	June 2016	0.30%	-	40
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	84	81
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	181	183
Mortgage bonds	CZ0002002769	December 2012	December 2016	1.50%	436	50
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	43	42
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	84	78
Bonds	CZ0003701054	September 2005	September 2017	x)	287	282
Bonds	CZ0003702037	October 2009	October 2016	xx)	590	576
Bonds	CZ0003702078	November 2009	November 2016	xx)	625	612
Cumulative change in carrying amount due to fair value hedging					-	235
Bonds issued					11,221	15,493

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.

24. Provisions

in CZK million	Jun 2016	Dec 2015
Pending legal issues and tax litigation	1,863	1,862
Commitments and guarantees given	741	406
Provisions for guarantees - off balance (defaulted customers)	489	139
Provisions for guarantees - off balance (non defaulted customers)	252	267
Other provisions	291	316
Provisions for onerous contracts	16	16
Other	275	300
Provisions	2,895	2,584

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.

25. Other liabilities

in CZK million	Jun 2016	Dec 2015
Deferred income and accrued expenses	321	376
Sundry liabilities	9,490	4,790
Other liabilities	9,811	5,166

26. Segment reporting

The Group's segment reporting is compliant with IFRS 8 Operating Segments, which adopts the management approach. Segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Group the function of the chief operating decision maker is exercised by the Management Board of Česká spořitelna, a.s.

Following a strategic review related to Erste Group operating segments and method used for the capital allocation, from 1st January 2016 there are changes introduced in the segment reporting of the Group aligned with Erste Group governance. 2015 results were restated accordingly to ensure comparability.

Structure of Business Segments

The segment reporting comprises four operating segments reflecting the Group's management structure.

Business segments

Retail

Corporates

ALM & CC

Group Markets

Retail

Retail segment comprises the business activities which are in the responsibility of account managers in the Retail network. Targeted customers are mainly privates, micros and free professionals. This business is mainly operated in cooperation with subsidiaries such as Leasing, Asset Management with the focus on simple products ranged from loans, investment products, current accounts and sav-

ings products to credit cards and cross selling products such as leasing, insurance, building society products.

In addition, the retail segment contains the capital 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, sAutoleasing, a.s., sAutoleasing SK, s.r.o., Holding Card Service, s.r.o. and MOPET CZ, a.s.

Corporates

Corporates segment comprises the business activities done with corporate customers of different turnover size and public sector.

- Small and medium-sized enterprises (SME) are clients which are under the responsibility of the corporate commercial center network, mainly consisting of companies with an annual turnover from CZK 60 million to CZK 2 billion.
- Local Large Corporates are clients with a consolidated annual turnover threshold above CZK 2 billion which are not defined as Group Large Corporate customers.
- Public Sector consists of the following three sets of customers: public sector, public corporations and non-profit sector.
 - *Public sector* includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. In general, Public sector excludes banks and non-bank financial institutions (FI), pension funds, bond issuing agencies (incl. government debt agencies), asset management based organizations which are part of the Group Markets segment.
 - *Public corporations* includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies.
 - *Non-profit sector* comprises the following private non-profit companies: central authorities of churches, labor unions and nationally significant foundations, private schools and humanitarian organizations.
- Group Large Corporates are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group with an indicative consolidated annual turnover generally of at least EUR 500 million.
- Commercial Real Estate covers commercial property projects financed by the Group.

In addition, the segment Corporates contains the capital results of the subsidiaries Factoring České spořitelny, a.s., Erste Leasing, a.s., REICO investiční společnost České spořitelny, a.s and Erste Energy Services, a.s.

Asset and Liability Management & Local Corporate Center (ALM & CC)

Asset Liability Management (ALM) comprises the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions.

Local Corporate Center (CC) comprises all non-core banking business activities such as non-profit servicing participations (e.g. IT, Procurement, Facility Management), intragroup eliminations within the Group, dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these balance sheet items. Apart from that the Corporate Center includes Free Capital of the Group defined as the difference of the total IFRS equity and the economical equity allocated to all operating segments.

Corporate center also includes results of the subsidiaries Brokerjet České spořitelny, a.s., Czech TOP Venture Fund B.V., s IT Solutions CZ, s.r.o., Euro Dotacie, a.s. and Erste Grantika Advisory, a.s.

Group Markets

Group Markets segment comprises trading and markets services as well as business with financial institutions.

Trading and Market services includes all activities related to active risk taking and managing in regulatory trading books of the Group, additional to that the execution of trades against the market using the trading books of the Group for market making and short-term liquidity management. Specifically revenues and fair value results not directly attributable to client transactions and generally risk premiums and execution fees are taken into account.

Financial institutions are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Business connected with serving financial institutions as a client including custody, depository services, commercial business (loans, cash management, trade & export finance) and capital markets business falls under FI.

Business segments

in CZK million	Retail		Corporates		ALM & CC		Group Markets		Total Group	
	1-6 2016	1-6 2015	1-6 2016	1-6 2015	1-6 2016	1-6 2015	1-6 2016	1-6 2015	1-6 2016	1-6 2015
Net interest income	10,001	10,090	2,349	2,310	376	453	47	80	12,773	12,933
Net fee and commission income	3,506	4,074	692	642	25	(66)	423	465	4,646	5,115
Dividend income	13	22	-	-	41	35	-	-	54	57
Net trading and fair value result	551	430	323	404	(1)	300	364	301	1,237	1,435
Net result from equity method investments	-	-	-	-	3	-	-	-	3	-
Rental income from investment properties & other operating leases	3	3	226	352	29	46	-	-	258	401
General administrative expenses	(6,846)	(7,084)	(1,346)	(1,402)	(260)	(275)	(329)	(323)	(8,781)	(9,084)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	(2)	-	-	1,423	145	-	-	1,423	143
Net impairment loss on financial assets not measured at fair value through profit or loss	(163)	(876)	(166)	(277)	(366)	(239)	-	2	(695)	(1,390)
Other operating result	100	12	(128)	58	(468)	(647)	(47)	-	(543)	(577)
Pre-tax result from continuing operations	7,165	6,669	1,950	2,087	802	(248)	458	525	10,375	9,033
Taxes on income	(1,342)	(1,242)	(348)	(356)	(359)	(15)	(87)	(100)	(2,136)	(1,713)
Net result for the period	5,823	5,427	1,602	1,731	443	(263)	371	425	8,239	7,320
Net result attributable to non-controlling interests	-	1	-	-	(1)	-	-	-	(1)	1
Net result attributable to owners of the parent	5,823	5,428	1,602	1,731	442	(263)	371	425	8,238	7,321
Operating income	14,074	14,619	3,590	3,708	473	768	834	846	18,971	19,941
Operating expenses	(6,846)	(7,084)	(1,346)	(1,402)	(260)	(275)	(329)	(323)	(8,781)	(9,084)
Operating result	7,228	7,535	2,244	2,306	213	493	505	523	10,190	10,857
Risk-weighted assets (credit risk, eop)	156,753	146,148	218,236	178,866	32,369	41,578	7,007	18,326	414,365	384,918
Average allocated capital	19,101	18,471	17,021	16,877	84,183	78,959	1,600	2,863	121,905	117,170
Cost/income ratio	48.6%	48.5%	37.5%	37.8%	55.0%	35.8%	39.4%	38.2%	46.3%	45.6%
Return on allocated capital	61.0%	58.8%	18.8%	20.5%	1.1%	(0.7%)	46.4%	29.7%	13.5%	12.5%
Total assets (eop)	413,032	394,759	225,618	211,951	365,394	301,026	33,302	15,763	1,037,346	923,499
Total liabilities excluding equity (eop)	612,642	573,599	139,337	112,592	102,886	95,464	68,455	38,753	923,320	820,408

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 2016 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2015: CZK 123 million).

Loans and advances to and amounts owed to related parties

in CZK million	Jun 2016		Dec 2015	
	Erste Group Bank AG	Other related parties	Erste Group Bank AG	Other related parties
Assets				
Cash and cash balances	1,722	59	2,495	1,804
Financial assets - held for trading	4,130	3	4,374	195
Financial assets designated at fair value through profit or loss	3	-	3	-
Financial assets - available for sale	-	39	-	-
Financial assets – held to maturity	-	-	-	12,832
Loans and receivables to credit institutions	24,646	2	25,610	11,918
Loans and receivables to customers	-	836	-	17,062
Derivatives Hedge Accounting	68	-	6	-
Other assets	341	-	3	227
Liabilities				
Financial liabilities held for trading	5,209	-	4,032	64
Financial liabilities measured at amortised costs	64,966	1,046	43,736	45,135
Derivatives Hedge Accounting	53	-	11	187
Other Liabilities	65	263	59	302
Profit&Loss statement				
Net interest income	316	-	439	(35)
Net fee and commission income	(2)	244	16	1,309
Dividend income	-	-	-	6
Net trading and fair value result	(128)	-	607	(125)
Rental income from investment properties & other operating lease	-	3	-	40
Other administrative expenses	(112)	(383)	(161)	(1,833)
Other operating result	31	14	74	401
Loans commitments, financial guarantees and other commitments given	3	9	14	5,352
Loan commitments, financial guarantees and other commitments received	1,099	-	-	-

28. Risk strategy

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 2015.

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 3 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. Accordingly, if a customer defaults on one product then all of that customer's performing products are classified as non-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 2016	Dec 2015
Credit risk NET exposures relating to on-balance sheet items		
Other demand deposits	3,358	4,251
Financial assets held for trading – derivatives	14,853	13,995
Financial assets held for trading – debt securities, loans and receivables	12,947	719
Financial assets designated at fair value through profit or loss – debt securities, loans and receivables	394	337
Available-for-sale financial assets – debt securities	79,514	75,831
Loans and receivables to credit institutions	33,084	34,717
Loans and receivables to customers	553,224	532,524
General governments	20,025	19,932
Other financial corporations	9,822	11,702
Non-financial corporations	209,076	197,406
Households	314,301	303,484
Held-to-maturity investments	159,901	160,988
Derivatives – Hedge accounting	895	663
Credit risk exposure relating to off-balance sheet items		
Irrevocable financial guarantees given	18,276	20,960
Irrevocable loan commitments given	95,133	87,876
Total	971,579	932,861

Collateral securing the above receivables is as follows:

in CZK million	Jun 2016	Dec 2015
Loans and advances to credit institutions	-	2,225
Loans and advances to customers	262,720	234,652
Trading assets	9,509	-
Total	272,229	236,877

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 2016

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	Positive fair value of derivative financial instruments		
At amortised cost				Fair value						
Agriculture and forestry	-	-	14,659	-	-	-	-	120	1,854	16,633
Mining	-	-	2,033	-	-	-	-	3	320	2,356
Manufacturing	-	-	49,737	-	-	-	2,046	452	19,029	71,264
Energy and water supply	-	-	24,484	-	-	-	814	857	4,994	31,149
Construction	-	-	8,139	-	-	-	-	20	10,824	18,983
Trade	-	-	37,880	125	-	-	-	98	11,873	49,976
Transport and communication	-	-	16,507	-	-	-	3,800	679	10,549	31,535
Hotels and restaurants	-	-	3,092	-	-	-	-	42	357	3,491
Financial and insurance services	3,358	33,098	10,008	12,738	12,861	394	8,944	9,043	2,482	92,926
Real estate and housing	-	-	65,421	3	14	-	-	480	6,366	72,284
Services	-	-	16,296	-	-	-	-	104	5,691	22,091
Public administration	-	-	18,776	147,039	72	-	63,910	3,727	3,199	236,723
Education, health and art	-	-	6,390	-	-	-	-	110	736	7,236
Private households	-	-	295,593	-	-	-	-	13	35,135	330,741
Total	3,358	33,098	569,015	159,905	12,947	394	79,514	15,748	113,409	987,388

Gross credit risk exposure by industry and financial instrument in December 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	Positive fair value of derivative financial instruments		
At amortised cost				Fair value						
Agriculture and forestry	-	-	14,262	-	-	-	-	106	1,243	15,611
Mining	-	-	2,052	-	-	-	-	-	86	2,138
Manufacturing	-	-	49,894	121	-	-	1,142	452	19,509	71,118
Energy and water supply	-	-	21,207	-	-	-	810	805	7,268	30,090
Construction	-	-	7,459	-	-	-	-	12	12,149	19,620
Trade	1	-	35,156	-	-	-	-	146	9,604	44,907
Transport and communication	-	-	13,817	540	-	-	3,098	902	12,286	30,643
Hotels and restaurants	-	-	2,975	-	-	-	-	6	283	3,264
Financial and insurance services	4,250	34,731	10,878	12,044	599	337	6,714	8,435	1,601	79,589
Real estate and housing	-	-	67,511	3	-	-	-	297	5,540	73,351
Services	-	-	11,827	-	-	-	-	35	3,945	15,807
Public administration	-	-	34,536	148,286	120	-	64,067	3,362	2,066	252,437
Education, health and art	-	-	6,301	-	-	-	-	94	786	7,181
Private households	-	-	270,961	-	-	-	-	6	32,470	303,437
Total	4,251	34,731	548,836	160,994	719	337	75,831	14,658	108,836	949,193

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 2016, compared with the credit risk exposure as of 31 December 2015.

Gross credit risk exposure by risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 30 Jun 2016	885,499	72,479	7,211	22,199	987,388
Share of credit risk exposure	89.7%	7.3%	0.7%	2.3%	100.0%
Total exposure as of 31 Dec 2015	847,451	72,620	5,983	23,139	949,193
Share of credit risk exposure	89.3%	7.7%	0.6%	2.4%	100.0%
Change in credit risk exposure in 2016	38,048	(141)	1,228	(940)	38,195
Change	4.5%	(0.2%)	20.5%	(4.1%)	4.0%

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 2016 and 31 December 2015, respectively.

Gross credit risk exposure by industry and risk category in June 2016

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	13,471	2,591	234	337	16,633
Mining	2,319	33	-	4	2,356
Manufacturing	57,135	8,562	1,363	4,204	71,264
Energy and water supply	28,016	2,421	219	493	31,149
Construction	13,833	3,077	704	1,369	18,983
Trade	37,500	8,048	976	3,451	49,975
Transport and communication	30,190	714	403	228	31,535
Hotels and restaurants	1,716	1,080	185	510	3,491
Financial and insurance services	87,558	5,039	11	320	92,928
Real estate and housing	52,787	17,001	745	1,750	72,283
Services	15,666	5,582	420	423	22,091
Public administration	233,799	2,750	17	157	236,723
Education, health and art	5,448	1,628	49	111	7,236
Private households	306,061	13,953	1,885	8,842	330,741
Total	885,499	72,479	7,211	22,199	987,388

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

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	12,657	2,394	215	345	15,611
Mining	1,799	331	-	8	2,138
Manufacturing	55,260	11,104	991	3,763	71,118
Energy and water supply	25,684	3,603	487	315	30,090
Construction	13,963	3,302	549	1,805	19,620
Trade	32,975	8,156	496	3,280	44,907
Transport and communication	27,998	2,011	429	206	30,643
Hotels and restaurants	1,454	793	160	857	3,264
Financial and insurance services	74,750	4,210	309	320	79,589
Real estate and housing	55,445	15,401	569	1,937	73,351
Services	10,228	4,816	337	426	15,807
Public administration	251,194	1,209	34	-	252,437
Education, health and art	5,488	1,550	15	128	7,181
Private households	278,556	13,740	1,392	9,749	303,437
Total	847,451	72,620	5,983	23,139	949,193

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 2015 and 30 June 2016 on the confidence level of 99%. The table shows only the Bank's amounts:

As at 30 June 2016 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Volatility Risk	Commodity Risk	Credit Spread risk
Trading book								
Daily value	9	(2)	10	-	1	-	-	-
Monthly value	44	(7)	45	2	3	1	-	-
Average of daily values per year	12	(3)	10	4	-	-	-	1
Average of monthly values per year	54	(13)	48	17	1	1	-	-
Banking book								
Daily value	428	(53)	400	-	-	6	-	75
Monthly value	2,005	(250)	1,875	-	-	28	-	352
Average of daily values per year	355	(80)	350	-	-	6	-	79
Average of monthly values per year	1,665	(374)	1,642	-	-	28	-	369

As at 31 December 2015 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Commodity Risk	Credit Spread risk
Trading book							
Daily value	11	(4)	11	4	-	-	-
Monthly value	52	(21)	52	19	1	-	-
Average of daily values per year	8	(3)	7	2	-	-	1
Average of monthly values per year	38	(12)	34	10	-	1	4
Banking book							
Daily value	312	(90)	301	4	-	-	96
Monthly value	1,463	(421)	1,413	19	-	-	452
Average of daily values per year	317	(68)	238	1	-	-	140
Average of monthly values per year	1,487	(318)	1,117	4	-	-	656

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

In September 2015, ČS Group officially started to report LCR according to Delegated Act (LCR DA). Moreover, Additional Monitoring Metrics started to be monitored in April 2016.

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 2016, ČS Group started to calculate efficiency of hedge accounting using regression analysis. Regression analysis is used for retrospective as well as prospective efficiency test.

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. The derivatives position value is adjusted of 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 (433) million and the total DVA-adjustment amounts to CZK 223 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 2016	Dec 2015	Jun 2016	Dec 2015	Jun 2016	Dec 2015	Jun 2016	Dec 2015
Assets								
Financial assets - held for trading	37	89	26,440	13,438	1,335	1,198	27,812	14,725
Derivatives	-	-	13,518	12,797	1,335	1,198	14,853	13,995
Other trading assets	37	89	12,922	641	-	-	12,959	730
Financial assets designated at fair value through profit or loss	479	498	317	319	166	90	962	907
Financial assets - available for sale	66,639	66,061	11,158	10,272	3,040	1,720	80,837	78,053
Derivatives Hedge Accounting	-	-	895	663	-	-	895	663
Total assets	67,155	66,648	38,810	24,692	4,541	3,008	110,506	94,348
Liabilities								
Financial liabilities held for trading	1	-	28,858	14,926	-	30	28,859	14,956
Derivatives	-	-	16,074	14,914	-	30	16,074	14,944
Other trading liabilities	1	-	12,784	12	-	-	12,785	12
Financial liabilities designated at fair value through profit or loss	-	-	3,078	4,019	-	-	3,078	4,019
Deposits from customers	-	-	3,078	4,019	-	-	3,078	4,019
Debt securities issued	-	-	0	-	-	-	0	-
Derivatives Hedge Accounting	-	-	528	496	-	-	528	496
Total liabilities	1	-	32,464	19,441	-	30	32,465	19,471

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 2016		1-12 2015	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	(1,772)	-	(1,615)	(1,539)
Net transfer from Level 2	-	1,772	1,539	1,615
Purchases/sales/expiries	2,279	11,393	1,360	(28,011)
Changes in derivatives		953	-	(5,029)
Total year-to-date change	507	14,118	1,284	(32,964)

In 2016 the relevant unquoted bonds were reclassified from Level 1 to Level 2 due to lower market activity.

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 2015	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 2016
Assets									
Financial assets - held for trading	1,198	72	-	39	(21)	117	(70)	-	1,335
Derivatives	1,198	72	-	39	(21)	117	(70)	-	1,335
Financial assets designated at fair value through profit or loss	90	(25)	-	101	-	-	-	-	166
Financial assets - available for sale	1,720	-	217	356	(1,439)	2,186	-	-	3,040
Total assets	3,008	47	217	496	(1,460)	2,303	(70)	-	4,541

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

A part of the OTC derivatives was categorized as Level 3/was recategorized 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 recategorized 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 2016 Unrealized gain/loss in profit or loss	1-6 2015 Unrealized gain/loss in profit or loss
Assets		
Financial assets - held for trading	72	53
Derivatives	72	53
Financial assets designated at fair value through profit or loss	(25)	(10)
Total	47	43

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 2016	Dec 2015	Jun 2016	Dec 2015
Derivatives	42	66	(71)	(92)
Income statement	42	66	(71)	(92)
Debt securities	16	-	(22)	-
Other comprehensive income	16	-	(22)	-
Equity instruments	40	99	(79)	(166)
Income statement	2	2	(4)	(4)
Other comprehensive income	38	97	(75)	(162)
Total	98	165	(172)	(258)
Income statement	44	68	(75)	(96)
Other comprehensive income	54	97	(97)	(162)

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

- 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%.

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 2016 and for the year-end 2015.

June 2016 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	156,290	156,290	-	-	-
Financial assets - held to maturity	159,901	195,310	164,254	31,037	19
Loans and receivables to credit institutions	33,084	36,294	-	-	36,294
Loans and receivables to customers	553,224	576,662	-	-	576,662
Liabilities					
Financial liabilities measured at amortised costs	877,225	898,148	-	26,851	871,297
Deposits from banks	103,574	101,628	-	-	101,628
Deposits from customers	759,999	767,238	-	-	767,238
Debt securities issued	11,221	26,851	-	26,851	-
Other financial liabilities	2,431	2,431	-	-	2,431
Financial guarantees and commitments					
Financial guarantees	18,276	1,445	-	-	1,445
Irrevocable commitments	95,133	1,982	-	-	1,982

December 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	111,027	111,027	-	-	-
Financial assets - held to maturity	160,988	198,187	167,490	30,697	-
Loans and receivables to credit institutions	34,717	35,194	-	-	35,194
Loans and receivables to customers	532,524	552,385	-	576	551,809
Liabilities					
Financial liabilities measured at amortised costs	811,679	826,718	-	31,313	795,405
Deposits from banks	83,915	83,223	-	-	83,223
Deposits from customers	709,817	709,728	-	-	709,728
Debt securities issued	15,493	31,313	-	31,313	-
Other financial liabilities	2,454	2,454	-	-	2,454
Financial guarantees and commitments					
Financial guarantees	20,960	20,960	-	-	20,960
Irrevocable commitments	87,876	87,876	-	-	87,876

30. Contingent assets and liabilities

in CZK million	Jun 2016	Dec 2015
Amounts owed under guarantees and letters of credit	18,276	20,960
Undrawn loan commitments	95,133	87,876
Total	113,409	108,836

Contingent liabilities - litigations

There have not been any material changes since year-end 2015 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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