

# Half year financial report 2014

## Key financial data

### Income statement

| in EUR million   | Q2 13        | Q1 14        | Q2 14           | 1-6 13         | 1-6 14         |
|--|--------------|--------------|-----------------|----------------|----------------|
| Net interest income                                      | 1,143.3      | 1,123.9      | 1,119.7         | 2,339.9        | 2,243.6        |
| Net fee and commission income                            | 446.8        | 452.1        | 454.9           | 894.1          | 907.0          |
| Net trading and fair value result                        | 72.8         | 50.4         | 87.7            | 103.6          | 138.0          |
| Operating income   | 1,734.9      | 1,690.6      | 1,731.1         | 3,483.0        | 3,421.7        |
| Operating expenses                                       | -970.3       | -963.3       | -933.1          | -1,960.2       | -1,896.4       |
| <b>Operating result</b>                                  | <b>764.6</b> | <b>727.3</b> | <b>798.0</b>    | <b>1,522.7</b> | <b>1,525.3</b> |
| Net impairment loss on non-fair value financial assets   | -412.6       | -364.2       | -431.9          | -784.3         | -796.1         |
| <b>Post-provision operating result</b>                   | <b>352.1</b> | <b>363.0</b> | <b>366.1</b>    | <b>738.4</b>   | <b>729.1</b>   |
| Other operating result                                   | -279.4       | -119.8       | -1,152.0        | -377.6         | -1,271.8       |
| Levies on banking activities                             | -113.1       | -99.8        | -54.3           | -184.7         | -154.1         |
| Pre-tax result from continuing operations                | 68.4         | 239.5        | -781.0          | 378.4          | -541.5         |
| Taxes on income  | 91.4         | -99.7        | -235.9          | 25.0           | -335.6         |
| <b>Net result for the period</b>                         | <b>159.8</b> | <b>139.8</b> | <b>-1,016.9</b> | <b>403.4</b>   | <b>-877.1</b>  |
| Net result attributable to non-controlling interests     | 34.2         | 36.5         | 16.2            | 101.2          | 52.7           |
| <b>Net result attributable to owners of the parent</b>   | <b>125.5</b> | <b>103.3</b> | <b>-1,033.1</b> | <b>302.2</b>   | <b>-929.7</b>  |
| Earnings per share                                       | 0.23         | 0.24         | -2.42           | 0.59           | -2.17          |
| Cash earnings per share                                  | 0.32         | 0.27         | -0.44           | 0.71           | -0.17          |
| Return on equity   | 3.9%         | 3.6%         | -37.6%          | 4.7%           | -16.8%         |
| Cash return on equity                                    | 5.0%         | 4.1%         | -6.9%           | 5.5%           | -1.3%          |
| Net interest margin (on average interest-bearing assets) | 2.61%        | 2.62%        | 2.61%           | 2.66%          | 2.62%          |
| Cost/income ratio  | 55.9%        | 57.0%        | 53.9%           | 56.3%          | 55.4%          |
| Provisioning ratio (on average gross customer loans)     | 1.27%        | 1.14%        | 1.35%           | 1.20%          | 1.25%          |
| Tax rate   | -133.7%      | 41.6%        | -30.2%          | -6.6%          | -62.0%         |

### Balance sheet

| in EUR million                               | Jun 13         | Mar 14         | Jun 14         | Dec 13         | Jun 14         |
|--|----------------|----------------|----------------|----------------|----------------|
| Cash and cash balances                       | 10,578         | 9,301          | 7,267          | 9,301          | 7,267          |
| Trading, financial assets                    | 54,964         | 51,269         | 52,288         | 51,269         | 52,288         |
| Loans and receivables to credit institutions | 9,150          | 8,377          | 8,548          | 8,377          | 8,548          |
| Loans and receivables to customers           | 121,999        | 119,945        | 120,005        | 119,945        | 120,005        |
| Intangible assets                            | 2,807          | 2,441          | 1,438          | 2,441          | 1,438          |
| Miscellaneous assets                         | 10,932         | 8,786          | 8,852          | 8,786          | 8,852          |
| <b>Total assets</b>                          | <b>210,431</b> | <b>200,118</b> | <b>198,398</b> | <b>200,118</b> | <b>198,398</b> |
| Financial liabilities - held for trading     | 7,533          | 6,475          | 7,152          | 6,475          | 7,152          |
| Deposits from banks                          | 22,004         | 17,299         | 18,803         | 17,299         | 18,803         |
| Deposits from customers                      | 122,470        | 122,415        | 120,250        | 122,415        | 120,250        |
| Debt securities issued                       | 33,653         | 33,124         | 31,033         | 33,124         | 31,033         |
| Miscellaneous liabilities                    | 8,533          | 6,020          | 7,081          | 6,020          | 7,081          |
| Total equity                                 | 16,238         | 14,785         | 14,080         | 14,785         | 14,080         |
| <b>Total liabilities and equity</b>          | <b>210,431</b> | <b>200,118</b> | <b>198,398</b> | <b>200,118</b> | <b>198,398</b> |
| Loan/deposit ratio                           | 99.6%          | 98.0%          | 99.8%          | 98.0%          | 99.8%          |
| NPL ratio                                    | 9.7%           | 9.6%           | 9.4%           | 9.6%           | 9.4%           |
| NPL coverage (exc collateral)                | 61.7%          | 62.6%          | 64.0%          | 63.1%          | 64.0%          |
| CET 1 ratio (phased-in)                      | 11.8%          | 11.1%          | 11.7%          | 11.4%          | 11.7%          |

### Ratings

| Fitch             |          |          |            |
|-------------------|----------|----------|------------|
| Long-term         | A        | A        | A          |
| Short-term        | F1       | F1       | F1         |
| Outlook           | Stable   | Stable   | Negative   |
| Moody's           |          |          |            |
| Long-term         | A3       | A3       | Baa1       |
| Short-term        | P-2      | P-2      | P-2        |
| Outlook           | Negative | Negative | Negative   |
| Standard & Poor's |          |          |            |
| Long-term         | A        | A        | A          |
| Short-term        | A-1      | A-1      | A-1        |
| Outlook           | Negative | Negative | Watch Neg. |

# Letter from the CEO

Dear shareholders,

Erste Group posted a net loss of EUR 929.7 million for the first six months of 2014. The loss was almost exclusively attributable to one-off effects in Hungary and Romania in the total amount of EUR 1,250.9 million, most of which had no impact on the regulatory capital. In Hungary, EUR 130.3 million had to be allocated to provisions as a first step following the recent adoption of a consumer loan law. In Romania, the accelerated reduction of non-performing loans (NPLs) necessitated additional risk provisions and a re-evaluation of the future earnings potential of Banca Comercială Română. While most of the risk costs are expected to be incurred only in the second half of the year, impairment testing of BCR resulted in a write-off of intangible assets in the amount of EUR 854.2 million. In addition, the entire goodwill relating to the Croatia business was written off in the amount of EUR 101.8 million and there was a negative change in deferred taxes (net) in the amount of EUR 164.2 million. As we expect a net loss of EUR 1.4 to 1.6 billion for the full year of 2014, we are anticipating the following negative impacts in the second half of the year: an additional amount of approximately EUR 170 million resulting from the Hungarian consumer loan law and, possibly, costs of the forced conversion of foreign-currency loans to local currency – not covered by supreme court rulings – as well as additional risk provisions in Romania to continue the accelerated reduction of non-performing loans.

The positive trends that emerged in the second quarter of 2014 may only be visible at second glance, but they do exist and provide reason for some optimism: for the first time in almost three years, the volume of performing loans increased quarter on quarter; the NPL coverage ratio reached 64.0%, the highest level since the onset of the financial crisis in 2008; the NPL portfolio shrank for the fourth straight quarter and fell below the level of EUR 12 billion for the first time in more than two years; the common equity tier 1 ratio pursuant to Basel 3 has risen significantly despite the loss; and in Romania, for the first time in several years, demand for retail loans has increased at a sufficiently strong rate to support growth of the performing loan portfolio. However, the positive highlights were not confined to the second quarter. We expect that in 2015 we will again be able to generate a solid net profit after several years that have been impacted by one-off effects. Specifically, in 2015, we are planning to earn a return on tangible equity of 8-10%.

How are we going to achieve such a net profit? In a low-interest rate environment with limited opportunities for growth, it is obviously difficult for banks to boost the operating result, even with rigorous cost cutting. In our case, we also have to allow for a number of structural issues such as the effective reduction of business in Hungary and Romania. Taking these factors into account, we expect slight declines in the operating result in both 2014 and in 2015. However, this development should be more than compensated for by the sustainable and accelerated normalisation of risk costs from 2015 onwards, which should lead to a

significantly higher and more stable post-provision operating result. Even though we must expect to continue paying excessive banking levies in Austria, Hungary and Slovakia, a significantly better post-provision operating result should enable us to generate a sustainable net profit. Over the medium term, the improving economic development should also enable an increase of the pre-provision operating result.

The steady improvement of the economic environment in Central and Eastern Europe was already evident in the first half of the year. In many CEE countries, first-quarter GDP came in better than expected. While growth continued to be primarily export-driven, it was also supported by the gradual recovery of domestic demand. In a number of countries, car-making was a key driver of industrial production. In Hungary, the key interest rate was lowered in July for the seventh time this year to 2.1%, which ended the rate-cutting cycle. In Romania and in the Czech Republic, the policy rate remained stable. Inflation was again very low.

Overall, we are therefore very comfortable with our position in Central and Eastern Europe and do not see any reason for changing our presence in the region. After all, despite some criticism of the CEE region in recent years, the following facts simply cannot be denied - in all countries in which Erste Group operates, public debt is considerably lower than in Western Europe. The same applies to private-sector debt levels. While it is true that before the beginning of the financial crisis, some excesses and even misguided developments had occurred, especially in the retail business (with a key issue being foreign-currency loans) these have now been stopped. In Austria and Hungary, such products have not been offered any more for several years. In Romania, Erste Group was the first bank that withdrew from this segment even though this meant a loss of market share. Growth rates have also settled at sustainable levels. Further advantages of the CEE region are its competitive, manufacturing-driven export sector and, last but not least, the almost complete shift from current account deficits to surpluses.

Of course, we are as unhappy as our investors about the loss announced for 2014, but we are confident that this will mark the end of a period that was riddled by negative one-off effects and extremely high risk costs. In the future, we will therefore use our best efforts to generate profits that are sustainable and higher than our capital costs.

Andreas Treichl mp

# Erste Group on the capital markets

## EQUITY MARKET REVIEW

After a subdued first quarter, most of the stock markets covered continued the previous year's rallies and posted broad-based advances. Even though some of the leading indexes hit record highs, stock markets gains at the end of the reporting period were only modest – with the exception of Italy and Spain – due to profit-taking. Investor focus was again on the central banks' rate policies and the development of the global economy.

The Dow Jones Industrial Index ended the reporting period up 2.2% at 16,826.60 points, 1.5% higher than at year-end 2013. The broader Standard & Poor's 500 Index advanced 4.7% in the second quarter to 1,960.23 points, breaking through its previous highs and gaining 6.1% year to date. The Euro Stoxx 600 Index was up 2.3% in the second quarter and, at 341.86 points, was 4.1% higher year to date. The Austrian Traded Index (ATX) trailed the performance of international markets and declined by 0.9% in the second quarter and by 1.8% over the first half of the year to 2,500.85 points.

The US central bank (Fed) confirmed that it will continue its loose monetary policy despite the improvement in the US labour market. At 6.3%, the unemployment rate was the lowest since September 2008. The European Central Bank (ECB) reacted to growing concern about deflation. Faced with an inflation rate of just 0.5% (the lowest rate since the onset of the euro crisis), which poses a risk to the emerging recovery of the euro zone economy, it cut the interest rate at which commercial banks can borrow funds from the ECB to a record low of 0.15% and, for the first time, introduced a negative rate for banks' short-term deposits with the ECB. In addition, the ECB decided to provide billions in cheap central bank loans to the banks to encourage them to lend to private households and businesses.

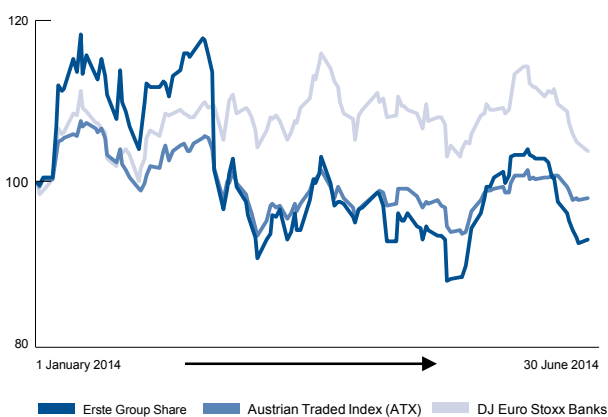
European banking stocks proved unable to continue their uptrend. In the second quarter, the Dow Jones Euro Stoxx Bank Index, which is composed of leading European bank shares, declined by 5.6% to 146.52 points. Due to previous gains, the index is still up 3.6% year to date. While the ECB's continuing accommodating monetary policy, as confirmed by the rate cut, provided positive momentum, there was some tension in the market in view of the forthcoming stress tests of all major European banks to be conducted ahead of the start of European banking supervision. After the introduction of the Bank Recovery and Resolution Directive and the Single Resolution Mechanism by the European Parliament, the US rating agency Moody's changed the outlook for the credit quality of 82 European banks to "negative".

## SHARE PERFORMANCE

The Erste Group share declined by 4.8% in the second quarter, in line with other European banks. When first-quarter results were released, analysts' main focus was on the upcoming asset quality review and the stress test, the forecast for the operating result, risk costs and taxes as well as banking levies in Austria, Hungary, and Slovakia. At the end of June, Erste Group and other Austrian banks were placed on "credit watch negative" by Standard & Poor's and downgraded by Moody's to Baa1/P-2/negative in response to the law drafted on the winding down of Hypo Alpe Adria bank. At its 30 June closing price of EUR 23.62, the Erste Group share traded 6.8% lower than at year-end 2013. The earnings update released at the beginning of July was followed by another marked decline in Erste Group share's price.

The Erste Group share is traded on the stock exchanges of Vienna, Prague and Bucharest. In the first half of 2014, trading volume on these stock exchanges averaged 894,769 shares per day and accounted for about 28% of total trading volume in Erste Group shares. More than half of the trading activity is executed over the counter (OTC) or through electronic trading systems.

### Performance of the Erste Group Share (indexed)



## INVESTOR RELATIONS

In the second quarter of 2014, the management and the investor relations team of Erste Group had a large number of one-on-one and group meetings, in which questions raised by investors and analysts were answered. Erste Group attended a large number of international banking and investors conferences staged, amongst others, by RCB, Deutsche Bank, Autonomous and Goldman Sachs. The presentation of the first-quarter results was followed by the spring road show in Europe and the US.

# Interim management report

In the interim management report, financial results from January-June 2014 are compared with those from January-June 2013 and balance sheet positions as of 30 June 2014 with those as of 31 December 2013.

## EARNINGS PERFORMANCE IN BRIEF

**Net interest income** declined to EUR 2,243.6 million (EUR 2,339.9 million), mainly due to the persistently low interest-rate environment and FX translation effects. **Net fee and commission income** increased to EUR 907.0 million (EUR 894.1 million) driven by the securities business and the **net trading and fair value result** rose to EUR 138.0 million (EUR 103.6 million). **Operating income** amounted to EUR 3,421.7 million (-1.8%; EUR 3,483.0 million).

**General administrative expenses** declined by 3.3% to EUR 1,896.4 million (EUR 1,960.2 million), mainly due to lower personnel expenses. This led to an **operating result** of EUR 1,525.3 million (+0.2%; EUR 1,522.7 million) and an improved **cost/income ratio** of 55.4% (56.3%).

Despite the expected rise in 2014 risk costs announced in early July, **net impairment loss on financial assets not measured at fair value through profit or loss (net)** rose only moderately, by 1.5%, to EUR 796.1 million or 125 basis points of the average volume of customer loans (EUR 784.3 million or 120 basis points). This is attributable to the fact that a significant proportion of risk costs in Romania resulting from the sale of non-performing loans will only arise in the second half of the year. In addition, the item other operating result included EUR 130.3 million of the risk costs expected by Erste Group in relation to the consumer loan law passed by the Hungarian parliament in early July. On a stable volume of customer loans, the **NPL ratio** declined to 9.4% (9.6%) in the second quarter. The **NPL coverage ratio** improved to 64.0% (63.1%).

**Other operating result** amounted to EUR -1,271.8 million (EUR -377.6 million), primarily due to the write-down of intangible assets in the total amount of EUR 956.4 million, mostly in Romania (EUR 854.2 million). The entire goodwill (EUR 319.1 million), brand (EUR 294.6 million) and customer relationships (EUR 176.1 million) as well as other miscellaneous intangible assets (EUR 64.4 million) were written down – as well as goodwill related to business in Croatia. At EUR 154.1 million (EUR 184.7 million) levies on banking activities were again significant: EUR 63.2 million (EUR 83.3 million) in Austria, EUR 20.7 million (EUR 21.0 million) in Slovakia and EUR 70.1 million (EUR 80.4 million) in Hungary (included the full Hungarian banking tax of EUR 47.9 million for 2014).

Taxes on income rose to EUR 335.6 million mainly due to a negative change in deferred taxes (net) in the amount of EUR 164.2 million. The **net result attributable to owners of**

**the parent** amounted to EUR -929.7 million (EUR 302.2 million), tax expenses accounted for EUR 489.7 million thereof.

**Total IFRS-capital** declined to EUR 14.1 billion (EUR 14.8 billion). **Common equity tier 1 capital** (CET 1, phased-in) increased to EUR 11.5 billion versus EUR 11.2 billion (Basel 2.5). **Risk-weighted assets** (phased-in) were unchanged at EUR 98.0 billion (EUR 97.9 billion). The **common equity tier 1 ratio** (CET 1, phased-in) improved to 11.7% versus 11.4% (Basel 2.5). The **total capital ratio** (Basel 3, phased-in) rose to 16.5% versus 16.3% (Basel 2.5).

**Total assets** amounted to EUR 198.4 billion (EUR 200.1 billion). Loans and advances to customers (net) were stable at EUR 120.0 billion (EUR 119.9 billion). The **loan-to-deposit ratio** stood at 99.8% (98.0%).

## OUTLOOK

Erste Group confirms its guidance of 3 July 2014 for 2014 and 2015 as follows:

**For the geographic segment Romania:** a full normalisation of risk costs at 100-150 bps of average gross customer loans starting in 2015, accompanied by an accelerated NPL reduction (down about EUR 800 million or 25%, compared to year-end 2013) already in 2014; a significant rise in the NPL coverage ratio; a lower, but sustainable operating result due to a lower unwinding impact on net interest income;

**For the geographic segment Hungary:** a gradual normalisation of risk costs to 150-200 bps (by 2016) of average gross customer loans based on the assumption that all government actions will be completed in 2014; a lower, but sustainable operating result due to lower net interest income;

### For Erste Group (consolidated):

- \_ A group operating result, which – despite stable underlying group operating trends – will be pushed slightly below guidance in 2014 due to weaker operating results in Romania and Hungary;
- \_ Risk costs of EUR 2.1-2.4 billion depending on booking of Hungarian consumer loan law impact in risk provisions or other operating result;
- \_ A net loss for 2014 of EUR 1.4-1.6 billion;
- \_ A CET 1-ratio (fully loaded, based on current definitions) of about 10.0% at year-end;
- \_ Strongly improved post-provision result and net profit (ROTE: 8-10%) in 2015, despite still disproportionate banking levies.

## PERFORMANCE IN DETAIL

| in EUR million  | 1-6 13         | 1-6 14         | Change      |
|---|----------------|----------------|-------------|
| Net interest income   | 2,339.9        | 2,243.6        | -4.1%       |
| Net fee and commission income   | 894.1          | 907.0          | 1.4%        |
| Net trading and fair value result   | 103.6          | 138.0          | 33.3%       |
| Operating income  | 3,483.0        | 3,421.7        | -1.8%       |
| Operating expenses  | -1,960.2       | -1,896.4       | -3.3%       |
| <b>Operating result</b>   | <b>1,522.7</b> | <b>1,525.3</b> | <b>0.2%</b> |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -784.3         | -796.1         | 1.5%        |
| Other operating result  | -377.6         | -1,271.8       | >100.0%     |
| Levies on banking activities  | -184.7         | -154.1         | -16.6%      |
| <b>Pre-tax result from continuing operations</b>  | <b>378.4</b>   | <b>-541.5</b>  | <b>n/a</b>  |
| Taxes on income   | 25.0           | -335.6         | n/a         |
| <b>Net result for the period</b>  | <b>403.4</b>   | <b>-877.1</b>  | <b>n/a</b>  |
| Net result attributable to non-controlling interests                                      | 101.2          | 52.7           | -48.0%      |
| <b>Net result attributable to owners of the parent</b>                                    | <b>302.2</b>   | <b>-929.7</b>  | <b>n/a</b>  |

### Net interest income

Net interest income declined to EUR 2,243.6 million (EUR 2,339.9 million), mainly due to continuing subdued credit demand in a low interest rate environment. The net interest margin (net interest income as a percentage of average interest-bearing assets) contracted from 2.66% to 2.62%.

### Net fee and commission income

Net fee and commission income increased to EUR 907.0 million (EUR 894.1 million) due, among others, to improved asset management business.

### Net trading and fair value result

The net trading and fair value result rose to EUR 138.0 million (EUR 103.6 million), mainly as a result of a significant improvement in the securities and derivatives business.

### General administrative expenses

| in EUR million                         | 1-6 13         | 1-6 14         | Change       |
|--|----------------|----------------|--------------|
| Personnel expenses                     | 1,126.5        | 1,091.9        | -3.1%        |
| Other administrative expenses          | 577.0          | 557.6          | -3.4%        |
| Depreciation and amortisation          | 256.7          | 246.8          | -3.9%        |
| <b>General administrative expenses</b> | <b>1,960.2</b> | <b>1,896.4</b> | <b>-3.3%</b> |

**General administrative expenses** decreased to EUR 1,896.4 million (EUR 1,960.2 million) (currency-adjusted: -1.8%). **Personnel expenses** declined (currency-adjusted: -1.8%) to EUR 1,091.9 million (EUR 1,126.5 million). **Other administrative expenses** decreased (currency-adjusted: -1.3%) to EUR 557.6 million (EUR 577.0 million). Major cost savings were achieved on the back of lower office-related expenses. **Depreciation and amortisation** declined (currency-adjusted: -2.4%) to EUR 246.8 million (EUR 256.7 million). The line item other

administrative expenses included deposit insurance contributions in the amount of EUR 46.8 million (EUR 38.7 million). The line item depreciation and amortisation included the straight-line amortisation of intangible assets (i.e. customer relationships) in the amount of EUR 32.0 million (EUR 32.7 million).

The **headcount** has increased by 1.1% to 46,162 since year-end 2013.

## Headcount as of end of the period

|   | Dec 13        | Jun 14        | Change      |
|---|---------------|---------------|-------------|
| <b>Domestic</b>                               | <b>15,659</b> | <b>15,658</b> | <b>0.0%</b> |
| Erste Group, EB Oesterreich and subsidiaries  | 8,388         | 8,480         | 1.1%        |
| Haftungsverbund savings banks                 | 7,271         | 7,178         | -1.3%       |
| <b>Abroad</b>                                 | <b>30,011</b> | <b>30,504</b> | <b>1.6%</b> |
| Česká spořitelna Group                        | 10,432        | 10,474        | 0.4%        |
| Banca Comercială Română Group                 | 7,020         | 7,078         | 0.8%        |
| Slovenská sporiteľňa Group                    | 4,206         | 4,228         | 0.5%        |
| Erste Bank Hungary Group                      | 2,778         | 2,809         | 1.1%        |
| Erste Bank Croatia Group                      | 2,584         | 2,752         | 6.5%        |
| Erste Bank Serbia                             | 922           | 988           | 7.2%        |
| Savings banks subsidiaries                    | 1,100         | 1,144         | 4.0%        |
| Other subsidiaries and foreign branch offices | 969           | 1,031         | 6.4%        |
| <b>Total</b>                                  | <b>45,670</b> | <b>46,162</b> | <b>1.1%</b> |

### Operating result

Driven by the decline in net interest income, operating income, at EUR 3,421.7 million (EUR 3,483.0 million), was down 1.8%. General administrative expenses were reduced by 3.3% to EUR 1,896.4 million (EUR 1,960.2 million). This led to a moderately higher operating result of EUR 1,525.3 million (EUR 1,522.7 million).

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

Gains/losses from financial assets and liabilities not measured at fair value through profit and loss (net) declined to EUR 1.2 million (EUR 17.6 million), mainly due to the negative contribution from the repurchase of financial liabilities.

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

Net impairment loss on financial assets (net) rose to EUR 796.1 million (EUR 784.3 million). This development was largely attributable to the rise in the balance of the allocation and release of provisions for the lending business together with the costs of direct loan write-offs offset by income received from the recovery of loans already written off to EUR 806.4 million (EUR 782.1 million). Net impairment loss on financial assets not measured at fair value through profit or loss (net), based on the average volume of customer loans, amounted to 125 basis points (120 basis points). In addition, this line item included net impairment loss on financial assets – held to maturity and financial assets – available for sale in the amount of EUR 10.3 million (EUR -2.2 million).

### Other operating result

Other operating result declined significantly to EUR -1,271.8 million (EUR -377.6 million). This was mostly attributable to

goodwill impairments in the amount of EUR 420.9 million (EUR 319.1 million in Romania, EUR 61.4 million in Croatia, and EUR 40.4 million for Steiermärkische Sparkasse which holds a significant stake in Erste Bank Croatia.). In addition, intangible assets impairments (including among others customer relationships and brand) amounted to EUR 535.1 million in Romania.

**Levies on banking activities** rose to EUR 154.1 million (EUR 184.7 million). A large proportion of these – EUR 70.1 million (EUR 80.4 million) – was levied in Hungary and comprised the following items: a financial transaction tax of EUR 17.9 million (EUR 28.1 million), the advance payment of the total banking tax for the year of 2014 in the amount of EUR 47.9 million (EUR 49.0 million; total banking tax for the year 2013) and the programme subsidising repayment of foreign-currency loans in the amount of EUR 4.3 million (EUR 3.3 million). Banking levies charged in Austria amounted to EUR 63.2 million (EUR 83.3 million) and in Slovakia to EUR 20.7 million (EUR 21.0 million).

Other operating result also included the allocation/release of other provisions, including for commitments and guarantees, in the amount of EUR -152.1 million (EUR -27.1 million) as well as provisions resulting from a law on consumer loans passed in Hungary in early July in the amount of EUR 130.3 million.

### Net result

Pre-tax result from continuing operations amounted to EUR -541.5 million (EUR 378.4 million).

The net result attributable to owners of the parent declined to EUR -929.7 million (EUR 302.2 million).



## FINANCIAL RESULTS – QUARTER-ON-QUARTER COMPARISON

### Second quarter of 2014 compared to first quarter of 2014

| in EUR million  | Q2 13        | Q3 13        | Q4 13         | Q1 14        | Q2 14           |
|---|--------------|--------------|---------------|--------------|-----------------|
| <b>Income statement</b>   |              |              |               |              |                 |
| Net interest income   | 1,143.3      | 1,175.9      | 1,169.2       | 1,123.9      | 1,119.7         |
| Net fee and commission income   | 446.8        | 449.5        | 462.8         | 452.1        | 454.9           |
| Dividend income   | 21.2         | 20.2         | 21.6          | 14.6         | 15.4            |
| Net trading and fair value result   | 72.8         | 80.7         | 34.6          | 50.4         | 87.7            |
| Net result from equity method investments   | 9.4          | 7.5          | 2.1           | 3.1          | 8.3             |
| Rental income from investment properties & other operating leases   | 41.5         | 46.6         | 41.6          | 46.5         | 45.1            |
| Personnel expenses  | -561.9       | -552.5       | -553.4        | -545.9       | -546.1          |
| Other administrative expenses   | -280.3       | -283.9       | -285.1        | -292.4       | -265.2          |
| Depreciation and amortisation   | -128.1       | -127.8       | -133.1        | -125.0       | -121.8          |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | -4.3         | 6.7          | 38.1          | -3.7         | 4.9             |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | -412.6       | -460.7       | -529.4        | -364.2       | -431.9          |
| Other operating result  | -279.4       | -142.6       | -488.4        | -119.8       | -1,152.0        |
| Levies on banking activities  | -113.1       | -62.4        | -63.9         | -99.8        | -54.3           |
| <b>Pre-tax result from continuing operations</b>  | <b>68.4</b>  | <b>219.6</b> | <b>-219.6</b> | <b>239.5</b> | <b>-781.0</b>   |
| Taxes on income   | 91.4         | -56.0        | -147.5        | -99.7        | -235.9          |
| <b>Net result for the period</b>  | <b>159.8</b> | <b>163.5</b> | <b>-367.1</b> | <b>139.8</b> | <b>-1,016.9</b> |
| Net result attributable to non-controlling interests  | 34.2         | 35.2         | 3.2           | 36.5         | 16.2            |
| <b>Net result attributable to owners of the parent</b>  | <b>125.5</b> | <b>128.4</b> | <b>-370.3</b> | <b>103.3</b> | <b>-1,033.1</b> |

**Net interest income** declined moderately by 0.4% to EUR 1,119.7 million (EUR 1,123.9 million). **Net fee and commission income** rose by EUR 0.6% to EUR 454.9 million (EUR 452.1 million). The **net trading and fair value result** improved by 74.1% to EUR 87.7 million (EUR 50.4 million). This was mainly attributable to an increase in the securities and derivatives business, which more than offset the decline in foreign exchange trading and the result from financial assets and liabilities – at fair value through profit or loss.

**General administrative expenses** decreased by 3.1% to EUR 933.1 million (EUR 963.3 million) due to the decline of other administrative expenses by 9.3% to EUR 265.2 million (EUR 292.4 million) and of depreciation and amortisation by 2.5% to EUR 121.8 million (EUR 125.0 million). Personnel expenses were almost unchanged at EUR 546.1 million (EUR 545.9 million). The **cost/income ratio** declined to 53.9% (57.0%).

**Gains/losses from financial assets and liabilities not measured at fair value through profit and loss (net)** increased to EUR 4.9 million (EUR -3.7 million), mainly due to the positive result from the sale of financial assets - available for sale.

**Net impairment loss on financial assets not measured at fair value through profit or loss (net)** rose to EUR -431.9 million (EUR -364.2 million), mostly due to higher risk costs in Romania. Revaluation results from financial assets – available for sale improved to EUR 8.8 million (EUR 1.5 million).

**Other operating result** declined to EUR -1,152.0 million (EUR -119.8 million). This was attributable in particular to goodwill write-downs in Romania, Croatia and for Steiermärkische Sparkasse, which holds a significant stake in Erste Bank Croatia, in the total amount of EUR 420.9 million (EUR 0.0 million) and impairments of intangible assets (including customer relationships and brand) in Romania in the amount of EUR 535.1 million (EUR 0.0 million).

**Levies on banking activities** amounted to EUR 54.3 million (EUR 99.8 million). The decline was mainly due to the advance payment of the total Hungarian banking tax for the year of 2014 in the amount of EUR 47.9 million in the first quarter. In the second quarter, levies were paid in the amount of EUR 11.1 million (EUR 59.1 million) in Hungary, thereof EUR 8.8 million (EUR 9.1 million) in financial transaction taxes plus EUR 2.2 million (EUR 2.1 million) for the programme subsidising repayment of foreign-currency loans. Banking taxes were also charged in Austria in the amount of EUR 32.7 million (EUR 30.4 million) and in Slovakia in the amount of EUR 10.5 million (EUR 10.3 million).

The **pre-tax result** amounted to EUR -781.0 million (EUR 239.5 million). The decline was mostly attributable to negative one-off effects, including in particular impairments in Romania totalling EUR 854.2 million.

The **net result attributable to owners of the parent** decreased to EUR -1,033.1 million (EUR 103.3 million).



## DEVELOPMENT OF THE BALANCE SHEET

| in EUR million                               | Dec 13         | Jun 14         | Change       |
|--|----------------|----------------|--------------|
| <b>Assets</b>                                |                |                |              |
| Cash and cash balances                       | 9,301          | 7,267          | -21.9%       |
| Trading, financial assets                    | 51,269         | 52,288         | 2.0%         |
| Loans and receivables to credit institutions | 8,377          | 8,548          | 2.1%         |
| Loans and receivables to customers           | 119,945        | 120,005        | 0.1%         |
| Intangible assets                            | 2,441          | 1,438          | -41.1%       |
| Miscellaneous assets                         | 8,786          | 8,852          | 0.7%         |
| <b>Total assets</b>                          | <b>200,118</b> | <b>198,398</b> | <b>-0.9%</b> |
| <b>Liabilities and equity</b>                |                |                |              |
| Financial liabilities - held for trading     | 6,475          | 7,152          | 10.5%        |
| Deposits from banks                          | 17,299         | 18,803         | 8.7%         |
| Deposits from customers                      | 122,415        | 120,250        | -1.8%        |
| Debt securities issued                       | 33,124         | 31,033         | -6.3%        |
| Miscellaneous liabilities                    | 6,020          | 7,081          | 17.6%        |
| Total equity                                 | 14,785         | 14,080         | -4.8%        |
| <b>Total liabilities and equity</b>          | <b>200,118</b> | <b>198,398</b> | <b>-0.9%</b> |

**Trading and investment securities** held in various categories of financial assets rose to EUR 52.3 billion (EUR 51.3 billion). The rise in the line items financial assets – held for trading and financial assets – available for sale more than offset the decline in the line items financial assets – held to maturity and financial assets – at fair value through profit or loss.

**Loans and receivables to credit institutions (net)** were stable at EUR 8.5 billion (EUR 8.4 billion). **Loans and receivables to customers (net)** were almost unchanged at EUR 120.0 billion (EUR 119.9 billion) as credit demand remained subdued in most business segments. **Allowances for loans and receivables to customers** shown as part of loans and receivables to customers decreased slightly to EUR 7.7 billion (EUR 7.8 billion).

The NPL ratio – **non-performing loans as a percentage of loans to customers** – decreased at an unchanged customer loan volume to 9.4% (9.6%). The **NPL coverage ratio** improved to 64.0% (63.1%).

Due to the recognition of impairments including goodwill, customer relationships and brand, **intangible assets** declined to EUR 1.4 billion (EUR 2.4 billion). **Miscellaneous assets** were almost unchanged at EUR 8.9 million (EUR 8.8 billion) despite a write-down of deferred tax assets.

**Financial liabilities – held for trading** - increased to EUR 7.2 billion (EUR 6.5 billion) on the back of an increased portfolio of bonds in other trading liabilities.

**Deposits from banks** increased to EUR 18.8 billion (EUR 17.3 billion), reflecting increased overnight deposits from credit institutions. **Deposits from customers** declined to EUR 120.3 billion (EUR 122.4 billion). This decline in deposits from customers reflects primarily the withdrawal of the EUR 1.8 billion

Czech pension fund. The **loan-to-deposit ratio** stood at 99.8% (98.0%).

**Debt securities in issue**, in particular bonds as well as mortgage and public sector covered bonds, declined to EUR 31.0 billion (EUR 33.1 billion) due to redemptions. **Miscellaneous liabilities** rose to EUR 7.1 billion (EUR 6.0 billion).

The Erste Group's **shareholders' equity** decreased to EUR 14.1 billion (EUR 14.8 billion). After regulatory deductions and filter according to the CRR, **tier 1 capital** amounted to EUR 11.5 billion (year-end 2013: Basel 2.5, EUR 11.6 billion), **common equity tier 1 capital** stood at EUR 11.5 billion (year-end 2013: core tier 1 capital, Basel 2.5, EUR 11.2 billion). **Risk-weighted assets** (RWA) increased to EUR 98.0 billion as of 30 June 2014 (EUR 97.9 billion).

As of 2014, Erste Group calculates consolidated regulatory capital according to Basel 3. In 2014, the calculation follows the requirements as defined within the capital requirements regulation (CRR) taking into consideration transitional provisions as defined within the Austrian "CRR-Begleitverordnung". Applicable percentages that are relevant for eligibility of capital instruments and regulatory deduction items as well as filter are defined within these transitional provisions. The **total capital ratio** in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 16.5% as of 30 June 2014 (year-end 2013, Basel 2.5: 16.3%), well above the legal minimum requirement.

The **tier 1 ratio** (total risk), which includes the capital requirements for market and operational risk, stood at 11.7% (year-end 2013, Basel 2.5: 11.8%). The **common equity tier 1 ratio** amounted to 11.7% as of 30 June 2014 (year-end 2013, Basel 2.5: 11.4%).

## SEGMENT REPORTING

### January-June 2014 compared with January-June 2013

Erste Group introduced a new segment reporting, starting from 1 January 2014 that is based on the matrix organisation and provides comprehensive information to assess the business line and geographic performance. Comparable figures for all quarters of 2013 were published on 28 February 2014. However, the segmentation criteria for corporate business were also changed with no retrospective adjustments. The former local large corporate business (included in the SME segment in 2013) was reallocated either to the Large Corporates segment or to the SME segment, depending on annual turnover thresholds.

The tables and information below provide a brief overview and focus on selected and summarised items. For more details please see Note 26. At [www.erstegroup.com](http://www.erstegroup.com) additional information is available in Excel format.

Operating income consists of net interest income, net fee and commission income, net trading and fair value result as well as dividend income, net result from equity method investments and rental income from investment properties & other operating leases. The latter three listed items are not separately disclosed in the tables below. Operating expenses equal the position general administrative expenses. Operating result is the net amount of operating income and operating expenses. Risk provisions for loans and receivables are included in the position net impairment loss on financial assets not measured at fair value through P&L. Other result summarises the positions other operating result and gains/losses from financial assets and liabilities not measured at fair value through profit or loss. Cost/income ratio is calculated as operating expenses in relation to operating income. The return on allocated equity is defined as the net result after tax/before minorities in relation to the average allocated equity.

## BUSINESS SEGMENTS

### Retail

| in EUR million  | 1-6 13  | 1-6 14  | Change  |
|---|---------|---------|---------|
| Net interest income   | 1,110.1 | 1,083.1 | -2.4%   |
| Net fee and commission income   | 523.4   | 523.3   | 0.0%    |
| Net trading and fair value result   | 28.8    | 28.8    | 0.3%    |
| Operating income  | 1,677.1 | 1,652.0 | -1.5%   |
| Operating expenses  | -933.6  | -881.7  | -5.6%   |
| Operating result  | 743.5   | 770.3   | 3.6%    |
| Cost/income ratio   | 55.7%   | 53.4%   |         |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -242.7  | -179.6  | -26.0%  |
| Other result  | -53.0   | -165.9  | >100.0% |
| Net result attributable to owners of the parent   | 336.8   | 305.0   | -9.5%   |
| Return on allocated capital   | 33.4%   | 31.2%   |         |

The Retail segment comprises the entire business with private individuals, free professionals and micros in the responsibility of account managers in the retail network of the local banks cooperating with their specialised subsidiaries (such as factoring, leasing and asset management companies).

The decrease in net interest income was driven by lower deposit volumes and margins in Romania as well as shrinking loan margins in Hungary. These developments were partly offset by positive trends in the Austrian deposit business and lending business in Slovakia. Rental income increased by 58.1% due to the consol-

idation of a leasing subsidiary (sLeasing) in Croatia. Cost saving measures in the Czech Republic, Austria and Romania led to a reduction in operating expenses. Operating result thus increased, cost/income ratio decreased. The improvement in net impairment loss on financial assets not measured at FV through P&L was driven by lower risk costs in Romania and Hungary due to reduced NPL formation. Booking of provisions related to the consumer loan law in an amount of EUR 130.3 million negatively impacted the other result, further effects are expected for the second half of the year. This triggered the 9.5% decrease of the net result attributable to the owners of the parent.

## SME

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 335.2  | 288.5  | -13.9% |
| Net fee and commission income   | 111.7  | 95.7   | -14.3% |
| Net trading and fair value result   | 14.8   | 11.9   | -19.5% |
| Operating income  | 465.2  | 413.2  | -11.2% |
| Operating expenses  | -145.8 | -142.0 | -2.6%  |
| Operating result  | 319.4  | 271.2  | -15.1% |
| Cost/income ratio   | 31.3%  | 34.4%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -234.7 | -211.1 | -10.1% |
| Other result  | -14.3  | 18.0   | n/a    |
| Net result attributable to owners of the parent   | 46.7   | 57.6   | 23.4%  |
| Return on allocated capital   | 5.7%   | 8.6%   |        |

The SME segment consists of business with clients which are in the responsibility of the local corporate account managers, mainly consisting of micros, SMEs, small public sector companies and small financial institutions (e.g. third party leasing companies).

Most of the negative developments were primarily related to the reallocation of a local large corporate portfolio, which in 2013 had been shown in the SME segment, to the Large Corporate segment: the decline in net interest income, in net fee and

commission income as well as in net trading and fair value result. The operating income decreased accordingly. On the other hand, the portfolio reallocation led to a reduction of operating expenses, the cost/income ratio rose. Net impairment loss on financial assets not measured at FV through profit and loss improved substantially on the back of lower risk provisions for loans and receivables in Hungary. The other result improved mainly due to one-off income related to an insurance payment in Austria. As a result, the net result attributable to the owners of the parent improved.

## Asset/Liability Management & Local Corporate Center

| in EUR million  | 1-6 13  | 1-6 14 | Change  |
|---|---------|--------|---------|
| Net interest income   | 102.6   | 86.4   | -15.7%  |
| Net fee and commission income   | -48.8   | -37.9  | -22.3%  |
| Net trading and fair value result   | -70.3   | 12.8   | n/a     |
| Operating income  | 18.0    | 88.0   | >100.0% |
| Operating expenses  | -51.9   | -44.2  | -14.8%  |
| Operating result  | -33.9   | 43.7   | n/a     |
| Cost/income ratio   | >100.0% | 50.3%  |         |
| Net impairment loss on financial assets not measured at fair value through profit or loss | 6.3     | -5.4   | n/a     |
| Other result  | -55.6   | -85.0  | 52.8%   |
| Net result attributable to owners of the parent   | 55.4    | -54.8  | n/a     |
| Return on allocated capital   | 5.2%    | -6.0%  |         |

The ALM & LCC segment includes all local asset/liability management functions as well as the one from Erste Group Bank AG and the local corporate centers which comprise all non-core banking activities, non-profit servicing participations and reconciliation items to local entity results.

Net interest income decreased considerably mainly due to the lower ALM contribution and the FX effect in the Czech Republic. The increase in net fee and commission income was primarily related to the positive impact from lower fee expenses in the local corporate center in Austria. The net trading and fair value

result improved substantially due to a better result from derivatives. Operating expenses also improved mainly due to lower personnel expenses in Romania. Thus, the operating result improved significantly. The other result deteriorated mainly as a consequence of one-off revenues earned in 2013 in the Czech Republic. Taxes on income in 2013 benefited from a positive one-off impact from the release of deferred tax liabilities in Romania in the amount of EUR 127.7 million. Consequently, the net result attributable to the owners of the parent decreased significantly.

## Savings Banks

| in EUR million  | 1-6 13 | 1-6 14 | Change  |
|---|--------|--------|---------|
| Net interest income   | 394.6  | 442.5  | 12.2%   |
| Net fee and commission income   | 195.2  | 203.1  | 4.1%    |
| Net trading and fair value result   | 11.6   | 3.3    | -71.4%  |
| Operating income  | 635.5  | 691.1  | 8.7%    |
| Operating expenses  | -459.8 | -470.0 | 2.2%    |
| Operating result  | 175.8  | 221.1  | 25.8%   |
| Cost/income ratio   | 72.3%  | 68.0%  |         |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -63.0  | -90.3  | 43.2%   |
| Other result  | -10.5  | -49.7  | >100.0% |
| Net result attributable to owners of the parent   | 16.3   | 6.9    | -57.4%  |
| Return on allocated capital   | 7.5%   | 6.3%   |         |

The Savings Banks segment includes the savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector except for Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse, and Sparkasse Hainburg.

The increase in net interest income was attributable to higher income from customer loans and deposits as well as from AfS

securities. Together with the improved net fee and commission income, it offset the drop in net trading and fair value result. Total operating income increased. Although operating expenses went up, cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit and loss increased substantially. The declining other result was mainly due to valuation effects. The banking tax increased to EUR 7.0 million (EUR 4.5 million) due to the revised banking tax regulation.

## Large Corporates

| in EUR million  | 1-6 13 | 1-6 14 | Change  |
|---|--------|--------|---------|
| Net interest income   | 91.4   | 111.7  | 22.2%   |
| Net fee and commission income   | 39.4   | 46.2   | 17.5%   |
| Net trading and fair value result   | 5.5    | 5.3    | -3.8%   |
| Operating income  | 136.3  | 163.3  | 19.8%   |
| Operating expenses  | -31.9  | -39.3  | 23.4%   |
| Operating result  | 104.4  | 123.9  | 18.7%   |
| Cost/income ratio   | 23.4%  | 24.1%  |         |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -103.6 | -162.8 | 57.2%   |
| Other result  | -11.6  | -0.1   | -98.9%  |
| Net result attributable to owners of the parent   | -9.8   | -32.0  | >100.0% |
| Return on allocated capital   | -2.3%  | -9.0%  |         |

The Large Corporates segment comprises the business with large corporate customers whose annual turnover exceeds a defined threshold that varies depending on the country.

The increase in net interest income and net commission income was largely attributable to the reallocation of a local large corporate portfolio to the Large Corporates segment (shown in the segment SME in 2013). Net trading and fair value result decreased moderately. The increase in operating expenses was also mainly driven by the portfolio reallocation. Overall, the operating

result improved. The cost/income ratio went up slightly. Net impairment loss on financial assets not measured at FV through profit and loss increased substantially on the back of higher risk provisions for loans and receivables in Romania, partially offset by decreasing risk provisions in Austria, Czech Republic and Slovakia. The improvement in other result was largely attributable to lower provisions for commitments and guarantees in Romania and Austria. Net result attributable to the owners of the parent deteriorated.

## Commercial Real Estate

| in EUR million  | 1-6 13 | 1-6 14 | Change  |
|---|--------|--------|---------|
| Net interest income   | 87.6   | 77.0   | -12.2%  |
| Net fee and commission income   | 3.2    | 8.5    | >100.0% |
| Net trading and fair value result   | 6.2    | -4.9   | n/a     |
| Operating income  | 141.0  | 100.9  | -28.4%  |
| Operating expenses  | -66.9  | -43.7  | -34.6%  |
| Operating result  | 74.2   | 57.2   | -22.9%  |
| Cost/income ratio   | 47.4%  | 43.3%  |         |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -164.0 | -160.9 | -1.9%   |
| Other result  | -31.9  | -23.7  | -25.5%  |
| Net result attributable to owners of the parent   | -99.5  | -127.7 | 28.3%   |
| Return on allocated capital   | -21.3% | -31.5% |         |

The Commercial Real Estate segment covers the real estate value chain (lending, leasing, real estate investment, project development and construction services as well as infrastructure business) for corporate clients, project developers, real estate investors, municipalities and other public sector agencies.

The decline in net interest income was mainly attributable to the deconsolidation of leasing entities of Immorent as well as the non-recurrence of a positive one-off effect. Net fee and commission income improved on the back of project fees in Immorent, higher lending fees in the Czech Republic and one-off fee income in Erste Group Bank AG connected with bond origination. The decline in the net trading and fair value result was attributable to

valuation losses in Immorent. Rental income declined mostly due to the deconsolidation of Immorent leasing entities. The decline in operating expenses – by a third – was driven by strict cost management and the deconsolidation of Immorent leasing entities. The operating result decreased but cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit improved slightly but remained at a high level; mainly driven by Erste Group Bank AG, Immorent, BCR and EB Hungary. The other result improved on the back of lower impairment of repossessed assets and development projects in Immorent. Net result attributable to the owners of the parent declined further.

## Other Corporate

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 33.2   | 37.2   | 11.9%  |
| Net fee and commission income   | 13.4   | 8.7    | -35.6% |
| Net trading and fair value result   | 8.1    | 2.1    | -74.3% |
| Operating income  | 54.8   | 47.9   | -12.5% |
| Operating expenses  | -23.8  | -24.4  | 2.5%   |
| Operating result  | 31.0   | 23.6   | -24.0% |
| Cost/income ratio   | 43.4%  | 50.8%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -3.4   | 4.9    | n/a    |
| Other result  | 1.6    | 0.9    | -44.0% |
| Net result attributable to owners of the parent   | 22.6   | 22.7   | 0.8%   |
| Return on allocated capital   | 13.4%  | 21.3%  |        |

The Other Corporate segment consists of two operating segments – International Business and Investment Banking - that are below the threshold criteria defined by IFRS 8. International Business comprises all lending and investing activities outside Erste Group's core markets (including the branches in London, Hong Kong and New York) and is responsible for business development with and credit line management for banks and non-banking financial institutions. Investment Banking covers equity-related business focusing mainly on corporate finance, equity capital markets services, equity brokerage (institutional sales) and merchant banking.

The improvement of net interest income was mostly attributable to Investment Banking, namely the structured trade finance and

aircraft business in London. Net fee and commission income declined primarily due to lower fees in institutional equity sales and further reductions of the loan book of International Business in Austria. The drop in net trading and fair value result was mainly due to negative valuation effects of securities in the structured credit business. Lower operating income and moderately increased operating expenses led to a decline in the operating result, the cost/income ratio went up. Net impairment loss on financial assets not measured at FV through profit and loss improved significantly on the back of releases in loan loss provisions of the International Business portfolio in London and Austria. Overall, net result attributable to the owners of the parent remained stable.

## Group Markets

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 97.9   | 99.6   | 1.6%   |
| Net fee and commission income   | 49.5   | 51.7   | 4.5%   |
| Net trading and fair value result   | 79.5   | 69.6   | -12.5% |
| Operating income  | 227.3  | 222.4  | -2.2%  |
| Operating expenses  | -93.0  | -87.6  | -5.7%  |
| Operating result  | 134.3  | 134.7  | 0.3%   |
| Cost/income ratio   | 40.9%  | 39.4%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | 12.0   | -0.1   | n/a    |
| Other result  | 4.2    | -0.3   | n/a    |
| Net result attributable to owners of the parent   | 117.4  | 105.9  | -9.8%  |
| Return on allocated capital   | 49.7%  | 44.3%  |        |

The Group Markets segment comprises the divisionalised business units Group Treasury and Capital Markets (except Equity Capital Markets) and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, foreign branch offices in Hong Kong, New York, Berlin and Stuttgart as well as the business with institutional clients of Erste Asset Management.

The net interest income improved primarily due to interest rate related products. Net fee and commission income improved due

to bond issuance activities. The decline in the net trading and fair value result was mainly attributable to credit and rates trading, alternative investments portfolio management as well as valuation effects of interest related products. The operating result remained stable due to the reduction of operating expenses. The other result decreased due to positive valuation effects in the Czech Republic segment in 2013. Net result attributable to the owners of the parent declined. The cost/income ratio improved.

## Group Corporate Center

| in EUR million  | 1-6 13  | 1-6 14   | Change  |
|---|---------|----------|---------|
| Net interest income   | 89.9    | 34.9     | -61.2%  |
| Net fee and commission income   | 72.1    | 34.1     | -52.7%  |
| Net trading and fair value result   | 9.5     | -6.4     | n/a     |
| Operating income  | 204.6   | 98.5     | -51.8%  |
| Operating expenses  | -329.1  | -371.7   | 12.9%   |
| Operating result  | -124.5  | -273.2   | >100.0% |
| Cost/income ratio   | >100.0% | >100.0%  |         |
| Net impairment loss on financial assets not measured at fair value through profit or loss | 8.8     | 8.9      | 0.9%    |
| Other result  | -90.4   | -826.6   | >100.0% |
| Net result attributable to owners of the parent   | -183.6  | -1,215.1 | >100.0% |
| Return on allocated capital   | -5.5%   | -45.9%   |         |

The Group Corporate Center segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It includes the Corporate Center of Erste Group Bank AG, internal non-profit service providers, goodwill impairments and the free capital of Erste Group.

The net interest income decrease was mainly attributable to the decreasing 5y moving average rate and thus a lower capital benefit from the free capital of the group. Net fee and commission income declined considerably due to higher fee expenses from internal service providers. However, at group level the impact was neutral due to consolidation shown in Intercompany Elimination. Operating expenses went up as a consequence of a change in

the methodology of cost reimbursements. The corresponding positive counter effect was shown in other result (at group level the impact was neutral due to consolidation). The deterioration of the other result was driven mainly by higher goodwill impairments of EUR 420.9 million, whereby Romania accounted for EUR 319.1 million, Croatia for EUR 61.4 million (EUR 21.9 million), Steiermärkische Sparkasse, which holds a significant stake in Erste Bank Croatia, for EUR 40.4 million as well as the write-down of the entire remaining value of customer relationships and brand as well as of other intangible assets of BCR of EUR 535.1 million. A negative change in deferred taxes (net) in the amount of EUR 164.2 million had further negative impact on the result of the segment.



## GEOGRAPHICAL SEGMENTS

### Erste Bank Oesterreich & Subsidiaries

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 269.9  | 304.5  | 12.8%  |
| Net fee and commission income   | 169.3  | 169.3  | 0.0%   |
| Net trading and fair value result   | 7.7    | 3.1    | -59.9% |
| Operating income  | 470.1  | 495.4  | 5.4%   |
| Operating expenses  | -307.8 | -292.7 | -4.9%  |
| Operating result  | 162.4  | 202.7  | 24.9%  |
| Cost/income ratio   | 65.5%  | 59.1%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -39.1  | -56.8  | 45.2%  |
| Other result  | -5.7   | 11.4   | n/a    |
| Net result attributable to owners of the parent   | 86.6   | 118.0  | 36.2%  |
| Return on allocated capital   | 15.8%  | 22.8%  |        |

The EBOe & Subsidiaries segment comprises Erste Bank Oesterreich and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).

The increase in net interest income was primarily attributable to higher margins for retail deposits and to increased fixed rate assets. Net trading and fair value result decreased mainly due to lower valuation gains from derivatives. The decrease of operating expenses – mostly attributable to cost savings related to personnel expenses – further contributed to the increase of the operating

result. Cost/income ratio improved significantly. Net impairment loss on financial assets not measured at FV through profit and loss increased but remained at a very low level. Other result was positively affected by a one-off income from insurance payments. Overall, the net result attributable to owners of the parent improved considerably.

### Savings Banks

The geographical segment Savings Banks is identical to the business segment Savings Banks (see page 10).

### Other Austria

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 202.6  | 198.2  | -2.2%  |
| Net fee and commission income   | 86.8   | 88.3   | 1.7%   |
| Net trading and fair value result   | 40.4   | 11.9   | -70.6% |
| Operating income  | 374.1  | 320.2  | -14.4% |
| Operating expenses  | -178.3 | -152.3 | -14.6% |
| Operating result  | 195.8  | 167.9  | -14.3% |
| Cost/income ratio   | 47.7%  | 47.6%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -171.8 | -120.6 | -29.8% |
| Other result  | -25.9  | -19.3  | -25.6% |
| Net result attributable to owners of the parent   | -4.9   | -7.5   | 52.7%  |
| Return on allocated capital   | -0.5%  | -0.5%  |        |

The Other Austria segment comprises Erste Group Bank AG (Holding) with its Large Corporates, Commercial Real Estate, Other Corporate and Group Markets business, Erste Group Immorent AG and Erste Asset Management GmbH.

The decline in net interest income was mainly attributable to the deconsolidation of leasing entities in Immorent as well as the non-recurrence of a positive one-off effect. Net fee and commission income increased moderately due to an increased volume of assets under management in Romania and Hungary which offset lower fees in the large corporates business and investment banking. The net trading and fair value result decreased primarily due to lower treasury results of Erste Group Bank, namely from stra-

tegic positions, hedge funds and alternative investment valuations, the yield curve impact on the credit and rates trading and FX business as well as the fair value market pricing of the structured credit portfolio of International Business in Vienna. In addition, the trading result of Immorent decreased mainly due to valuation losses and unfavourable developments of FX rates. Consequently, the operating result declined. Net impairment loss on financial assets not measured at FV through profit and loss improved substantially on the back of lower specific risk provisions in the large corporate business and the commercial real estate business in Erste Group Bank AG as well as in Immorent AG. The net result attributable to the owners of the parent worsened and remained negative.

## Czech Republic

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 503.9  | 462.7  | -8.2%  |
| Net fee and commission income   | 222.8  | 202.4  | -9.2%  |
| Net trading and fair value result   | 38.0   | 43.5   | 14.4%  |
| Operating income  | 783.3  | 725.3  | -7.4%  |
| Operating expenses  | -368.2 | -329.6 | -10.5% |
| Operating result  | 415.1  | 395.7  | -4.7%  |
| Cost/income ratio   | 47.0%  | 45.4%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -78.0  | -69.9  | -10.5% |
| Other result  | 25.9   | 5.3    | -79.5% |
| Net result attributable to owners of the parent   | 288.9  | 263.4  | -8.8%  |
| Return on allocated capital   | 35.3%  | 36.7%  |        |

The devaluation of the CZK due to the intervention of the Czech National Bank in November 2013 had a significant negative impact on the EUR figures of the Czech Republic segment. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) decreased due to the persistently low interest rate environment and subdued credit demand, especially for consumer loans. Net fee and commission income declined mostly due to lower private current account fees. Net trading and FV result increased due to improved result from derivatives.

Lower operating expenses related to cost reduction measures could not off-set the decrease in the operating income resulting in a decline of operating result. However, the cost/income ratio improved. The slight currency adjusted decrease in net impairment loss on financial assets not measured at FV through P&L was attributable to the improvement of the SME portfolio. Other result declined due to the non-recurrence of a one-off positive effect. Overall, these developments led to a decline in the net result attributable to the owners of the parent.

## Slovakia

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 212.0  | 220.1  | 3.8%   |
| Net fee and commission income   | 58.4   | 60.2   | 3.1%   |
| Net trading and fair value result   | 4.0    | 5.3    | 31.1%  |
| Operating income  | 280.3  | 290.5  | 3.7%   |
| Operating expenses  | -121.0 | -129.9 | 7.4%   |
| Operating result  | 159.3  | 160.6  | 0.8%   |
| Cost/income ratio   | 43.2%  | 44.7%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -23.6  | -26.2  | 11.2%  |
| Other result  | -25.7  | -21.2  | -17.6% |
| Net result attributable to owners of the parent   | 88.5   | 87.6   | -1.0%  |
| Return on allocated capital   | 34.5%  | 35.1%  |        |

The increase in net interest income in the Slovakia segment (comprising Slovenská sporiteľňa Group) was mainly attributable to higher new business volumes, namely housing and consumer loans, and a changed deposit structure. Despite the cancellation of loan account fees imposed by legislation, the net fee and commission income improved due to payment transaction as well as lending fees. The rise in the net trading and fair value result was driven by the revaluation of the FV portfolio. The increase in operating expenses was mostly related to the EUR 7.4 million payment into the deposit insurance fund (no correspond-

ing payment in 2013). Owing to improved operating income, the operating result increased slightly. The cost/income ratio increased. Net impairment loss on financial assets not measured at FV through profit and loss increased due to allocation of provisions in the Commercial Real estate and SME business while Large Corporates and Retail developed positively. Other result improved mainly due to lower provisions for contingent credit risk liabilities. This resulted in a slight decrease of the net result attributable to owners of the parent.

## Romania

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 318.4  | 257.6  | -19.1% |
| Net fee and commission income   | 74.2   | 80.7   | 8.8%   |
| Net trading and fair value result   | 50.5   | 45.6   | -9.7%  |
| Operating income  | 447.8  | 386.5  | -13.7% |
| Operating expenses  | -185.5 | -158.5 | -14.6% |
| Operating result  | 262.3  | 228.0  | -13.1% |
| Cost/income ratio   | 41.4%  | 41.0%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -229.6 | -292.6 | 27.4%  |
| Other result  | -38.6  | -21.2  | -45.1% |
| Net result attributable to owners of the parent   | 116.7  | -73.6  | n/a    |
| Return on allocated capital   | 17.2%  | -13.0% |        |

Net interest income in the Romania segment (comprising Banca Comercială Română Group) decreased after sharp key rate cuts of 125 bps in 2013, but also due to diminishing consumer loan volumes and subdued demand and business opportunities on the corporate market. Net fee and commission income improved mainly due to higher fees related to insurance business and investment products. Net trading and fair value result declined due to a lower result from derivatives. Consequently, operating income decreased. Operating expenses moved down on the back of

cost reduction measures. While the operating result declined, cost/income ratio improved slightly. Although net impairment loss on financial assets not measured at FV through profit and loss increased because of the higher NPL formation and LGD increase in the corporate business, further increased risk costs expected for 2014 will be booked in the second half of the year. The net result attributable to the owners of the parent decreased significantly.

## Hungary

| in EUR million  | 1-6 13 | 1-6 14 | Change  |
|---|--------|--------|---------|
| Net interest income   | 150.8  | 139.0  | -7.8%   |
| Net fee and commission income   | 59.2   | 68.6   | 15.9%   |
| Net trading and fair value result   | -1.8   | 3.9    | n/a     |
| Operating income  | 208.2  | 212.2  | 1.9%    |
| Operating expenses  | -89.9  | -83.6  | -7.0%   |
| Operating result  | 118.4  | 128.6  | 8.6%    |
| Cost/income ratio   | 43.1%  | 39.4%  |         |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -110.4 | -61.6  | -44.2%  |
| Other result  | -94.0  | -203.7 | >100.0% |
| Net result attributable to owners of the parent   | -92.0  | -142.9 | 55.4%   |
| Return on allocated capital   | -35.9% | -57.5% |         |

Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) decreased mainly due to decreasing loan margins in the retail business and the shrinking SME loan portfolio. Net fee and commission income improved primarily on the back of higher fees from payment transfers and asset management. Net trading and fair value result increased due to the higher result from derivative instruments. Consequently, operating income increased. Operating expenses declined because of continued cost saving measures. This led to an increase of the operating

result and improvement of the cost/income ratio. Net impairment loss on financial assets not measured at FV through profit and loss declined due to lower risk provisions on loans to customers in SME as well as in the retail business. Other result was negatively impacted by booking of provisions of EUR 130.3 million related to the consumer loan law. Further provisions will be booked in the second half of the year. This led to the deterioration of the net result attributable to owners of the parent.

## Croatia

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 120.9  | 130.1  | 7.6%   |
| Net fee and commission income   | 31.3   | 37.7   | 20.8%  |
| Net trading and fair value result   | 10.0   | 12.3   | 22.3%  |
| Operating income  | 162.9  | 197.0  | 20.9%  |
| Operating expenses  | -70.5  | -89.0  | 26.2%  |
| Operating result  | 92.4   | 108.0  | 16.9%  |
| Cost/income ratio   | 43.3%  | 45.2%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -72.8  | -82.2  | 12.9%  |
| Other result  | -0.6   | -1.2   | 96.8%  |
| Net result attributable to owners of the parent   | 11.0   | 14.3   | 30.3%  |
| Return on allocated capital   | 7.6%   | 9.7%   |        |

Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased due to lower interest expenses for liabilities. Net fee and commission income improved primarily on the back of higher fees in the retail business as well as fees for arranging a government bond issue. The increase of the rental income by EUR 16.0 million due to consolidation of a leasing subsidiary (sLeasing) also had a positive impact on the operating income. Although operating expenses increased because of the

consolidation of sLeasing and ECC Slovenia subsidiaries, the operating result improved. The cost/income ratio went up. The increase in net impairment loss on financial assets not measured at FV through profit and loss was driven by higher risk provisions in SME as well as commercial real estate business. As a consequence coverage improved. The net result attributable to the owners of the parent improved.

## Serbia

| in EUR million  | 1-6 13 | 1-6 14 | Change |
|---|--------|--------|--------|
| Net interest income   | 15.9   | 16.0   | 0.5%   |
| Net fee and commission income   | 6.2    | 6.6    | 6.8%   |
| Net trading and fair value result   | 1.3    | 0.9    | -26.1% |
| Operating income  | 23.4   | 23.8   | 1.7%   |
| Operating expenses  | -18.2  | -18.8  | 3.4%   |
| Operating result  | 5.2    | 5.0    | -4.5%  |
| Cost/income ratio   | 77.8%  | 79.1%  |        |
| Net impairment loss on financial assets not measured at fair value through profit or loss | -4.7   | -4.7   | 0.2%   |
| Other result  | 0.1    | -0.3   | n/a    |
| Net result attributable to owners of the parent   | 0.3    | 0.5    | 47.9%  |
| Return on allocated capital   | 1.5%   | 1.3%   |        |

Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased moderately. The positive development in net fee and commission income was attributable to a better performance in Retail and Asset/Liability management. Net trading and fair value result decreased mainly due to a negative exchange rate impact and losses from FX swaps. Operating expenses were negatively affected by the consolidation of

S-Leasing and higher IT infrastructure costs. Risk provisions shown in the position net impairment loss on financial assets not measured at FV through profit or loss remained stable. Overall the operating result declined slightly. These developments led to an increase of the net result attributable to the owners of the parent and an increase in the cost/income ratio.

## Other

| in EUR million  | 1-6 13  | 1-6 14   | Change  |
|---|---------|----------|---------|
| Net interest income   | 150.9   | 72.9     | -51.7%  |
| Net fee and commission income   | -9.3    | -10.1    | 8.6%    |
| Net trading and fair value result   | -58.1   | 8.3      | n/a     |
| Operating income  | 97.3    | 79.7     | -18.1%  |
| Operating expenses  | -161.2  | -172.1   | 6.7%    |
| Operating result  | -63.9   | -92.4    | 44.5%   |
| Cost/income ratio   | >100.0% | >100.0%  |         |
| Net impairment loss on financial assets not measured at fair value through profit or loss | 8.8     | 8.7      | -1.2%   |
| Other result  | -184.9  | -970.8   | >100.0% |
| Net result attributable to owners of the parent   | -209.3  | -1,196.4 | >100.0% |
| Return on allocated capital   | -5.5%   | -39.3%   |         |

The residual segment Other consists mainly of centralised service providers, the Group Asset/Liability Management and the Corporate Center of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany elimination, dividend elimination), goodwill impairments, amortisation of customer relationships and free capital.

The decline of the net interest income in the residual segment Other was mainly driven by the lower capital benefit from the free capital of the group. Net trading and fair value result improved significantly as revaluation results from derivatives and own issues turned positive. Operating expenses went up, which

led to a decline in operating result. The deterioration of the other result was driven mainly by higher goodwill impairments of EUR 420.9 million (EUR 21.9 million) whereby Romania accounted for EUR 319.1 million, Croatia for EUR 61.4 million (EUR 21.9 million), Steiermärkische Sparkasse, which holds a significant stake in Erste Bank Croatia, for EUR 40.4 million as well as the write-down of the entire remaining value of customer relationships, brand and other intangible assets of BCR of EUR 535.1 million. In addition, a negative change in deferred taxes in the amount of EUR 164.2 million also had a negative impact on the result of the segment

# Group condensed consolidated financial statements of Erste Group Bank AG

## Half year financial report 2014

### I. Group condensed statement of comprehensive income

#### Income statement

| in EUR thousand   | Notes | 1-6 13         | 1-6 14          |
|---|-------|----------------|-----------------|
| Net interest income   | 1     | 2,339,941      | 2,243,584       |
| Net fee and commission income   | 2     | 894,147        | 906,969         |
| Dividend income   | 3     | 47,941         | 29,921          |
| Net trading and fair value result   | 4     | 103,554        | 138,048         |
| Net result from equity method investments   |       | 12,196         | 11,487          |
| Rental income from investment properties & other operating leases   | 5     | 85,173         | 91,643          |
| Personnel expenses  | 6     | -1,126,527     | -1,091,940      |
| Other administrative expenses   | 6     | -576,977       | -557,641        |
| Depreciation and amortisation   | 6     | -256,714       | -246,781        |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | 7     | 17,606         | 1,180           |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | 8     | -784,302       | -796,146        |
| Other operating result  | 9     | -377,618       | -1,271,798      |
| Levies on banking activities  | 9     | -184,662       | -154,077        |
| <b>Pre-tax result from continuing operations</b>  |       | <b>378,419</b> | <b>-541,475</b> |
| Taxes on income   | 10    | 25,007         | -335,581        |
| <b>Net result for the period</b>  |       | <b>403,427</b> | <b>-877,056</b> |
| Net result attributable to non-controlling interests  |       | 101,239        | 52,665          |
| <b>Net result attributable to owners of the parent</b>  |       | <b>302,187</b> | <b>-929,721</b> |

#### Statement of comprehensive income

| in EUR thousand  | 1-6 13          | 1-6 14          |
|--|-----------------|-----------------|
| <b>Net result for the period</b>                                       | <b>403,427</b>  | <b>-877,056</b> |
| <b>Other comprehensive income</b>                                      |                 |                 |
| <b>Items that may not be reclassified to profit or loss</b>            |                 |                 |
| Remeasurement of net liability of defined pension plans                | 0               | 0               |
| Deferred taxes relating to items that may not be reclassified          | 0               | 0               |
| <b>Total</b>   | <b>0</b>        | <b>0</b>        |
| <b>Items that may be reclassified to profit or loss</b>                |                 |                 |
| Available for sale reserve (including currency translation)            | -102,635        | 319,739         |
| Gain/loss during the period  | -103,456        | 337,251         |
| Reclassification adjustments   | 821             | -17,512         |
| Cash flow hedge reserve (including currency translation)               | -68,300         | 119,768         |
| Gain/loss during the period  | -72,500         | 149,200         |
| Reclassification adjustments   | 4,200           | -29,433         |
| Currency translation   | -63,500         | 30,281          |
| Gain/loss during the period  | -143,302        | 30,281          |
| Reclassification adjustments   | 79,802          | 0               |
| Deferred taxes relating to items that may be reclassified              | 53,800          | -108,206        |
| Gain/loss during the period  | 55,200          | -125,230        |
| Reclassification adjustments   | -1,400          | 17,023          |
| <b>Total</b>   | <b>-180,635</b> | <b>361,582</b>  |
| <b>Total other comprehensive income</b>                                | <b>-180,635</b> | <b>361,582</b>  |
| <b>Total comprehensive income</b>                                      | <b>222,832</b>  | <b>-515,475</b> |
| Total comprehensive income attributable to non-controlling interests   | 6,982           | 209,588         |
| <b>Total comprehensive income attributable to owners of the parent</b> | <b>215,849</b>  | <b>-725,063</b> |



## Earnings per share

|  |                 | 1-6 13      | 1-6 14       |
|--|-----------------|-------------|--------------|
| Net result attributable to owners of the parent  | in EUR thousand | 302,200     | -929,721     |
| Dividend on participation capital  | in EUR thousand | -70,600     | 0            |
| Net result for the period attributable to owners of the parent after deduction of the participation capital dividend | in EUR thousand | 231,600     | -929,721     |
| Weighted average number of outstanding shares  |                 | 392,327,723 | 427,571,235  |
| <b>Earnings per share</b>  | <b>in EUR</b>   | <b>0.59</b> | <b>-2.17</b> |
| Weighted average diluted number of outstanding shares  |                 | 394,520,049 | 427,571,235  |
| <b>Diluted earnings per share</b>  | <b>in EUR</b>   | <b>0.59</b> | <b>-2.17</b> |

## Changes in number of shares and participation capital securities

|   |  | 1-6 13           | 1-6 14      |
|---|--|------------------|-------------|
| <b>Number of shares</b>   |  |                  |             |
| Shares outstanding at the beginning of the period                           |  | 375,715,367      | 415,076,934 |
| Acquisition of treasury shares  |  | -3,432,649       | -6,221,993  |
| Disposal of treasury shares   |  | 3,897,208        | 8,186,427   |
| Capital increases due to ESOP and MSOP                                      |  | 0                | 0           |
| Capital increases   |  | 0                | 0           |
| Shares outstanding at the end of the period                                 |  | 376,179,926      | 417,041,368 |
| Treasury shares   |  | 18,388,721       | 12,758,632  |
| <b>Number of shares issued at the end of the period</b>                     |  |                  |             |
| Weighted average number of outstanding shares                               |  | 392,327,723      | 427,571,235 |
| Dilution due to MSOP/ESOP   |  | 2,192,326        | 0           |
| Dilution due to options   |  | 0                | 0           |
| Weighted average diluted number of outstanding shares                       |  | 394,520,049      | 427,571,235 |
| <b>Number of participation capital securities</b>                           |  |                  |             |
| Participation capital securities outstanding at the beginning of the period |  | 1,763,694        | 0           |
| Acquisition of own participation capital securities                         |  | -4,543           | 0           |
| Disposal of own participation capital securities                            |  | 3,503            | 0           |
| Participation capital securities outstanding at the end of the period       |  | 1,762,654        | 0           |
| Own participation capital securities  |  | 1,090            | 0           |
| <b>Number of participation capital securities at the end of the period</b>  |  | <b>1,763,744</b> | <b>0</b>    |

## Redemption of participation capital and implementation of a capital increase

On 8 August 2013 the outstanding participation capital of EUR 1.76 billion, of which EUR 1.205 billion were held by the Republic of Austria and EUR 559 million by private investors, was redeemed in full. In this context a capital increase against

cash contributions was implemented with gross proceeds of approximately EUR 660.6 million on 2 July 2013. The subscription price amounted to EUR 18.75 per share and the subscription ratio was 4 new shares for each 45 shares held. 35,231,353 new shares were issued, the share capital increased from EUR 789,137,294 by EUR 70,462,706 to EUR 859,600,000.

## Quarterly results

| in EUR million  | Q2 13        | Q3 13        | Q4 13         | Q1 14        | Q2 14           |
|---|--------------|--------------|---------------|--------------|-----------------|
| <b>Income statement</b>   |              |              |               |              |                 |
| Net interest income   | 1,143.3      | 1,175.9      | 1,169.2       | 1,123.9      | 1,119.7         |
| Net fee and commission income   | 446.8        | 449.5        | 462.8         | 452.1        | 454.9           |
| Dividend income   | 21.2         | 20.2         | 21.6          | 14.6         | 15.4            |
| Net trading and fair value result   | 72.8         | 80.7         | 34.6          | 50.4         | 87.7            |
| Net result from equity method investments   | 9.4          | 7.5          | 2.1           | 3.1          | 8.3             |
| Rental income from investment properties & other operating leases   | 41.5         | 46.6         | 41.6          | 46.5         | 45.1            |
| Personnel expenses  | -561.9       | -552.5       | -553.4        | -545.9       | -546.1          |
| Other administrative expenses   | -280.3       | -283.9       | -285.1        | -292.4       | -265.2          |
| Depreciation and amortisation   | -128.1       | -127.8       | -133.1        | -125.0       | -121.8          |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | -4.3         | 6.7          | 38.1          | -3.7         | 4.9             |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | -412.6       | -460.7       | -529.4        | -364.2       | -431.9          |
| Other operating result  | -279.4       | -142.6       | -488.4        | -119.8       | -1,152.0        |
| Levies on banking activities  | -113.1       | -62.4        | -63.9         | -99.8        | -54.3           |
| <b>Pre-tax result from continuing operations</b>  | <b>68.4</b>  | <b>219.6</b> | <b>-219.6</b> | <b>239.5</b> | <b>-781.0</b>   |
| Taxes on income   | 91.4         | -56.0        | -147.5        | -99.7        | -235.9          |
| <b>Net result for the period</b>  | <b>159.8</b> | <b>163.5</b> | <b>-367.1</b> | <b>139.8</b> | <b>-1,016.9</b> |
| Net result attributable to non-controlling interests  | 34.2         | 35.2         | 3.2           | 36.5         | 16.2            |
| <b>Net result attributable to owners of the parent</b>  | <b>125.5</b> | <b>128.4</b> | <b>-370.3</b> | <b>103.3</b> | <b>-1,033.1</b> |
| <b>Statement of comprehensive income</b>  |              |              |               |              |                 |
| <b>Net result for the period</b>  | <b>159.8</b> | <b>163.5</b> | <b>-367.1</b> | <b>139.8</b> | <b>-1,016.9</b> |
| <b>Other comprehensive income</b>   |              |              |               |              |                 |
| <b>Items that may not be reclassified to profit or loss</b>   |              |              |               |              |                 |
| Remeasurement of net liability of defined pension plans   | 0.0          | 0.0          | -6.7          | 0.0          | 0.0             |
| Deferred taxes relating to items that may not be reclassified   | 0.0          | 0.0          | 2.3           | 0.0          | 0.0             |
| <b>Total</b>  | <b>0.0</b>   | <b>0.0</b>   | <b>-4.5</b>   | <b>0.0</b>   | <b>0.0</b>      |
| <b>Items that may be reclassified to profit or loss</b>   |              |              |               |              |                 |
| Available for sale reserve (including currency translation)   | -109.3       | 28.8         | -39.4         | 131.3        | 188.5           |
| Gain/loss during the period   | -116.1       | 34.1         | -23.3         | 140.5        | 196.7           |
| Reclassification adjustments  | 6.8          | -5.3         | -16.1         | -9.3         | -8.3            |
| Cash flow hedge reserve (including currency translation)  | -61.0        | -1.7         | -1.9          | 22.7         | 97.0            |
| Gain/loss during the period   | -64.4        | 1.7          | -1.6          | 27.9         | 121.3           |
| Reclassification adjustments  | 3.4          | -3.4         | -0.4          | -5.2         | -24.2           |
| Currency translation  | 68.4         | -0.2         | -177.7        | -14.0        | 44.3            |
| Gain/loss during the period   | -11.4        | -0.2         | -177.7        | -14.0        | 44.3            |
| Reclassification adjustments  | 79.8         | 0.0          | 0.0           | 0.0          | 0.0             |
| Deferred taxes relating to items that may be reclassified   | 45.1         | -2.3         | -6.6          | -51.3        | -57.0           |
| Gain/loss during the period   | 46.2         | -4.8         | -9.4          | -53.7        | -71.6           |
| Reclassification adjustments  | -1.0         | 2.5          | 2.9           | 2.4          | 14.6            |
| <b>Total</b>  | <b>-56.8</b> | <b>24.6</b>  | <b>-225.6</b> | <b>88.8</b>  | <b>272.8</b>    |
| <b>Total other comprehensive income</b>   | <b>-56.8</b> | <b>24.6</b>  | <b>-230.0</b> | <b>88.8</b>  | <b>272.8</b>    |
| <b>Total comprehensive income</b>   | <b>103.0</b> | <b>188.1</b> | <b>-597.1</b> | <b>228.6</b> | <b>-744.1</b>   |
| Total comprehensive income attributable to non-controlling interests                                      | -40.4        | 44.1         | -33.7         | 42.1         | 167.5           |
| <b>Total comprehensive income attributable to owners of the parent</b>                                    | <b>143.4</b> | <b>144.1</b> | <b>-563.4</b> | <b>186.5</b> | <b>-911.6</b>   |

## II. Group condensed balance sheet

| in EUR thousand  | Notes | Dec 13             | Jun 14             |
|--|-------|--------------------|--------------------|
| <b>Assets</b>  |       |                    |                    |
| Cash and cash balances                                       | 11    | 9,300,683          | 7,266,852          |
| Financial assets - held for trading                          |       | 12,283,046         | 12,953,683         |
| Derivatives  | 12    | 6,342,237          | 6,479,899          |
| Other trading assets   | 13    | 5,940,808          | 6,473,783          |
| Financial assets - at fair value through profit or loss      | 14    | 528,984            | 456,021            |
| Financial assets - available for sale                        | 15    | 20,677,648         | 21,923,099         |
| Financial assets - held to maturity                          | 16    | 17,779,013         | 16,954,930         |
| Loans and receivables to credit institutions                 | 17    | 8,376,688          | 8,548,451          |
| Loans and receivables to customers                           | 18    | 119,944,501        | 120,005,357        |
| Derivatives - hedge accounting                               | 19    | 1,943,645          | 2,488,518          |
| Property and equipment                                       |       | 2,319,501          | 2,347,284          |
| Investment properties  |       | 950,572            | 975,275            |
| Intangible assets  |       | 2,440,833          | 1,437,505          |
| Investments in associates and joint ventures                 |       | 207,594            | 211,249            |
| Current tax assets   |       | 100,398            | 101,449            |
| Deferred tax assets  |       | 719,015            | 411,315            |
| Assets held for sale   |       | 74,774             | 158,478            |
| Other assets   | 20    | 2,470,898          | 2,158,382          |
| <b>Total assets</b>  |       | <b>200,117,792</b> | <b>198,397,849</b> |
| <b>Liabilities and equity</b>                                |       |                    |                    |
| Financial liabilities - held for trading                     |       | 6,474,745          | 7,152,264          |
| Derivatives  | 12    | 6,086,938          | 6,346,791          |
| Other trading liabilities                                    | 21    | 387,807            | 805,472            |
| Financial liabilities - at fair value through profit or loss |       | 2,339,171          | 2,278,121          |
| Deposits from banks  |       | 0                  | 0                  |
| Deposits from customers                                      |       | 459,964            | 435,284            |
| Debt securities issued                                       | 22    | 1,879,207          | 1,842,837          |
| Other financial liabilities                                  |       | 0                  | 0                  |
| Financial liabilities measured at amortised cost             |       | 170,785,614        | 168,155,456        |
| Deposits from banks  | 23    | 17,299,491         | 18,802,924         |
| Deposits from customers                                      | 23    | 121,955,141        | 119,814,274        |
| Debt securities issued                                       | 23    | 31,244,697         | 29,189,811         |
| Other financial liabilities                                  |       | 286,286            | 348,447            |
| Derivatives - hedge accounting                               | 19    | 644,319            | 723,711            |
| Changes in fair value of portfolio hedged items              |       | 733,747            | 982,790            |
| Provisions   | 24    | 1,447,605          | 1,606,896          |
| Current tax liabilities                                      |       | 84,519             | 87,993             |
| Deferred tax liabilities                                     |       | 169,392            | 131,793            |
| Liabilities associated with assets held for sale             |       | 0                  | 0                  |
| Other liabilities  | 25    | 2,653,713          | 3,199,232          |
| <b>Total equity</b>  |       | <b>14,784,966</b>  | <b>14,079,593</b>  |
| Equity attributable to non-controlling interests             |       | 3,465,959          | 3,625,933          |
| Equity attributable to owners of the parent                  |       | 11,319,006         | 10,453,660         |
| <b>Total liabilities and equity</b>                          |       | <b>200,117,792</b> | <b>198,397,849</b> |

### III. Group condensed statement of changes in total equity

| in EUR million                          | Subscribed capital | Capital reserves | Retained earnings | Cash flow hedge reserve | Available for sale reserve | Currency translation | Remeasurement of net liability of defined pension plans | Deferred tax | Equity attributable to owners of the parent | Equity attributable to non-controlling interests | Total equity  |
|---|--------------------|------------------|-------------------|-------------------------|----------------------------|----------------------|---|--------------|---|--|---------------|
| <b>As of 31 December 2013</b>           | <b>860</b>         | <b>7,037</b>     | <b>4,256</b>      | <b>-33</b>              | <b>259</b>                 | <b>-785</b>          | <b>-277</b>   | <b>2</b>     | <b>11,319</b>                               | <b>3,466</b>                                     | <b>14,785</b> |
| Changes in treasury shares              | 0                  | 0                | 42                | 0                       | 0                          | 0                    | 0   | 0            | 42  | 0  | 42            |
| Dividends paid                          | 0                  | 0                | -171              | 0                       | 0                          | 0                    | 0   | 0            | -171  | -96  | -266          |
| Capital increases                       | 0                  | 0                | 0                 | 0                       | 0                          | 0                    | 0   | 0            | 0   | 0  | 0             |
| Participation capital                   | 0                  | 0                | 0                 | 0                       | 0                          | 0                    | 0   | 0            | 0   | 0  | 0             |
| Changes in scope of consolidation       | 0                  | 0                | -12               | 0                       | 0                          | 0                    | 0   | 0            | -12   | 47   | 34            |
| Other changes                           | 0                  | 0                | 0                 | 0                       | 0                          | 0                    | 0   | 0            | 0   | 0  | 0             |
| Acquisition of non-controlling interest | 0                  | 0                | 0                 | 0                       | 0                          | 0                    | 0   | 0            | 0   | 0  | 0             |
| Total comprehensive income              | 0                  | 0                | -930              | 118                     | 128                        | 22                   | 0   | -64          | -725  | 210  | -515          |
| Net result for the period               | 0                  | 0                | -930              | 0                       | 0                          | 0                    | 0   | 0            | -930  | 53   | -877          |
| Other comprehensive income              | 0                  | 0                | 0                 | 118                     | 128                        | 22                   | 0   | -64          | 205   | 157  | 362           |
| <b>As of 30 June 2014</b>               | <b>860</b>         | <b>7,037</b>     | <b>3,185</b>      | <b>85</b>               | <b>387</b>                 | <b>-763</b>          | <b>-277</b>   | <b>-62</b>   | <b>10,453</b>                               | <b>3,626</b>                                     | <b>14,080</b> |
| <b>As of 1 January 2013</b>             | <b>2,547</b>       | <b>6,472</b>     | <b>4,395</b>      | <b>41</b>               | <b>227</b>                 | <b>-555</b>          | <b>-268</b>   | <b>-4</b>    | <b>12,855</b>                               | <b>3,483</b>                                     | <b>16,338</b> |
| Restatement                             | 0                  | 0                | 1                 | 0                       | -11                        | 0                    | 0   | 0            | -10   | 8  | -2            |
| <b>Restated as of 1 January 2013</b>    | <b>2,547</b>       | <b>6,472</b>     | <b>4,396</b>      | <b>41</b>               | <b>216</b>                 | <b>-555</b>          | <b>-268</b>   | <b>-4</b>    | <b>12,845</b>                               | <b>3,491</b>                                     | <b>16,336</b> |
| Changes in treasury shares              | 0                  | 0                | 15                | 0                       | 0                          | 0                    | 0   | 0            | 15  | 0  | 15            |
| Dividends paid                          | 0                  | 0                | -299              | 0                       | 0                          | 0                    | 0   | 0            | -299  | -33  | -332          |
| Capital increases                       | 0                  | 0                | 0                 | 0                       | 0                          | 0                    | 0   | 0            | 0   | 0  | 0             |
| Participation capital                   | 0                  | 0                | 0                 | 0                       | 0                          | 0                    | 0   | 0            | 0   | 0  | 0             |
| Changes in scope of consolidation       | 0                  | 0                | -4                | 0                       | 0                          | 0                    | 0   | 0            | -4  | 0  | -4            |
| Other changes                           | -1                 | 0                | 1                 | 0                       | 0                          | 0                    | 0   | 0            | 0   | 0  | 0             |
| Acquisition of non-controlling interest | 0                  | 0                | 0                 | 0                       | 0                          | 0                    | 0   | 0            | 0   | 0  | 0             |
| Total comprehensive income              | 0                  | 0                | 302               | -65                     | 12                         | -63                  | 0   | 31           | 216   | 7  | 223           |
| Net result for the period               | 0                  | 0                | 302               | 0                       | 0                          | 0                    | 0   | 0            | 302   | 101  | 403           |
| Other comprehensive income              | 0                  | 0                | 0                 | -65                     | 12                         | -63                  | 0   | 31           | -86   | -94  | -181          |
| <b>As of 30 June 2013</b>               | <b>2,546</b>       | <b>6,472</b>     | <b>4,410</b>      | <b>-24</b>              | <b>227</b>                 | <b>-618</b>          | <b>-268</b>   | <b>27</b>    | <b>12,773</b>                               | <b>3,465</b>                                     | <b>16,238</b> |

## IV. Group condensed cash flow statement

| in EUR million   | 1-6 13        | 1-6 14       |
|--|---------------|--------------|
| <b>Cash and cash equivalents at the end of the previous year</b> | <b>9,740</b>  | <b>9,301</b> |
| Cash flow from operating activities                              | 1,168         | -656         |
| Cash flow from investing activities                              | 178           | 689          |
| Cash flow from financing activities                              | -476          | -2,091       |
| Effect of currency translation                                   | -32           | 24           |
| <b>Cash and cash equivalents at the end of period</b>            | <b>10,578</b> | <b>7,267</b> |

## V. Condensed notes to the group financial statements of Erste Group for the period from 1 January to 30 June 2014

### BASIS OF PREPARATION

The condensed consolidated interim financial statements (“interim financial statements”) of Erste Group for the period from 1 January to 30 June 2014 were prepared in accordance with International Financial Reporting Standards (“IFRS”) 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 IFRS results in no differences between IFRS as issued by the International Accounting Standards Board (“IASB”) and IFRS as endorsed by the EU.

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

### BASIS OF CONSOLIDATION

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

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

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

|  |            |
|--|------------|
| <b>As of 31 December 2013</b>                      | <b>549</b> |
| <b>Additions</b>                                   |            |
| Entities newly added to the scope of consolidation | 28         |
| <b>Disposals</b>                                   |            |
| Companies sold or liquidated                       | -9         |
| Mergers  | -4         |
| <b>As of 30 June 2014</b>                          | <b>564</b> |

### Deconsolidation in 2014

As of 1 January 2014 Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a.s.

(Transformed pension fund) has been deconsolidated as a result of changes in the articles of the fund amending its investment strategy. The impact of deconsolidation was decrease of the group assets by EUR 1,702 million (thereof Financial assets - available-for-sale EUR 608 million, Financial assets - held to maturity EUR 368 million and Loans and receivables to credit institutions EUR 710 million) and decrease of the group liabilities by EUR 1,853 million (thereof Financial liabilities measured at amortised cost – Deposits from customers EUR 1,829 million).

### ACCOUNTING AND MEASUREMENT METHODS

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

The preparation of interim financial statements under IFRS requires management to make estimates and assumptions for certain categories of assets and liabilities. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the balance sheet date, and the reported amounts of income and expenses during the reporting period. Actual results could differ from management’s estimates.

As a result of IFRS 10 application on 1 January 2014, Erste Group started with consolidation of 18 investment funds managed by asset management companies of the Group. In all of them Erste Group is also a significant investor, when considering fund units acquired by individual Erste Group entities. The consolidation has been applied retrospectively. All affected 2013 comparative figures have been restated. The effects of restating the income statement were insignificant. The effect of restating the group balance sheet as of 31 December 2013 is summarized below:

| in EUR million                                   | Dec 13       |
|--|--------------|
| <b>Assets</b>                                    |              |
| Financial assets - held for trading              | 1.1          |
| Derivatives                                      | 1.1          |
| Financial assets - available for sale            | 240.6        |
| <b>Total assets</b>                              | <b>241.7</b> |
| <b>Liabilities and equity</b>                    |              |
| Financial liabilities measured at amortised cost | 238.0        |
| Deposits from customers                          | -26.9        |
| Debt securities issued                           | -21.4        |
| Other financial liabilities                      | 286.3        |
| Total equity                                     | 3.7          |
| Equity attributable to non-controlling interests | 9.0          |
| Equity attributable to owners of the parent      | -5.3         |
| <b>Total liabilities and equity</b>              | <b>241.7</b> |

In 2014, as a result of harmonization with the Financial Reporting regulatory requirements (“FINREP”) of the European Banking Authority (“EBA”), Erste Group has changed the structure of the line items in the balance sheet and income statement.

The following tables show the relationships between the old and new balance sheet and income statement line items. Amounts for old structure were adjusted for funds.



## Income statement

| in EUR million |  | Switch of dividend income | Switch of rental and leasing income | Switch of equity method investment income | Split of general administrative expenses | Consolidation of net trading and fair value result | Reallocation of other operating result | Reallocation of customer relationship amortisation and deposit insurance | Switch of realised AfS or HtM gains/losses | Switch of AfS or HtM measurement | Switch of off balance sheet provisions |   |              |
|----------------|--|---------------------------|-------------------------------------|---|--|--|--|--|--|----------------------------------|--|---|--------------|
| 1-6 13         | Old structure  |                           |                                     |   |  |  |  |  |  |                                  |  | New structure   | 1-6 13       |
| 2,439.4        | Net interest income  | -47.9                     | -39.3                               | -12.2                                     | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Net interest income   | 2,339.9      |
| -831.8         | Risk provisions for loans and advances                                   | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 831.8                                  |   | 0.0          |
| 894.1          | Net fee and commission income  | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Net fee and commission income   | 894.1        |
| 0.0            |  | 47.9                      | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Dividend income   | 47.9         |
| 162.6          | Net trading result   | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | -162.6   | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    |   | 0.0          |
| -1842.9        | General administrative expenses  | 0.0                       | 0.0                                 | 0.0                                       | 1,842.9                                  | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    |   | 0.0          |
| -394.5         | Other operating result   | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 323.1                                  | 71.4   | 0.0  | 0.0                              | 0.0                                    |   | 0.0          |
| -59.0          | Result from financial instruments – at fair value through profit or loss | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 162.6  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Net trading and fair value result   | 103.6        |
| 0.0            |  | 0.0                       | 0.0                                 | 12.2                                      | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Net result from equity method investments   | 12.2         |
| 0.0            |  | 0.0                       | 85.2                                | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Rental income from investment properties & other operating leases   | 85.2         |
| 0.0            |  | 0.0                       | 0.0                                 | 0.0                                       | -1,126.5                                 | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Personnel expenses  | -1,126.5     |
| 0.0            |  | 0.0                       | 0.0                                 | 0.0                                       | -538.3                                   | 0.0  | 0.0                                    | -38.7  | 0.0  | 0.0                              | 0.0                                    | Other administrative expenses   | -577.0       |
| 0.0            |  | 0.0                       | -45.9                               | 0.0                                       | -178.1                                   | 0.0  | 0.0                                    | -32.7  | 0.0  | 0.0                              | 0.0                                    | Depreciation and amortisation   | -256.7       |
| 0.0            |  | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 4.7                                    | 0.0  | 12.9                                       | 0.0                              | 0.0                                    | Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | 17.6         |
| 7.9            | Result from financial assets - available for sale                        | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | -4.9                                       | -3.1                             | 0.0                                    |   | 0.0          |
| 2.6            | Result from financial assets - held to maturity                          | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | -8.1                                       | 5.4                              | 0.0                                    |   | 0.0          |
| 0.0            |  | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | -2.2                             | -782.1                                 | Net impairment loss on financial assets not measured at fair value through profit or loss                 | -784.3       |
| 0.0            |  | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | -327.8                                 | 0.0  | 0.0  | -0.2                             | -49.7                                  | Other operating result  | -377.6       |
| 0.0            |  | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | -184.7                                 | 0.0  | 0.0  | 0.0                              | 0.0                                    | Levies on banking activities  | -184.7       |
| <b>378.4</b>   | <b>Pre-tax profit/loss</b>   | <b>0.0</b>                | <b>0.0</b>                          | <b>0.0</b>                                | <b>0.0</b>                               | <b>0.0</b>   | <b>0.0</b>                             | <b>0.0</b>   | <b>0.0</b>                                 | <b>0.0</b>                       | <b>0.0</b>                             | <b>Pre-tax result from continuing operations</b>  | <b>378.4</b> |
| 25.0           | Taxes on income  | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Taxes on income   | 25.0         |
| 403.4          | Post-tax profit  | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    |   | 0.0          |
| 0.0            | Post-tax profit from discontinuing operations                            | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    |   | 0.0          |
| <b>403.4</b>   | <b>Net profit/loss for the period</b>                                    | <b>0.0</b>                | <b>0.0</b>                          | <b>0.0</b>                                | <b>0.0</b>                               | <b>0.0</b>   | <b>0.0</b>                             | <b>0.0</b>   | <b>0.0</b>                                 | <b>0.0</b>                       | <b>0.0</b>                             | <b>Net result for the period</b>  | <b>403.4</b> |
| 101.2          | Attributable to non-controlling interests                                | 0.0                       | 0.0                                 | 0.0                                       | 0.0                                      | 0.0  | 0.0                                    | 0.0  | 0.0  | 0.0                              | 0.0                                    | Net result attributable to non-controlling interests  | 101.2        |
| <b>302.2</b>   | <b>Attributable to owners of the parent</b>                              | <b>0.0</b>                | <b>0.0</b>                          | <b>0.0</b>                                | <b>0.0</b>                               | <b>0.0</b>   | <b>0.0</b>                             | <b>0.0</b>   | <b>0.0</b>                                 | <b>0.0</b>                       | <b>0.0</b>                             | <b>Net result attributable to owners of the parent</b>  | <b>302.2</b> |

## Assets

| in EUR million |   | Reallocation of demand deposits (<24h) | Reallocation of non-consolidated subsidiaries and associates | Reallocation of movable other property | Switch to net book value of loans and receivables | Product split into measurement categories |   |                |
|----------------|---|--|--|--|---|---|---|----------------|
| Dec 13         | Old structure   |  |  |  |   |   | New structure   |                |
|                |   |  |  |  |   |   | Dec 13  |                |
| 8,670          | Cash and balances with central banks                    | 630                                    | 0  | 0                                      | 0   | 0   | Cash and cash balances                                  | 9,301          |
| 9,062          | Loans and advances to credit institutions               | -630                                   | 0  | 0                                      | -8,431  | 0   |   | 0              |
| 127,698        | Loans and advances to customers                         | 0                                      | 0  | 0                                      | -127,698  | 0   |   | 0              |
| -7,810         | Risk provisions for loans and advances                  | 0                                      | 0  | 0                                      | 7,810   | 0   |   | 0              |
| 0              |   | 0                                      | 0  | 0                                      | 0   | 0   | Financial assets - held for trading                     | 12,283         |
| 8,286          | Derivative financial instruments                        | 0                                      | 0  | 0                                      | 0   | -1,944                                    | Derivatives   | 6,342          |
| 5,941          | Trading assets  | 0                                      | 0  | 0                                      | 0   | 0   | Other trading assets                                    | 5,941          |
| 529            | Financial assets - at fair value through profit or loss | 0                                      | 0  | 0                                      | 0   | 0   | Financial assets - at fair value through profit or loss | 529            |
| 20,822         | Financial assets - available for sale                   | 0                                      | -144   | 0                                      | 0   | 0   | Financial assets - available for sale                   | 20,678         |
| 17,781         | Financial assets - held to maturity                     | 0                                      | 0  | 0                                      | -2  | 0   | Financial assets - held to maturity                     | 17,779         |
| 0              |   | 0                                      | 0  | 0                                      | 8,377   | 0   | Loans and receivables to credit institutions            | 8,377          |
| 0              |   | 0                                      | 0  | 0                                      | 119,944   | 0   | Loans and receivables to customers                      | 119,945        |
| 0              |   | 0                                      | 0  | 0                                      | 0   | 1,944                                     | Derivatives - hedge accounting                          | 1,944          |
| 0              |   | 0                                      | 0  | 0                                      | 0   | 0   | Changes in fair value of portfolio hedged items         | 0              |
| 2,057          | Property and equipment                                  | 0                                      | 0  | 263                                    | 0   | 0   | Property and equipment                                  | 2,320          |
| 951            | Investment properties                                   | 0                                      | 0  | 0                                      | 0   | 0   | Investment properties                                   | 951            |
| 2,441          | Intangible assets                                       | 0                                      | 0  | 0                                      | 0   | 0   | Intangible assets                                       | 2,441          |
| 208            | Equity method investments                               | 0                                      | 0  | 0                                      | 0   | 0   | Investments in associates and joint ventures            | 208            |
| 100            | Current tax assets                                      | 0                                      | 0  | 0                                      | 0   | 0   | Current tax assets                                      | 100            |
| 719            | Deferred tax assets                                     | 0                                      | 0  | 0                                      | 0   | 0   | Deferred tax assets                                     | 719            |
| 75             | Assets held for sale                                    | 0                                      | 0  | 0                                      | 0   | 0   | Assets held for sale                                    | 75             |
| 2,590          | Other assets  | 0                                      | 144  | -263                                   | 0   | 0   | Other assets  | 2,471          |
| <b>200,118</b> | <b>Total assets</b>                                     | <b>0</b>                               | <b>0</b>   | <b>0</b>                               | <b>0</b>  | <b>0</b>                                  | <b>Total assets</b>                                     | <b>200,118</b> |

## Liabilities and equity

| in EUR million |  | Reallocation of subordinated liabilities | Reallocation derivatives | Product split into measurement categories |  |                |
|----------------|--|--|--------------------------|---|--|----------------|
| Dec 13         | Old structure                                      |  |                          |   | New structure  | Dec 13         |
| 0              |  | 0  | 0                        | 0   | Financial liabilities - held for trading                     | 6,475          |
| 0              |  | 0  | 6,087                    | 0   | Derivatives  | 6,087          |
| 0              |  | 0  | 0                        | 388                                       | Other trading liabilities                                    | 388            |
| 0              |  | 0  | 0                        | 0   | Financial liabilities - at fair value through profit or loss | 2,339          |
| 0              |  | 0  | 0                        | 0   | Deposits from banks  | 0              |
| 0              |  | 0  | 0                        | 460                                       | Deposits from customers                                      | 460            |
| 0              |  | 0  | 0                        | 1,879                                     | Debt securities issued                                       | 1,879          |
| 0              |  | 0  | 0                        | 0   | Other financial liabilities                                  | 0              |
| 0              |  | 0  | 0                        | 0   | Financial liabilities measured at amortised cost             | 170,786        |
| 17,126         | Deposits by banks                                  | 173                                      | 0                        | 0   | Deposits from banks  | 17,299         |
| 122,415        | Customer deposits                                  | 0  | 0                        | -460                                      | Deposits from customers                                      | 121,955        |
| 27,965         | Debt securities issued                             | 5,159                                    | 0                        | -1,879                                    | Debt securities issued                                       | 31,245         |
| 0              |  | 0  | 0                        | 286                                       | Other financial liabilities                                  | 286            |
| 0              |  | 0  | 644                      | 0   | Derivatives - hedge accounting                               | 644            |
| 734            | Value adjustments from portfolio fair value hedges | 0  | 0                        | 0   | Changes in fair value of portfolio hedged items              | 734            |
| 6,731          | Derivative financial instruments                   | 0  | -6,731                   | 0   |  | 0              |
| 388            | Trading liabilities                                | 0  | 0                        | -388                                      |  | 0              |
| 1,448          | Provisions   | 0  | 0                        | 0   | Provisions   | 1,448          |
| 85             | Current tax liabilities                            | 0  | 0                        | 0   | Current tax liabilities                                      | 85             |
| 169            | Deferred tax liabilities                           | 0  | 0                        | 0   | Deferred tax liabilities                                     | 169            |
| 0              |  | 0  | 0                        | 0   | Liabilities associated with assets held for sale             | 0              |
| 2,940          | Other liabilities                                  | 0  | 0                        | -286                                      | Other liabilities  | 2,654          |
| 5,333          | Subordinated liabilities                           | -5,333                                   | 0                        | 0   |  | 0              |
| 14,785         | Total equity                                       | 0  | 0                        | 0   | Total equity   | 14,785         |
| 3,466          | Attributable to non-controlling interests          | 0  | 0                        | 0   | Equity attributable to non-controlling interests             | 3,466          |
| 11,319         | Attributable to owners of the parent               | 0  | 0                        | 0   | Equity attributable to owners of the parent                  | 11,319         |
| <b>200,118</b> | <b>Total liabilities and equity</b>                | <b>0</b>                                 | <b>0</b>                 | <b>0</b>                                  | <b>Total liabilities and equity</b>                          | <b>200,118</b> |

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

### Foreign currency translation

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

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

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

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

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

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

### Financial instruments – recognition and measurement

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

Erste Group uses the following categories of financial instruments:

- \_ financial assets or financial liabilities at fair value through profit or loss
- \_ available-for-sale financial assets
- \_ held-to-maturity investments
- \_ loans and receivables
- \_ financial liabilities measured at amortised cost

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

#### *(i) Initial recognition*

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

#### *(ii) Initial measurement of financial instruments*

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

#### *(iii) Cash and cash balances*

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

#### *(iv) Derivative financial instruments*

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

For presentation purposes derivatives are split into

- \_ derivatives – held for trading; and
- \_ derivatives – hedge accounting

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without

regard to their internal classification, i.e. both derivatives held in the trading book and banking book are presented in this line item.

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

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

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges fulfilling the conditions of IAS 39. In the balance sheet, they are presented in the line item ‘Derivatives - hedge accounting’ on asset or liability side.

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

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

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

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

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

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

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

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

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

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

Financial assets - designated at fair value through profit or loss are recorded on the balance sheet at fair value under the line item ‘Financial assets - designated at fair value through profit or loss’, with changes in fair value recognised in the income statement under the line item ‘Net trading and fair value result’. Interest earned on debt instruments is reported under the line item ‘Net interest income’. Dividend income on equity instruments is shown under the line item ‘Dividend income’.

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

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

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

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

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

Available-for-sale financial assets include debt and equity securities as well as other interests in entities with lower than significant influence. Equity investments classified as available for sale

are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

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

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

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

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

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

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

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

#### *(ix) Loans and receivables*

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

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

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

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

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

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

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

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

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

(xi) Relationships between balance sheet items, measurement methods and categories of financial instruments

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

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

#### Embedded derivatives

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

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

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

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

#### Reclassifications of financial assets

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

#### Derecognition of financial assets and financial liabilities

A financial asset (or where applicable part of a financial asset or part of a group of similar financial assets) is derecognised when:

- \_ the contractual rights to receive cash flows from the asset have expired; or
- \_ Erste Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - \_ it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  - \_ has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

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



### Repurchase and reverse repurchase agreements

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

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

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

### Securities lending and borrowing

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

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

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

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

Erste Group uses the Basel 2 definition of default as a primary indicator of loss events. Default, as a loss event, occurs when

- \_ the obligor is more than 90 days past due on any material credit obligation;
- \_ as a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- \_ the obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- \_ the obligor is subject to bankruptcy or similar protection proceedings.

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

#### *(iii) Contingent liabilities*

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

#### **Hedge accounting**

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

#### *(i) Fair value hedges*

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

reported under the line item 'Net interest income'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item 'Net trading and fair value result' and adjusts the carrying amount of the hedged item.

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

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

#### *(ii) Cash flow hedges*

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

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

#### **Offsetting financial instruments**

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

#### **Determination of fair value**

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

Details on valuation techniques applied for fair value measurement and on fair value hierarchy are disclosed in Note 30 Fair value of financial instruments.

#### **Leasing**

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

#### *Erste Group as a lessor*

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

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

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

#### *Erste Group as a lessee*

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

#### **Business combinations and goodwill**

##### *(i) Business combinations*

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

the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

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

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

#### *(ii) Goodwill and goodwill impairment testing*

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

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

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

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

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

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

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

#### **Property and equipment**

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

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

The estimated useful lives are as follows:

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

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the

asset) is recognised in the income statement under the line item ‘Other operating result’.

### Investment properties

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

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

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

### Property Held for Sale (Inventory)

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

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

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

### Intangible assets

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

Costs of internally generated software are capitalised if Erste Group can demonstrate the technical feasibility and intention of

completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

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

The estimated useful lives are as follows:

|                        | Useful life in years |
|------------------------|----------------------|
| Computer software      | 4-8                  |
| Customer relationships | 10-20                |
| Distribution network   | 5.5                  |

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

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

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

If any indication of impairment exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

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

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

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

#### **Financial guarantees**

In the ordinary course of business, Erste Group provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39, a financial guarantee is a con-

tract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

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

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

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

#### **Defined employee benefit plans**

Defined employee benefit plans operated by Erste Group are for pensions, severance and jubilee benefits. From IAS 19 categorisation perspective pension and severance benefits qualify as post-employment defined benefits plans whereas jubilee benefits are other long-term employee benefits.

The defined benefit pension plans relate only to retired employees. The pension obligations for current employees were transferred to external pension funds in previous years. Remaining with Erste Group is a defined-benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements. Also included are entitlements to resulting survivor pensions.

Severance benefit obligations exist in relation to Austrian employees who entered the Group's employment before 1 January 2003. The severance benefit is one-time remuneration to which employees are entitled when their employment relationship ends. The entitlement to this severance payment arises after three years of employment.

Defined-benefit plans include jubilee benefits. Jubilee payments (payments for long service and/or loyal service) are remuneration tied to the length of an employee's service to the employer. The entitlement to jubilee benefits is established by collective agree-



ment, which defines both the conditions and amount of the entitlement.

Obligations ensuing from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known as of the balance sheet date but also anticipated future rates of increase in salaries and pensions.

The liability recognised under a defined-benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans, the present value of the obligation exceeds the fair value of the plan assets. The resulting defined benefit liability is reported on the balance sheet under the line item 'Provisions'. At Erste Group, the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions.

Remeasurements consist of actuarial gains and losses on the defined benefit obligations and the return on plan assets. Remeasurements of pension and severance defined-benefit plans are recognised in other comprehensive income. Remeasurements of jubilee defined-benefit plans are recognised in the income statement under the line item 'Personnel expenses'.

### **Provisions**

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

### **Taxes**

#### *(i) Current tax*

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

#### *(ii) Deferred tax*

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and

carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

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

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

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

### **Treasury shares and contracts on treasury shares**

Equity instruments of Erste Group that it or any of its subsidiaries acquire (referred to as treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group's own equity instruments, including transaction costs, is recognised directly in equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of its own equity instruments.

### **Fiduciary assets**

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

### **Dividends on ordinary shares**

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

### **Recognition of income and expenses**

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

#### *(i) Net interest income*

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

Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all financial liabilities categories. In addition, net interest income includes interest on derivative financial instruments held in the banking book.

*(ii) Net fee and commission income*

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

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

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

*(iii) Dividend income*

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

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

*(iv) Net trading and fair value result*

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

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

*(v) Net result from equity method investments*

The line item contains result from associates and joint ventures recorded by applying the equity method (measured as investor's share of profit or loss in the associates and joint ventures).

However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item 'Other operating result'.

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

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

*(vii) Personnel expenses*

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include expenses and income for severance payment, pension and jubilee obligations (covering service cost, net interest cost and remeasurements of jubilee obligations).

*(viii) Other administrative expenses*

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

*(ix) Depreciation and amortisation*

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

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

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

*(xi) Net impairment loss on financial assets*

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

*(xii) Other operating result*

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

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

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

## **APPLICATION OF AMENDED AND NEW IFRS/IAS**

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

- \_ IAS 27 (revised 2011) Separate Financial Statements

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

Application of these standards had the following effects on the interim financial statements:

- \_ IFRS 10 has led to the consolidation of certain funds managed by Erste Group. For an overview of the prior year-end restatement financial effects due to the retrospective consolidation requirement of IFRS 10 refer to “Accounting and measurement methods”.

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



## 1. Net interest income

| in EUR million   | 1-6 13          | 1-6 14         |
|--|-----------------|----------------|
| <b>Interest income</b>                                       |                 |                |
| Financial assets - held for trading                          | 242.0           | 160.6          |
| Financial assets - at fair value through profit or loss      | 11.4            | 2.0            |
| Financial assets - available for sale                        | 278.7           | 238.3          |
| Financial assets - held to maturity                          | 359.8           | 307.3          |
| Loans and receivables  | 2,695.7         | 2,444.5        |
| Derivatives - hedge accounting, interest rate risk           | -11.8           | 17.0           |
| Other assets   | 17.0            | 18.0           |
| <b>Total interest income</b>                                 | <b>3,592.6</b>  | <b>3,187.7</b> |
| <b>Interest expenses</b>                                     |                 |                |
| Financial liabilities - held for trading                     | -28.5           | -38.2          |
| Financial liabilities - at fair value through profit or loss | -30.5           | -11.8          |
| Financial liabilities measured at amortised cost             | -1,370.1        | -1,116.3       |
| Derivatives - hedge accounting, interest rate risk           | 180.2           | 223.4          |
| Other liabilities  | -3.7            | -1.2           |
| <b>Total interest expense</b>                                | <b>-1,252.6</b> | <b>-944.1</b>  |
| <b>Net interest income</b>                                   | <b>2,340.0</b>  | <b>2,243.6</b> |

## 2. Net fee and commission income

| in EUR million                                    | 1-6 13       | 1-6 14       |
|---|--------------|--------------|
| Securities  | 78.2         | 89.1         |
| Own issues  | 8.9          | 9.9          |
| Transfer orders                                   | 66.9         | 70.3         |
| Other   | 2.5          | 8.9          |
| Clearing and settlement                           | -3.2         | 1.4          |
| Asset management                                  | 97.9         | 116.2        |
| Custody   | 31.7         | 29.0         |
| Fiduciary transactions                            | 0.1          | 1.1          |
| Payment services                                  | 425.6        | 437.3        |
| Card business                                     | 100.2        | 99.4         |
| Other   | 325.4        | 337.9        |
| Customer resources distributed but not managed    | 89.4         | 79.2         |
| Collective investment                             | 6.3          | 2.0          |
| Insurance products                                | 47.5         | 55.8         |
| Building society brokerage                        | 16.8         | 8.0          |
| Foreign exchange transactions                     | 11.1         | 9.4          |
| Other   | 7.7          | 4.0          |
| Structured finance                                | 0.0          | 0.0          |
| Servicing fees from securitization activities     | 0.2          | 0.0          |
| Lending business                                  | 130.1        | 123.5        |
| Guarantees given, guarantees received             | 16.4         | 24.7         |
| Loan commitments given, loan commitments received | 25.0         | 31.1         |
| Other lending business                            | 88.7         | 67.6         |
| Other   | 44.1         | 30.0         |
| <b>Net fee and commission income</b>              | <b>894.1</b> | <b>907.0</b> |

## 3. Dividend income

| in EUR million  | 1-6 13      | 1-6 14      |
|---|-------------|-------------|
| Financial assets - held for trading                     | 1.5         | 0.9         |
| Financial assets - at fair value through profit or loss | 3.6         | 2.0         |
| Financial assets - available for sale                   | 39.8        | 21.8        |
| Dividend income from equity investments                 | 3.0         | 5.2         |
| <b>Dividend income</b>                                  | <b>47.9</b> | <b>29.9</b> |

#### 4. Net trading and fair value result

| in EUR million  | 1-6 13       | 1-6 14       |
|---|--------------|--------------|
| Net trading result  | 118.5        | 193.7        |
| Securities and derivatives trading  | 59.9         | 171.9        |
| Foreign exchange transactions   | 58.6         | 21.8         |
| Result from financial assets and liabilities designated at fair value through profit or loss          | -14.9        | -55.6        |
| Result from measurement/sale of financial assets designated at fair value through profit or loss      | -4.6         | 8.2          |
| Result from measurement/sale of financial liabilities designated at fair value through profit or loss | -10.3        | -63.8        |
| <b>Net trading and fair value result</b>  | <b>103.6</b> | <b>138.0</b> |

#### 5. Rental income from investment properties & other operating leases

| in EUR million   | 1-6 13      | 1-6 14      |
|--|-------------|-------------|
| Investment properties  | 39.4        | 44.1        |
| Other operating leases   | 45.8        | 47.6        |
| <b>Rental income from investment properties &amp; other operating leases</b> | <b>85.2</b> | <b>91.6</b> |

#### 6. General administrative expenses

| in EUR million   | 1-6 13          | 1-6 14          |
|--|-----------------|-----------------|
| <b>Personnel expenses</b>  | <b>-1,126.5</b> | <b>-1,091.9</b> |
| Wages and salaries   | -823.2          | -795.5          |
| Compulsory social security                                       | -245.9          | -231.2          |
| Long-term employee provisions                                    | -29.3           | -32.8           |
| Other personnel expenses   | -28.1           | -32.4           |
| <b>Other administrative expenses</b>                             | <b>-577.0</b>   | <b>-557.6</b>   |
| Deposit insurance contribution                                   | -38.7           | -46.8           |
| IT expenses  | -138.5          | -131.6          |
| Expenses for office space  | -132.8          | -124.5          |
| Office operating expenses  | -82.0           | -68.0           |
| Advertising/marketing  | -71.2           | -71.0           |
| Legal and consulting costs                                       | -57.2           | -55.0           |
| Sundry administrative expenses                                   | -56.6           | -60.7           |
| <b>Depreciation and amortisation</b>                             | <b>-256.7</b>   | <b>-246.8</b>   |
| Software and other intangible assets                             | -73.8           | -74.7           |
| Owner occupied real estate                                       | -43.7           | -38.5           |
| Investment properties  | -45.9           | -52.1           |
| Customer relationships   | -32.7           | -32.0           |
| Office furniture and equipment and sundry property and equipment | -60.6           | -49.5           |
| <b>General administrative expenses</b>                           | <b>-1,960.2</b> | <b>-1,896.4</b> |

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

| in EUR million   | 1-6 13      | 1-6 14     |
|--|-------------|------------|
| From sale of financial assets available for sale   | 4.9         | 7.7        |
| From sale of financial assets held to maturity   | 8.1         | 3.0        |
| From sale of loans and receivables   | 0.0         | -0.3       |
| From repurchase of liabilities measured at amortised cost  | 4.7         | -9.2       |
| <b>Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net</b> | <b>17.6</b> | <b>1.2</b> |

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

| in EUR million   | 1-6 13        | 1-6 14        |
|--|---------------|---------------|
| Financial assets - available for sale  | 3.3           | 10.3          |
| Loans and receivables  | -782.1        | -806.4        |
| Allocation to risk provisions  | -1,531.1      | -1,860.2      |
| Release of risk provisions   | 790.9         | 1,088.7       |
| Direct write-offs  | -71.5         | -75.1         |
| Recoveries recorded directly to the income statement   | 29.6          | 40.3          |
| Financial assets - held to maturity  | -5.5          | -0.1          |
| <b>Net impairment loss on financial assets not measured at fair value through profit or loss</b> | <b>-784.3</b> | <b>-796.1</b> |

## 9. Other operating result

| in EUR million  | 1-6 13        | 1-6 14          |
|---|---------------|-----------------|
| Result from properties/movables/other intangible assets other than goodwill | -17.7         | -542.6          |
| Allocation to/release of other provisions                                   | 22.6          | -124.5          |
| Allocation to/release of provisions for commitments and guarantees given    | -49.7         | -27.6           |
| Levies on banking activities  | -184.7        | -154.1          |
| Banking tax   | -153.3        | -131.9          |
| Financial transaction tax   | -31.4         | -22.2           |
| Other taxes   | -12.4         | -9.3            |
| Impairment of goodwill  | -21.9         | -420.9          |
| Result from other operating expenses/income                                 | -113.8        | 7.3             |
| <b>Other operating result</b>   | <b>-377.6</b> | <b>-1,271.8</b> |

### Provisions in Hungary

As a result of an act formally passed by the Hungarian Parliament early in July 2014, Erste Bank Hungary may have to compensate its customers in the area of consumer loans provided since May 2004. The compensation refers to bid-ask exchange rate spreads applied by the bank for disbursements and repayments of FX loans and unilateral interest rate increases for both FX and HUF loans.

The new legislation was reflected as an adjusting event according to IAS 10 in the half year interim report. In the balance sheet, Erste Group reflected the best estimate of the expected compensation in the line item "Other provisions" due to the fact that the manner of the settlement is subject to a separate legal act expected to be passed in autumn. The loss shown in other operating result amounts to EUR 130.3 million.

### Impairment of goodwill and other intangibles

As of 30 June 2014, Erste Group has performed mid-year impairment tests of the goodwill elements attributable to those cash generating units (subsidiaries) where indicators of possible impairments have been recently identified.

Banca Comercială Română SA ("BCR") lowered significantly its expectations of recovery for several large packages of non-performing loans, in the light of the low price offers received

during the second quarter of 2014. In addition to the recent efforts of accelerating NPL volume reductions, this triggered a significant upwards adjustment of the risk cost forecast for the second half of 2014.

Erste Bank Croatia ("EBC") had to accommodate recently introduced local regulations regarding higher capital requirements, therefore indicating a potential decrease in EBC's future cash-generating capacity. This indication was deemed as potentially further affecting the cash generating unit of Steiermärkische Bank und Sparkassen Aktiengesellschaft ("STMK"), which holds a significant participation in Erste Bank Croatia.

The identification of these one-off indicators prompted the Group to conservatively revisit the budgeted future performance of the three mentioned subsidiaries and, consequently, to undertake an impairment test of the net carrying goodwill attributable to them as of 30 June 2014.

The analysis per each of these subsidiaries (cash generating units) of both the carrying goodwill as of 31 December 2013 (1 January 2014) and of the impairment losses recognised for the first half of the year 2014 is presented in the table below. The table also summarises the key elements of the approach taken in designing and performing the goodwill impairment test as of 30 June 2014 (with comparative values for 31 December 2013, as applicable).

|   | BCR  | EBC                                  | STMK                                 | TOTAL |
|---|--|--------------------------------------|--------------------------------------|-------|
| Carrying amount of Goodwill as at 1 January 2014  | 313  | 61                                   | 40                                   | 414   |
| Effect of exchange rate changes for the first half of the year 2014                       | 6  | 0                                    | 0                                    | 7     |
| Basis on which recoverable amount has been determined                                     | Value in Use (discounted cash flow model based)  |                                      |                                      | ***   |
| Key input parameters into the discounted cash flow model                                  | Risk Free Rate, Terminal Growth Rate, $\beta$ Factor, Market Risk Premium  |                                      |                                      | ***   |
| Description of approach to determining value assigned to Risk Free Rate                   | Risk Free Rate has been set at 2.38% p.a. throughout the tested CGUs based on relevant financial statistics published by Deutsche Bundesbank as at the reference date 30 May 2014. The applied value used for the goodwill impairment assessment as at 31 December 2013: 2.73%.  |                                      |                                      | ***   |
| Description of approach to determining values assigned to Terminal Growth Rate            | For Austrian CGUs: Terminal Growth Rate has been equated to 1.00% reflecting expected Austrian annual average long-term inflation rate<br>For Non-Austrian (CEE) CGUs: Terminal Growth Rate has been equated to 3.00%, representing the recommended cap level for the Terminal Growth Rate, as per the report ESMA/2013/2 "European Enforcers Review of Impairment of Goodwill and Other Intangible Assets in the IFRS Financial Statements" published by the European Securities and Markets Authority (ESMA). The applied values are the same as used for the goodwill impairment test as at 31 December 2013. |                                      |                                      | ***   |
| Description of approach to determining values assigned to $\beta$ Factor                  | Set as the median value of a set of levered $\beta$ factors attributable to a representative sample of "peer banks" representative for each tested bank (CGU), as published by Bloomberg as at the reference date 30 May 2014.   |                                      |                                      | ***   |
| The value assigned to $\beta$ Factor  | 1,146<br>(31 December 2013: 1,218)   | 1,146<br>(31 December 2013: 1,218)   | 1,379<br>(31 December 2013: 1,223)   | ***   |
| Description of approach to determining values assigned to Market Risk Premium             | Set at 6.0% throughout relevant Group's CGUs based on publicly available evaluations by Austrian Chamber of Commerce (Kammer der Wirtschaftstreuhänder). The applied values are the same as used for the goodwill impairment test as at 31 December 2013.  |                                      |                                      | ***   |
| Period of cash flow projection (years)  | 5 years (2015 - 2019); extrapolation to perpetuity based on Terminal Growth Rate   |                                      |                                      | ***   |
| Discount rate applied to cash flow projections (pre-tax)                                  | 15,04%<br>(31 December 2013: 15,76%)   | 15,69%<br>(31 December 2013: 16,98%) | 12,28%<br>(31 December 2013: 11,70%) | ***   |
| Goodwill impairment loss recognised in profit or loss for the first half of the year 2014 | -319   | -61                                  | -40                                  | -421  |
| Post-impairment carrying amount of Goodwill as at 30 June 2014                            | 0  | 0                                    | 0                                    | 0     |

Thus, the carrying amount of the goodwill elements in connection with the three aforementioned subsidiaries (cash generating units) has been fully written-off as of 30 June 2014, resulting in an adverse impact of EUR 420.9 million in Group's consolidated other operating result for the first half of the year 2014.

Additionally, as a result of the aforementioned impairment testing of the BCR cash generating unit, Group's consolidated other operating result for the first half of the year 2014 has been adversely impacted by further related impairment allocations in aggregate amount of EUR 535.1 million, mostly attributable to the BCR brand (full write-off of the carrying amount of EUR 294.6 million) and the BCR customer list (full write-off of the carrying amount of EUR 176.1 million).

## 11. Cash and cash balances

| in EUR million                 | Dec 13       | Jun 14       |
|--------------------------------|--------------|--------------|
| Cash on hand                   | 2,327        | 2,130        |
| Cash balances at central banks | 6,343        | 4,101        |
| Other demand deposits          | 630          | 1,036        |
| <b>Cash and cash balances</b>  | <b>9,301</b> | <b>7,267</b> |

## 10. Taxes on Income

Group's consolidated net tax expense for the first half of the year 2014 amounted to 335.6 EUR million, thereof 164.2 EUR million net deferred tax expense. The main driver of the deferred tax impact has been the impairment of deferred tax assets.

The comparative figure of 25.0 EUR million representing Group's consolidated net tax income for the first half of 2013 included the one-off favorable impact of deferred tax liabilities in the amount of 127.7 EUR million having been released by Banca Comercială Română.

## 12. Derivatives – held for trading

| in EUR million                              | As of 31 December 2013 |                     |                     | As of 30 June 2014 |                     |                     |
|---|------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
|   | Notional value         | Positive fair value | Negative fair value | Notional value     | Positive fair value | Negative fair value |
| <b>Derivatives held in the trading book</b> | <b>182,478</b>         | <b>5,269</b>        | <b>5,223</b>        | <b>166,196</b>     | <b>5,584</b>        | <b>5,367</b>        |
| Interest rate                               | 151,475                | 4,463               | 4,546               | 137,066            | 5,157               | 5,020               |
| Equity                                      | 734                    | 50                  | 13                  | 1,539              | 37                  | 10                  |
| Foreign exchange                            | 29,601                 | 746                 | 653                 | 26,635             | 369                 | 319                 |
| Credit                                      | 331                    | 0                   | 6                   | 430                | 2                   | 7                   |
| Commodity                                   | 252                    | 2                   | 4                   | 358                | 18                  | 11                  |
| Other                                       | 84                     | 8                   | 1                   | 168                | 2                   | 0                   |
| <b>Derivatives held in the banking book</b> | <b>38,241</b>          | <b>1,073</b>        | <b>864</b>          | <b>32,149</b>      | <b>896</b>          | <b>980</b>          |
| Interest rate                               | 21,175                 | 720                 | 608                 | 16,308             | 569                 | 707                 |
| Equity                                      | 1,860                  | 41                  | 40                  | 264                | 76                  | 58                  |
| Foreign exchange                            | 14,354                 | 254                 | 141                 | 14,534             | 183                 | 138                 |
| Credit                                      | 496                    | 9                   | 8                   | 566                | 12                  | 12                  |
| Commodity                                   | 44                     | 4                   | 5                   | 10                 | 3                   | 0                   |
| Other                                       | 313                    | 45                  | 63                  | 466                | 54                  | 65                  |
| <b>Total</b>                                | <b>220,719</b>         | <b>6,342</b>        | <b>6,087</b>        | <b>198,345</b>     | <b>6,480</b>        | <b>6,347</b>        |

## 13. Other trading assets

| in EUR million               | Dec 13       | Jun 14       |
|------------------------------|--------------|--------------|
| Equity instruments           | 273          | 242          |
| Debt securities              | 5,668        | 6,232        |
| General governments          | 3,397        | 3,614        |
| Credit institutions          | 1,960        | 2,225        |
| Other financial corporations | 21           | 171          |
| Non-financial corporations   | 289          | 222          |
| Loans and advances           | 0            | 0            |
| <b>Other trading assets</b>  | <b>5,941</b> | <b>6,474</b> |

## 14. Financial assets - at fair value through profit or loss

| in EUR million   | Dec 13     | Jun 14     |
|--|------------|------------|
| Equity instruments   | 207        | 206        |
| Debt securities  | 322        | 248        |
| General governments  | 63         | 95         |
| Credit institutions  | 125        | 76         |
| Other financial corporations                                   | 7          | 75         |
| Non-financial corporations                                     | 127        | 2          |
| Loans and advances   | 0          | 2          |
| <b>Financial assets - at fair value through profit or loss</b> | <b>529</b> | <b>456</b> |

## 15. Financial assets - available for sale

| in EUR million                               | Dec 13        | Jun 14        |
|--|---------------|---------------|
| Equity instruments                           | 1,236         | 1,297         |
| Debt securities                              | 19,442        | 20,626        |
| General governments                          | 10,439        | 13,227        |
| Credit institutions                          | 3,434         | 3,891         |
| Other financial corporations                 | 1,285         | 796           |
| Non-financial corporations                   | 4,284         | 2,712         |
| Loans and advances                           | 0             | 0             |
| <b>Financial assets - available for sale</b> | <b>20,678</b> | <b>21,923</b> |

## 16. Financial assets – held to maturity

| in EUR million               | Gross carrying amount |               | Collective allowances |           | Net carrying amount |               |
|------------------------------|-----------------------|---------------|-----------------------|-----------|---------------------|---------------|
|                              | Dec 13                | Jun 14        | Dec 13                | Jun 14    | Dec 13              | Jun 14        |
| General governments          | 15,195                | 14,923        | -2                    | 0         | 15,194              | 14,922        |
| Credit institutions          | 1,529                 | 1,064         | 0                     | -1        | 1,529               | 1,063         |
| Other financial corporations | 229                   | 370           | 0                     | 0         | 229                 | 370           |
| Non-financial corporations   | 828                   | 601           | 0                     | -1        | 828                 | 600           |
| <b>Total</b>                 | <b>17,781</b>         | <b>16,957</b> | <b>-2</b>             | <b>-2</b> | <b>17,779</b>       | <b>16,955</b> |

## 17. Loans and receivables to credit institutions

### Loans and receivables to credit institutions

| in EUR million                | Gross carrying amount | Specific allowances | Collective allowances | Net carrying amount |
|-------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| <b>As of 30 June 2014</b>     |                       |                     |                       |                     |
| Debt securities               | 461                   | 0                   | 0                     | 461                 |
| Central banks                 | 76                    | 0                   | 0                     | 76                  |
| Credit institutions           | 385                   | 0                   | 0                     | 385                 |
| Loans and receivables         | 8,136                 | -45                 | -3                    | 8,088               |
| Central banks                 | 548                   | 0                   | 0                     | 548                 |
| Credit institutions           | 7,589                 | -45                 | -3                    | 7,540               |
| <b>Total</b>                  | <b>8,598</b>          | <b>-45</b>          | <b>-3</b>             | <b>8,549</b>        |
| <b>As of 31 December 2013</b> |                       |                     |                       |                     |
| Debt securities               | 526                   | 0                   | 0                     | 526                 |
| Central banks                 | 76                    | 0                   | 0                     | 76                  |
| Credit institutions           | 450                   | 0                   | 0                     | 450                 |
| Loans and receivables         | 7,906                 | -54                 | -1                    | 7,851               |
| Central banks                 | 1,278                 | 0                   | 0                     | 1,278               |
| Credit institutions           | 6,627                 | -54                 | -1                    | 6,573               |
| <b>Total</b>                  | <b>8,431</b>          | <b>-54</b>          | <b>-1</b>             | <b>8,377</b>        |

## Allowances for loans and receivables to credit institutions

| in EUR million               | As of         | Allocations | Use      | Releases  | Interest<br>income from<br>impaired<br>loans | Exchange-<br>rate and<br>other<br>changes (+/-) | As of         | Amounts<br>written off | Recoveries<br>of amounts<br>previously<br>written off |
|------------------------------|---------------|-------------|----------|-----------|--|---|---------------|------------------------|---|
|                              | <b>Dec 13</b> |             |          |           |  |   | <b>Jun 14</b> |                        |   |
| <b>Specific allowances</b>   | <b>-54</b>    | <b>-1</b>   | <b>6</b> | <b>23</b> | <b>0</b>                                     | <b>-20</b>                                      | <b>-46</b>    | <b>0</b>               | <b>0</b>  |
| Debt securities              | 0             | 0           | 0        | 20        | 0  | -20   | 0             | 0                      | 0   |
| Central banks                | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Credit institutions          | 0             | 0           | 0        | 20        | 0  | -20   | 0             | 0                      | 0   |
| Loans and receivables        | -54           | -1          | 6        | 3         | 0  | 0   | -46           | 0                      | 0   |
| Central banks                | 0             | 0           | 0        | 1         | 0  | -1  | 0             | 0                      | 0   |
| Credit institutions          | -54           | -1          | 6        | 2         | 0  | 1   | -46           | 0                      | 0   |
| <b>Collective allowances</b> | <b>-1</b>     | <b>-6</b>   | <b>0</b> | <b>4</b>  | <b>0</b>                                     | <b>0</b>  | <b>-3</b>     | <b>0</b>               | <b>0</b>  |
| Debt securities              | 0             | -2          | 0        | 0         | 0  | 2   | 0             | 0                      | 0   |
| Central banks                | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Credit institutions          | 0             | -2          | 0        | 0         | 0  | 2   | 0             | 0                      | 0   |
| Loans and receivables        | -1            | -5          | 0        | 4         | 0  | -1  | -3            | 0                      | 0   |
| Central banks                | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Credit institutions          | -1            | -5          | 0        | 4         | 0  | -1  | -3            | 0                      | 0   |
| <b>Total</b>                 | <b>-55</b>    | <b>-7</b>   | <b>6</b> | <b>27</b> | <b>0</b>                                     | <b>-20</b>                                      | <b>-49</b>    | <b>0</b>               | <b>0</b>  |
|                              | <b>Dec 12</b> |             |          |           |  |   | <b>Jun 13</b> |                        |   |
| <b>Specific allowances</b>   | <b>-61</b>    | <b>0</b>    | <b>7</b> | <b>0</b>  | <b>0</b>                                     | <b>0</b>  | <b>-54</b>    | <b>-2</b>              | <b>1</b>  |
| Debt securities              | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Central banks                | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Credit institutions          | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Loans and receivables        | -61           | 0           | 7        | 0         | 0  | 0   | -54           | -2                     | 1   |
| Central banks                | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Credit institutions          | -61           | 0           | 7        | 0         | 0  | 0   | -54           | -2                     | 1   |
| <b>Collective allowances</b> | <b>-6</b>     | <b>0</b>    | <b>0</b> | <b>0</b>  | <b>0</b>                                     | <b>0</b>  | <b>-5</b>     | <b>0</b>               | <b>0</b>  |
| Debt securities              | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Central banks                | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Credit institutions          | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Loans and receivables        | -6            | 0           | 0        | 0         | 0  | 0   | -5            | 0                      | 0   |
| Central banks                | 0             | 0           | 0        | 0         | 0  | 0   | 0             | 0                      | 0   |
| Credit institutions          | -6            | 0           | 0        | 0         | 0  | 0   | -6            | 0                      | 0   |
| <b>Total</b>                 | <b>-67</b>    | <b>0</b>    | <b>7</b> | <b>0</b>  | <b>0</b>                                     | <b>0</b>  | <b>-60</b>    | <b>-2</b>              | <b>1</b>  |

## 18. Loans and receivables to customers

### Loans and receivables to customers

| in EUR million                  | Gross carrying amount | Specific allowances | Collective allowances | Net carrying amount |
|---------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| <b>As of 30 June 2014</b>       |                       |                     |                       |                     |
| Debt securities with customers  | 266                   | -14                 | -2                    | 250                 |
| General governments             | 99                    | 0                   | -1                    | 98                  |
| Other financial corporations    | 28                    | 0                   | 0                     | 28                  |
| Non-financial corporations      | 140                   | -14                 | -1                    | 125                 |
| Loans and advances to customers | 127,413               | -7,001              | -657                  | 119,755             |
| General governments             | 6,948                 | -5                  | -13                   | 6,930               |
| Other financial corporations    | 6,414                 | -127                | -28                   | 6,258               |
| Non-financial corporations      | 54,216                | -4,467              | -352                  | 49,397              |
| Households                      | 59,835                | -2,402              | -264                  | 57,169              |
| <b>Total</b>                    | <b>127,679</b>        | <b>-7,014</b>       | <b>-659</b>           | <b>120,005</b>      |
| <b>As of 31 December 2013</b>   |                       |                     |                       |                     |
| Debt securities with customers  | 306                   | -9                  | -2                    | 294                 |
| General governments             | 36                    | 0                   | 0                     | 36                  |
| Other financial corporations    | 0                     | 0                   | 0                     | 0                   |
| Non-financial corporations      | 270                   | -9                  | -2                    | 258                 |
| Loans and advances to customers | 127,392               | -7,093              | -649                  | 119,650             |
| General governments             | 6,864                 | -6                  | -11                   | 6,848               |
| Other financial corporations    | 4,164                 | -187                | -17                   | 3,960               |
| Non-financial corporations      | 59,571                | -4,551              | -365                  | 54,655              |
| Households                      | 56,793                | -2,348              | -257                  | 54,188              |
| <b>Total</b>                    | <b>127,698</b>        | <b>-7,102</b>       | <b>-651</b>           | <b>119,945</b>      |



## Allowances for loans and receivables to customers

| in EUR million                  | As of         | Allocations   | Use        | Releases     | Interest<br>income from<br>impaired<br>loans | Exchange-<br>rate and<br>other<br>changes (+/-) | As of         | Amounts<br>written off | Recoveries<br>of amounts<br>previously<br>written off |
|---------------------------------|---------------|---------------|------------|--------------|--|---|---------------|------------------------|---|
|                                 | <b>Dec 13</b> |               |            |              |  |   | <b>Jun 14</b> |                        |   |
| <b>Specific allowances</b>      | <b>-7,102</b> | <b>-1,560</b> | <b>811</b> | <b>792</b>   | <b>113</b>                                   | <b>-68</b>                                      | <b>-7,014</b> | <b>-75</b>             | <b>40</b>   |
| Debt securities with customers  | -9            | -27           | 0          | 0            | 0  | 22  | -14           | 0                      | 1   |
| General governments             | 0             | 0             | 0          | 0            | 0  | 0   | 0             | 0                      | 0   |
| Other financial corporations    | 0             | 0             | 0          | 0            | 0  | 0   | 0             | 0                      | 0   |
| Non-financial corporations      | -9            | -27           | 0          | 0            | 0  | 22  | -14           | 0                      | 1   |
| Loans and advances to customers | -7,092        | -1,534        | 811        | 792          | 113  | -90   | -7,001        | -75                    | 39  |
| General governments             | -6            | -4            | 0          | 4            | 0  | 0   | -5            | 0                      | 0   |
| Other financial corporations    | -183          | -46           | 87         | 25           | 1  | -11   | -127          | -2                     | 0   |
| Non-financial corporations      | -4,594        | -997          | 613        | 414          | 64   | 34  | -4,467        | -54                    | 27  |
| Households                      | -2,310        | -487          | 111        | 347          | 48   | -112  | -2,402        | -20                    | 12  |
| <b>Collective allowances</b>    | <b>-651</b>   | <b>-293</b>   | <b>0</b>   | <b>270</b>   | <b>0</b>                                     | <b>13</b>                                       | <b>-659</b>   | <b>0</b>               | <b>0</b>  |
| Debt securities with customers  | -2            | 0             | 0          | 1            | 0  | 0   | -2            | 0                      | 0   |
| General governments             | 0             | 0             | 0          | 0            | 0  | -1  | -1            | 0                      | 0   |
| Other financial corporations    | 0             | 0             | 0          | 1            | 0  | 0   | 0             | 0                      | 0   |
| Non-financial corporations      | -2            | 0             | 0          | 0            | 0  | 1   | -1            | 0                      | 0   |
| Loans and advances to customers | -649          | -292          | 0          | 270          | 0  | 13  | -657          | 0                      | 0   |
| General governments             | -11           | -3            | 0          | 2            | 0  | -1  | -13           | 0                      | 0   |
| Other financial corporations    | -16           | -14           | 0          | 3            | 0  | -1  | -28           | 0                      | 0   |
| Non-financial corporations      | -363          | -96           | 0          | 118          | 0  | -10   | -352          | 0                      | 0   |
| Households                      | -258          | -179          | 0          | 147          | 0  | 26  | -264          | 0                      | 0   |
| <b>Total</b>                    | <b>-7,753</b> | <b>-1,853</b> | <b>811</b> | <b>1,062</b> | <b>113</b>                                   | <b>-55</b>                                      | <b>-7,674</b> | <b>-75</b>             | <b>40</b>   |
|                                 | <b>Dec 12</b> |               |            |              |  |   | <b>Jun 13</b> |                        |   |
| <b>Specific allowances</b>      | <b>-6,879</b> | <b>-1,317</b> | <b>398</b> | <b>633</b>   | <b>123</b>                                   | <b>26</b>                                       | <b>-7,016</b> | <b>-72</b>             | <b>30</b>   |
| Debt securities with customers  | -3            | 0             | 1          | 0            | 0  | 0   | -2            | -1                     | 0   |
| General governments             | 0             | 0             | 0          | 0            | 0  | 0   | 0             | 0                      | 0   |
| Other financial corporations    | 0             | 0             | 0          | 0            | 0  | 0   | 0             | -1                     | 0   |
| Non-financial corporations      | -3            | 0             | 1          | 0            | 0  | 0   | -2            | 0                      | 0   |
| Loans and advances to customers | -6,876        | -1,317        | 397        | 633          | 123  | 26  | -7,014        | -72                    | 30  |
| General governments             | -4            | -8            | 0          | 2            | 0  | 0   | -10           | 0                      | 0   |
| Other financial corporations    | -26           | -108          | 1          | 6            | 0  | 0   | -126          | 0                      | 0   |
| Non-financial corporations      | -4,528        | -768          | 320        | 493          | 91   | 26  | -4,366        | -66                    | 25  |
| Households                      | -2,319        | -434          | 76         | 133          | 32   | 0   | -2,512        | -5                     | 5   |
| <b>Collective allowances</b>    | <b>-695</b>   | <b>-214</b>   | <b>0</b>   | <b>158</b>   | <b>0</b>                                     | <b>10</b>                                       | <b>-741</b>   | <b>0</b>               | <b>0</b>  |
| Debt securities with customers  | -2            | -4            | 0          | 0            | 0  | 0   | -6            | 0                      | 0   |
| General governments             | 0             | 0             | 0          | 0            | 0  | 0   | 0             | 0                      | 0   |
| Other financial corporations    | 0             | 0             | 0          | 0            | 0  | 0   | 0             | 0                      | 0   |
| Non-financial corporations      | -2            | -4            | 0          | 0            | 0  | 0   | -6            | 0                      | 0   |
| Loans and advances to customers | -693          | -210          | 0          | 158          | 0  | 10  | -735          | 0                      | 0   |
| General governments             | -10           | -2            | 0          | 0            | 0  | 0   | -12           | 0                      | 0   |
| Other financial corporations    | -4            | -6            | 0          | 0            | 0  | 0   | -10           | 0                      | 0   |
| Non-financial corporations      | -451          | -144          | 0          | 158          | 0  | 10  | -426          | 0                      | 0   |
| Households                      | -229          | -58           | 0          | 0            | 0  | 0   | -287          | 0                      | 0   |
| <b>Total</b>                    | <b>-7,574</b> | <b>-1,532</b> | <b>398</b> | <b>791</b>   | <b>123</b>                                   | <b>35</b>                                       | <b>-7,757</b> | <b>-72</b>             | <b>30</b>   |

## 19. Derivatives – hedge accounting

| in EUR million           | As of 31 December 2013 |                     |                     | As of 30 June 2014 |                     |                     |
|--------------------------|------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
|                          | Notional value         | Positive fair value | Negative fair value | Notional value     | Positive fair value | Negative fair value |
| <b>Fair value hedges</b> | <b>33,814</b>          | <b>1,870</b>        | <b>605</b>          | <b>32,093</b>      | <b>2,332</b>        | <b>716</b>          |
| Interest rate            | 30,693                 | 1,866               | 594                 | 29,553             | 2,255               | 694                 |
| Equity                   | 0                      | 0                   | 0                   | 333                | 60                  | 3                   |
| Foreign exchange         | 3,051                  | 2                   | 10                  | 2,086              | 0                   | 18                  |
| Credit                   | 0                      | 0                   | 0                   | 0                  | 0                   | 0                   |
| Commodity                | 0                      | 0                   | 0                   | 13                 | 0                   | 0                   |
| Other                    | 70                     | 2                   | 1                   | 108                | 17                  | 0                   |
| <b>Cash flow hedges</b>  | <b>5,328</b>           | <b>74</b>           | <b>40</b>           | <b>5,740</b>       | <b>157</b>          | <b>8</b>            |
| Interest rate            | 4,866                  | 73                  | 32                  | 4,664              | 153                 | 1                   |
| Equity                   | 0                      | 0                   | 0                   | 73                 | 2                   | 0                   |
| Foreign exchange         | 443                    | 1                   | 7                   | 980                | 2                   | 7                   |
| Credit                   | 0                      | 0                   | 0                   | 0                  | 0                   | 0                   |
| Commodity                | 0                      | 0                   | 0                   | 24                 | 0                   | 0                   |
| Other                    | 20                     | 1                   | 1                   | 0                  | 0                   | 0                   |
| <b>Total</b>             | <b>39,142</b>          | <b>1,944</b>        | <b>644</b>          | <b>37,833</b>      | <b>2,489</b>        | <b>724</b>          |

## 20. Other assets

| in EUR million                 | Dec 13       | Jun 14       |
|--------------------------------|--------------|--------------|
| Prepayments and accrued income | 296          | 324          |
| Inventories                    | 462          | 453          |
| Sundry assets                  | 1,713        | 1,381        |
| <b>Other assets</b>            | <b>2,471</b> | <b>2,158</b> |

## 21. Other trading liabilities

| in EUR million                   | Dec 13     | Jun 14     |
|----------------------------------|------------|------------|
| Short positions                  | 335        | 743        |
| Equity instruments               | 201        | 234        |
| Debt securities                  | 134        | 510        |
| Debt securities issued           | 52         | 62         |
| <b>Other trading liabilities</b> | <b>388</b> | <b>805</b> |

## 22. Financial liabilities – at fair value through profit and loss

### Debt securities issued

| in EUR million                                   | Dec 13       | Jun 14       |
|--|--------------|--------------|
| Subordinated liabilities                         | 275          | 289          |
| Subordinated issues and deposits                 | 275          | 289          |
| Supplementary capital                            | 0            | 0            |
| Hybrid issues                                    | 0            | 0            |
| Other debt securities issued                     | 1,604        | 1,554        |
| Bonds  | 1,206        | 1,142        |
| Certificates of deposit                          | 0            | 0            |
| Other certificates of deposits/name certificates | 71           | 74           |
| Mortgage covered bonds                           | 327          | 338          |
| Public sector covered bonds                      | 0            | 0            |
| Other  | 0            | 0            |
| <b>Debt securities issued</b>                    | <b>1,879</b> | <b>1,843</b> |

## 23. Financial liabilities measured at amortised costs

### Deposits from banks

| in EUR million             | Dec 13        | Jun 14        |
|----------------------------|---------------|---------------|
| Overnight deposits         | 4,264         | 6,385         |
| Term deposits              | 10,311        | 10,299        |
| Repurchase agreements      | 2,724         | 2,120         |
| <b>Deposits from banks</b> | <b>17,299</b> | <b>18,803</b> |

### Deposits from customers

| in EUR million                      | Dec 13         | Jun 14         |
|-------------------------------------|----------------|----------------|
| <b>Overnight deposits</b>           | <b>65,090</b>  | <b>63,589</b>  |
| Savings deposits                    | 21,192         | 17,703         |
| General governments                 | 0              | 0              |
| Other financial corporations        | 194            | 176            |
| Non-financial corporations          | 1,420          | 1,585          |
| Households                          | 19,578         | 15,942         |
| Non-savings deposits                | 43,897         | 45,885         |
| General governments                 | 3,158          | 3,145          |
| Other financial corporations        | 2,464          | 4,644          |
| Non-financial corporations          | 14,427         | 13,877         |
| Households                          | 23,849         | 24,219         |
| <b>Term deposits</b>                | <b>55,990</b>  | <b>55,544</b>  |
| Deposits with agreed maturity       | 51,856         | 51,821         |
| Savings deposits                    | 33,283         | 35,970         |
| General governments                 | 0              | 0              |
| Other financial corporations        | 861            | 881            |
| Non-financial corporations          | 1,266          | 1,007          |
| Households                          | 31,155         | 34,082         |
| Non-savings deposits                | 18,574         | 15,850         |
| General governments                 | 1,860          | 1,156          |
| Other financial corporations        | 1,247          | 2,521          |
| Non-financial corporations          | 5,725          | 3,616          |
| Households                          | 9,741          | 8,557          |
| Deposits redeemable at notice       | 4,134          | 3,723          |
| General governments                 | 56             | 36             |
| Other financial corporations        | 105            | 32             |
| Non-financial corporations          | 493            | 109            |
| Households                          | 3,480          | 3,546          |
| <b>Repurchase agreements</b>        | <b>876</b>     | <b>682</b>     |
| General governments                 | 706            | 674            |
| Other financial corporations        | 0              | 6              |
| Non-financial corporations          | 169            | 2              |
| Households                          | 0              | 0              |
| <b>Deposits from customers</b>      | <b>121,955</b> | <b>119,814</b> |
| <b>General governments</b>          | <b>5,780</b>   | <b>5,012</b>   |
| <b>Other financial corporations</b> | <b>4,871</b>   | <b>8,260</b>   |
| <b>Non-financial corporations</b>   | <b>23,501</b>  | <b>20,196</b>  |
| <b>Households</b>                   | <b>87,803</b>  | <b>86,347</b>  |

### Debt securities issued

| in EUR million                                   | Dec 13        | Jun 14        |
|--|---------------|---------------|
| Subordinated liabilities                         | 4,884         | 5,225         |
| Subordinated issues and deposits                 | 3,304         | 3,686         |
| Supplementary capital                            | 1,218         | 1,172         |
| Hybrid issues                                    | 363           | 366           |
| Other debt securities issued                     | 26,361        | 23,965        |
| Bonds  | 14,283        | 12,223        |
| Certificates of deposit                          | 811           | 433           |
| Other certificates of deposits/name certificates | 1,829         | 1,209         |
| Mortgage covered bonds                           | 7,055         | 8,003         |
| Public sector covered bonds                      | 2,116         | 1,830         |
| Other  | 267           | 267           |
| <b>Debt securities issued</b>                    | <b>31,245</b> | <b>29,190</b> |

## 24. Provisions

| in EUR million  | Dec 13       | Jun 14       |
|---|--------------|--------------|
| Long-term employee provisions   | 1,032        | 1,019        |
| Pending legal issues and tax litigation                                 | 172          | 159          |
| Commitments and guarantees given  | 218          | 257          |
| Provisions for guarantees - off balance sheet (defaulted customers)     | 119          | 152          |
| Provisions for guarantees - off balance sheet (non-defaulted customers) | 99           | 105          |
| Other provisions  | 25           | 172          |
| Provisions for onerous contracts  | 0            | 0            |
| Other   | 25           | 172          |
| <b>Provisions</b>   | <b>1,448</b> | <b>1,607</b> |

## 25. Other liabilities

| in EUR million                           | Dec 13       | Jun 14       |
|--|--------------|--------------|
| Deferred income and accrued fee expenses | 304          | 328          |
| Sundry liabilities                       | 2,350        | 2,871        |
| <b>Other liabilities</b>                 | <b>2,654</b> | <b>3,199</b> |

## 26. Segment reporting

Erste Group's segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, 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 Erste Group the function of the chief operating decision maker is exercised by the management board.

### Structural change

Following a strategic review, the segment structure as well as the methodology for capital allocation was changed. Erste Group therefore introduced a new segment reporting, starting from 1 January 2014. It is based on the matrix organisation (business

and geographical information) and provides comprehensive information to assess the performance of the business and geographical segments. Details on the new segmentation as well as comparable figures for all quarters of 2013 were published on 28 February 2014.

However, the segmentation criteria for corporate business were changed as well with no retrospective adjustments. The former local large corporate business (included in the SME segment in 2013) was reallocated either to the Large Corporates segment or to the SME segment, depending on annual turnover thresholds.

### Business segmentation

The segment reporting comprises nine business segments reflecting Erste Group's management structure and its internal management reporting in 2014.

## Erste Group – business segments



### Retail

The Retail segment comprises the entire business with private individuals, free professionals and micros in the responsibility of account managers in the retail network of the local banks cooperating with their specialized subsidiaries (such as factoring, leasing and asset management companies). Retail products and services including current and savings accounts, mortgage and consumer loans, investment products, credit cards and cross selling products such as leasing, insurance, and building society products are offered via various distribution channels (branch networks and digital banking).

### SME

The SME segment comprises the business with micros, small and medium-sized enterprises (SMEs), small public sector companies, and small financial institutions (e.g. third party leasing companies) in the responsibility of local corporate account managers. Local banks cooperate with specialized subsidiaries such as factoring and leasing companies. The turnover threshold for SMEs varies from country to country within the range of EUR 0.7 million and EUR 75 million.

### Asset/Liability Management & Local Corporate Center

The Asset/Liability Management & Local Corporate Center (ALM & LCC) segment includes all asset/liability management

functions (local and Erste Group Bank AG) as well as the local corporate centers which comprise internal service providers that operate on a non-profit basis and reconciliation items to local entity results. The corporate center of Erste Group Bank AG is included in the Group Corporate Center segment.

#### Savings Banks

The Savings Banks segment includes the savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector except for Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse, Sparkasse Hainburg.

#### Large Corporates

The Large Corporates (LC) segment comprises the business with large corporate customers whose annual turnover exceeds a defined threshold that starts from EUR 25 million and EUR 75 million respectively, depending on the country.

#### Commercial Real Estate

The Commercial Real Estate (CRE) segment covers the real estate value chain (lending, leasing, real estate investment, project development and construction services as well as infrastructure business) for corporate clients, project developers, real estate investors, municipalities and other public sector agencies.

#### Other Corporate

The Other Corporate segment consists of two operating segments – International Business and Investment Banking – that are below the threshold criteria defined by IFRS 8. International Business comprises all lending and investing activities outside Erste Group's core markets (including the branches in London, Hong Kong and New York) and is responsible for business development with and credit line management for banks and non-banking financial institutions. Investment Banking covers equity-related business focusing mainly on corporate finance, equity capital markets services, equity brokerage (institutional sales) and merchant banking.

#### Group Markets

The Group Markets (GM) segment comprises the divisionalised business units Group Treasury and Capital Markets (except Equity Capital Markets) and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, foreign branch offices in Hong Kong, New York, Berlin and Stuttgart as well as the business with institutional clients of Erste Asset Management. The focus is on client-oriented business with institutional clients. Group Markets is the internal trading unit for all classic treasury (such as FX, commodities and money market) and capital market products (such as bonds, interest rate derivatives, credit products).

#### Group Corporate Center

The Group Corporate Center (GCC) segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), internal non-profit service providers (facility management, IT, procurement), amortisation of customer relationships at Banca Comercială Română, Erste Card Club d.d. and Ringturm KAG, goodwill impairments, the banking tax of Erste Group Bank AG, free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments) as well as the result of Erste Bank Ukraine which was sold in 2013.

In the first half of 2014 the write-down of the entire remaining value of customer relationships and brand as well as the write-down of miscellaneous other intangible assets in Romania totaled EUR 535.1 million. Goodwill impairments amounted to EUR 420.9 million, whereby Romania accounted for EUR 319.1 million, Croatia for EUR 61.4 million and Steiermärkische Sparkasse, which holds a significant stake in Erste Bank Croatia, for EUR 40.4 million.

#### Intragroup Elimination

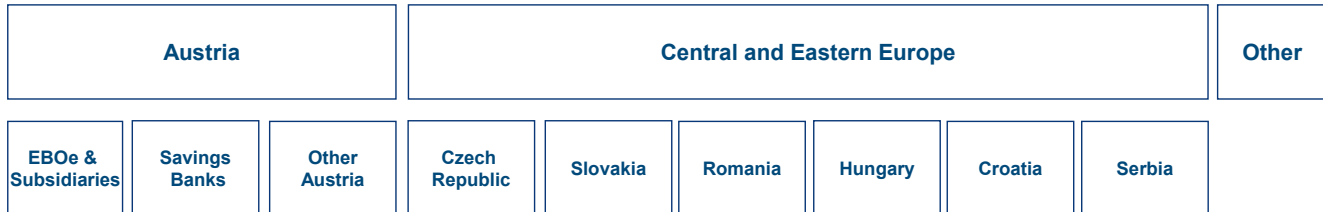
Intragroup Elimination (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes all intragroup eliminations between participations of Erste Group (e.g. intragroup funding, internal cost charges). Intragroup eliminations within partial groups are disclosed in the respective segments.

#### Geographical segmentation

For the purpose of segment reporting by geographical areas the information is presented based on the location of the booking entity (not the country of risk). In case of information regarding a partial group, the allocation is based on the location of the respective parent entity.

Geographical areas are defined according to the country markets in which Erste Group operates. Based on the locations of the banking and other financial institution participations, the geographical areas consist of two core markets, Austria and Central and Eastern Europe and a residual market Other that comprises the remaining business activities of Erste Group outside its core markets as well as the reconciliation to the consolidated accounting result.

## Erste Group – geographical segmentation



The geographical area Austria consists of the following three segments:

The **Erste Bank Oesterreich & Subsidiaries** (EBOe & Subsidiaries) segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).

The **Savings banks** segment is identical to the business segment Savings banks.

The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Large Corporates, Commercial Real Estate, Other Corporate and Group Markets business, Erste Group Immorent AG and Erste Asset Management GmbH.

The geographical area Central and Eastern Europe (CEE) consists of six segments covering Erste Group's banking subsidiaries located in the respective CEE countries:

- \_ **Czech Republic** (comprising Česká spořitelna Group)
- \_ **Slovakia** (comprising Slovenská sporiteľňa Group)
- \_ **Romania** (comprising Banca Comercială Română Group)
- \_ **Hungary** (comprising Erste Bank Hungary Group)
- \_ **Croatia** (comprising Erste Bank Croatia Group), and
- \_ **Serbia** (comprising Erste Bank Serbia Group).

The residual segment **Other** consists mainly of centralized service providers, the Group Asset/Liability Management and the Corporate Center of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany

elimination, dividend elimination), goodwill impairments, amortisation of customer relationships and free capital.

### Measurement

The profit and loss statement of the segment report is based on the measures reported to the Erste Group management board for the purpose of allocating resources to the segments and assessing their performance.

Management reporting as well as the segment report for Erste Group, is based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated financial statement of accounting.

Capital consumption per segment is regularly reviewed by the management of Erste Group to assess the performance of the segments. The average allocated equity is determined by the credit risk, market risk and operational risk.

According to the regular internal reporting to Erste Group management board, total assets and total liabilities as well as risk weighted assets and allocated equity are disclosed per segment.

For measuring and assessing the profitability of segments, Erste Group also uses the return on allocated equity defined as net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition the cost/income ratio is calculated for each segment as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading and fair value result, net result from equity method investments, rental income from investment properties and other operating lease).

## Business segments (1)

| in EUR million  | Retail       |              | SME          |              | ALM & LCC    |              | Savings Banks |              | Large Corporates |              | Commercial Real Estate |               |
|---|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|------------------|--------------|------------------------|---------------|
|   | 1-6 13       | 1-6 14       | 1-6 13       | 1-6 14       | 1-6 13       | 1-6 14       | 1-6 13        | 1-6 14       | 1-6 13           | 1-6 14       | 1-6 13                 | 1-6 14        |
| Net interest income   | 1,110.1      | 1,083.1      | 335.2        | 288.5        | 102.6        | 86.4         | 394.6         | 442.5        | 91.4             | 111.7        | 87.6                   | 77.0          |
| Net fee and commission income   | 523.4        | 523.3        | 111.7        | 95.7         | -48.8        | -37.9        | 195.2         | 203.1        | 39.4             | 46.2         | 3.2                    | 8.5           |
| Dividend income   | 0.4          | 0.8          | 2.0          | 2.2          | 11.8         | 8.8          | 21.7          | 20.5         | 0.0              | 0.0          | 0.2                    | 0.2           |
| Net trading and fair value result   | 28.8         | 28.8         | 14.8         | 11.9         | -70.3        | 12.8         | 11.6          | 3.3          | 5.5              | 5.3          | 6.2                    | -4.9          |
| Net result from equity method investments   | 7.0          | 4.1          | 0.0          | 0.0          | 2.4          | 0.4          | 0.0           | 0.0          | 0.0              | 0.0          | 0.7                    | 0.0           |
| Rental income from investment properties & other operating leases   | 7.5          | 11.8         | 1.6          | 14.9         | 20.3         | 17.3         | 12.5          | 21.6         | 0.0              | 0.0          | 43.1                   | 20.1          |
| General administrative expenses   | -933.6       | -881.7       | -145.8       | -142.0       | -51.9        | -44.2        | -459.8        | -470.0       | -31.9            | -39.3        | -66.9                  | -43.7         |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | -0.2         | 0.0          | 5.7          | 3.3          | 5.5          | -7.2         | 3.6           | 3.1          | 0.0              | 0.0          | 0.0                    | 0.0           |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | -242.7       | -179.6       | -234.7       | -211.1       | 6.3          | -5.4         | -63.0         | -90.3        | -103.6           | -162.8       | -164.0                 | -160.9        |
| Other operating result  | -52.8        | -165.9       | -20.1        | 14.7         | -61.1        | -77.8        | -14.1         | -52.8        | -11.6            | -0.1         | -31.9                  | -23.7         |
| Levies on banking activities  | -36.6        | -32.7        | -9.5         | -5.3         | -56.9        | -55.6        | -4.5          | -7.0         | -1.5             | -1.8         | -0.3                   | -0.2          |
| <b>Pre-tax result from continuing operations</b>  | <b>447.8</b> | <b>424.9</b> | <b>70.4</b>  | <b>78.1</b>  | <b>-83.2</b> | <b>-46.7</b> | <b>102.2</b>  | <b>81.2</b>  | <b>-10.8</b>     | <b>-39.0</b> | <b>-121.7</b>          | <b>-127.5</b> |
| Taxes on income   | -99.1        | -105.2       | -22.0        | -21.4        | 137.3        | -5.4         | -23.0         | -18.9        | 2.0              | 3.2          | 20.6                   | -1.3          |
| <b>Net result for the period</b>  | <b>348.8</b> | <b>319.7</b> | <b>48.4</b>  | <b>56.7</b>  | <b>54.1</b>  | <b>-52.1</b> | <b>79.2</b>   | <b>62.3</b>  | <b>-8.8</b>      | <b>-35.8</b> | <b>-101.1</b>          | <b>-128.8</b> |
| Net result attributable to non-controlling interests  | 11.9         | 14.7         | 1.7          | -0.9         | -1.3         | 2.7          | 62.9          | 55.3         | 1.1              | -3.8         | -1.5                   | -1.0          |
| <b>Net result attributable to owners of the parent</b>  | <b>336.8</b> | <b>305.0</b> | <b>46.7</b>  | <b>57.6</b>  | <b>55.4</b>  | <b>-54.8</b> | <b>16.3</b>   | <b>6.9</b>   | <b>-9.8</b>      | <b>-32.0</b> | <b>-99.5</b>           | <b>-127.7</b> |
| Operating income  | 1,677.1      | 1,652.0      | 465.2        | 413.2        | 18.0         | 88.0         | 635.5         | 691.1        | 136.3            | 163.3        | 141.0                  | 100.9         |
| Operating expenses  | -933.6       | -881.7       | -145.8       | -142.0       | -51.9        | -44.2        | -459.8        | -470.0       | -31.9            | -39.3        | -66.9                  | -43.7         |
| <b>Operating result</b>   | <b>743.5</b> | <b>770.3</b> | <b>319.4</b> | <b>271.2</b> | <b>-33.9</b> | <b>43.7</b>  | <b>175.8</b>  | <b>221.1</b> | <b>104.4</b>     | <b>123.9</b> | <b>74.2</b>            | <b>57.2</b>   |
| Risk-weighted assets (credit risk, eop)   | 18,549       | 18,305       | 18,153       | 13,881       | 3,547        | 4,312        | 22,501        | 22,129       | 7,918            | 9,267        | 10,629                 | 9,143         |
| Average allocated capital   | 2,105        | 2,068        | 1,714        | 1,324        | 2,107        | 1,754        | 2,135         | 1,992        | 764              | 802          | 955                    | 823           |
| Cost/income ratio   | 55.7%        | 53.4%        | 31.3%        | 34.4%        | >100.0%      | 50.3%        | 72.3%         | 68.0%        | 23.4%            | 24.1%        | 47.4%                  | 43.3%         |
| Return on allocated capital   | 33.4%        | 31.2%        | 5.7%         | 8.6%         | 5.2%         | -6.0%        | 7.5%          | 6.3%         | -2.3%            | -9.0%        | -21.3%                 | -31.5%        |
| Total assets (eop)  | 53,193       | 51,015       | 25,120       | 22,467       | 56,351       | 50,472       | 56,163        | 57,162       | 7,936            | 9,394        | 11,665                 | 10,372        |
| Total liabilities excluding equity (eop)  | 70,564       | 68,208       | 13,863       | 12,607       | 62,666       | 54,447       | 52,421        | 53,021       | 4,962            | 5,600        | 5,659                  | 4,708         |

## Business segments (2)

| in EUR million  | Other Corporate |             | Group Markets |              | Group Corporate Center |                 | Intragroup Elimination |              | Total group    |                |
|---|-----------------|-------------|---------------|--------------|------------------------|-----------------|------------------------|--------------|----------------|----------------|
|   | 1-6 13          | 1-6 14      | 1-6 13        | 1-6 14       | 1-6 13                 | 1-6 14          | 1-6 13                 | 1-6 14       | 1-6 13         | 1-6 14         |
| Net interest income   | 33.2            | 37.2        | 97.9          | 99.6         | 89.9                   | 34.9            | -2.7                   | -17.4        | 2,339.9        | 2,243.6        |
| Net fee and commission income   | 13.4            | 8.7         | 49.5          | 51.7         | 72.1                   | 34.1            | -65.0                  | -26.5        | 894.1          | 907.0          |
| Dividend income   | 0.0             | 0.0         | 0.4           | 1.5          | 11.5                   | 9.5             | 0.0                    | -13.7        | 47.9           | 29.9           |
| Net trading and fair value result   | 8.1             | 2.1         | 79.5          | 69.6         | 9.5                    | -6.4            | 10.0                   | 15.5         | 103.6          | 138.0          |
| Net result from equity method investments   | 0.0             | 0.0         | 0.0           | 0.0          | 2.2                    | 7.0             | 0.0                    | 0.0          | 12.2           | 11.5           |
| Rental income from investment properties & other operating leases   | 0.0             | 0.0         | 0.0           | 0.0          | 19.4                   | 19.4            | -19.2                  | -13.5        | 85.2           | 91.6           |
| General administrative expenses   | -23.8           | -24.4       | -93.0         | -87.6        | -329.1                 | -371.7          | 175.5                  | 208.3        | -1,960.2       | -1,896.4       |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | 1.4             | 0.4         | 0.1           | 0.0          | 1.5                    | -1.1            | 0.0                    | 2.5          | 17.6           | 1.2            |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | -3.4            | 4.9         | 12.0          | -0.1         | 8.8                    | 8.9             | 0.0                    | 0.2          | -784.3         | -796.1         |
| Other operating result  | 0.2             | 0.5         | 4.2           | -0.2         | -91.9                  | -825.6          | -98.5                  | -140.7       | -377.6         | -1,271.8       |
| Levies on banking activities  | 0.0             | 0.0         | -1.6          | -1.5         | -73.8                  | -50.0           | 0.0                    | 0.0          | -184.7         | -154.1         |
| <b>Pre-tax result from continuing operations</b>  | <b>29.2</b>     | <b>29.3</b> | <b>150.5</b>  | <b>134.4</b> | <b>-206.1</b>          | <b>-1,090.9</b> | <b>0.0</b>             | <b>14.6</b>  | <b>378.4</b>   | <b>-541.5</b>  |
| Taxes on income   | -6.6            | -6.6        | -30.4         | -27.1        | 46.3                   | -152.8          | 0.0                    | 0.0          | 25.0           | -335.6         |
| <b>Net result for the period</b>  | <b>22.5</b>     | <b>22.7</b> | <b>120.1</b>  | <b>107.4</b> | <b>-159.8</b>          | <b>-1,243.8</b> | <b>0.0</b>             | <b>14.6</b>  | <b>403.4</b>   | <b>-877.1</b>  |
| Net result attributable to non-controlling interests  | 0.0             | 0.0         | 2.7           | 1.5          | 23.8                   | -28.7           | 0.0                    | 12.9         | 101.2          | 52.7           |
| <b>Net result attributable to owners of the parent</b>  | <b>22.6</b>     | <b>22.7</b> | <b>117.4</b>  | <b>105.9</b> | <b>-183.6</b>          | <b>-1,215.1</b> | <b>0.0</b>             | <b>1.7</b>   | <b>302.2</b>   | <b>-929.7</b>  |
| Operating income  | 54.8            | 47.9        | 227.3         | 222.4        | 204.6                  | 98.5            | -76.9                  | -55.7        | 3,483.0        | 3,421.7        |
| Operating expenses  | -23.8           | -24.4       | -93.0         | -87.6        | -329.1                 | -371.7          | 175.5                  | 208.3        | -1,960.2       | -1,896.4       |
| <b>Operating result</b>   | <b>31.0</b>     | <b>23.6</b> | <b>134.3</b>  | <b>134.7</b> | <b>-124.5</b>          | <b>-273.2</b>   | <b>98.6</b>            | <b>152.7</b> | <b>1,522.7</b> | <b>1,525.3</b> |
| Risk-weighted assets (credit risk, eop)   | 3,243           | 2,446       | 1,953         | 3,118        | 824                    | 2,313           | 0                      | 0            | 87,317         | 84,916         |
| Average allocated capital   | 340             | 215         | 488           | 488          | 5,912                  | 5,468           | 0                      | 0            | 16,519         | 14,934         |
| Cost/income ratio   | 43.4%           | 50.8%       | 40.9%         | 39.4%        | >100.0%                | >100.0%         | >100.0%                | >100.0%      | 56.3%          | 55.4%          |
| Return on allocated capital   | 13.4%           | 21.3%       | 49.7%         | 44.3%        | -5.5%                  | -45.9%          | 0.0%                   | 0.0%         | 4.9%           | -11.8%         |
| Total assets (eop)  | 3,920           | 3,442       | 28,812        | 25,661       | 16,511                 | 9,012           | -49,240                | -40,601      | 210,431        | 198,398        |
| Total liabilities excluding equity (eop)  | 99              | 106         | 20,198        | 17,284       | 13,002                 | 8,938           | -49,240                | -40,601      | 194,192        | 184,318        |



## Geographical segmentation - overview

| in EUR million  | Austria      |              | Central and Eastern Europe |                | Other         |                 | Total group    |                |
|---|--------------|--------------|----------------------------|----------------|---------------|-----------------|----------------|----------------|
|   | 1-6 13       | 1-6 14       | 1-6 13                     | 1-6 14         | 1-6 13        | 1-6 14          | 1-6 13         | 1-6 14         |
| Net interest income   | 867.1        | 945.3        | 1,322.0                    | 1,225.4        | 150.9         | 72.9            | 2,339.9        | 2,243.6        |
| Net fee and commission income   | 451.4        | 460.7        | 452.1                      | 456.4          | -9.3          | -10.1           | 894.1          | 907.0          |
| Dividend income   | 32.1         | 31.3         | 4.3                        | 2.8            | 11.5          | -4.2            | 47.9           | 29.9           |
| Net trading and fair value result   | 59.7         | 18.3         | 102.0                      | 111.5          | -58.1         | 8.3             | 103.6          | 138.0          |
| Net result from equity method investments   | 4.7          | 0.1          | 5.3                        | 4.4            | 2.2           | 7.0             | 12.2           | 11.5           |
| Rental income from investment properties & other operating leases   | 64.9         | 51.0         | 20.1                       | 34.8           | 0.2           | 5.8             | 85.2           | 91.6           |
| General administrative expenses   | -945.8       | -915.0       | -853.2                     | -809.3         | -161.2        | -172.1          | -1,960.2       | -1,896.4       |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | 5.7          | 2.8          | 6.6                        | 4.5            | 5.3           | -6.1            | 17.6           | 1.2            |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | -274.0       | -267.7       | -519.1                     | -537.1         | 8.8           | 8.7             | -784.3         | -796.1         |
| Other operating result  | -47.8        | -60.3        | -139.6                     | -246.8         | -190.2        | -964.7          | -377.6         | -1,271.8       |
| Levies on banking activities  | -9.5         | -13.2        | -101.4                     | -90.8          | -73.8         | -50.0           | -184.7         | -154.1         |
| <b>Pre-tax result from continuing operations</b>  | <b>217.8</b> | <b>266.5</b> | <b>400.7</b>               | <b>246.5</b>   | <b>-240.1</b> | <b>-1,054.5</b> | <b>378.4</b>   | <b>-541.5</b>  |
| Taxes on income   | -53.6        | -85.8        | 24.0                       | -92.3          | 54.6          | -157.5          | 25.0           | -335.6         |
| <b>Net result for the period</b>  | <b>164.2</b> | <b>180.7</b> | <b>424.6</b>               | <b>154.3</b>   | <b>-185.5</b> | <b>-1,212.1</b> | <b>403.4</b>   | <b>-877.1</b>  |
| Net result attributable to non-controlling interests  | 66.2         | 63.3         | 11.1                       | 5.0            | 23.8          | -15.6           | 101.2          | 52.7           |
| <b>Net result attributable to owners of the parent</b>  | <b>98.0</b>  | <b>117.4</b> | <b>413.5</b>               | <b>149.3</b>   | <b>-209.3</b> | <b>-1,196.4</b> | <b>302.2</b>   | <b>-929.7</b>  |
| Operating income  | 1,479.7      | 1,506.7      | 1,905.9                    | 1,835.3        | 97.3          | 79.7            | 3,483.0        | 3,421.7        |
| Operating expenses  | -945.8       | -915.0       | -853.2                     | -809.3         | -161.2        | -172.1          | -1,960.2       | -1,896.4       |
| <b>Operating result</b>   | <b>533.9</b> | <b>591.7</b> | <b>1,052.7</b>             | <b>1,026.0</b> | <b>-63.9</b>  | <b>-92.4</b>    | <b>1,522.7</b> | <b>1,525.3</b> |
| Risk-weighted assets (credit risk, eop)   | 50,717       | 49,765       | 35,212                     | 32,369         | 1,388         | 2,781           | 87,317         | 84,916         |
| Average allocated capital   | 5,081        | 4,508        | 4,583                      | 4,210          | 6,855         | 6,217           | 16,519         | 14,934         |
| Cost/income ratio   | 63.9%        | 60.7%        | 44.8%                      | 44.1%          | >100.0%       | >100.0%         | 56.3%          | 55.4%          |
| Return on allocated capital   | 6.5%         | 8.1%         | 18.7%                      | 7.4%           | -5.5%         | -39.3%          | 4.9%           | -11.8%         |
| Total assets (eop)  | 139,468      | 135,619      | 82,499                     | 76,572         | -11,536       | -13,794         | 210,431        | 198,398        |
| Total liabilities excluding equity (eop)  | 116,346      | 112,524      | 74,240                     | 68,405         | 3,606         | 3,390           | 194,192        | 184,318        |

## Geographical area - Austria

| in EUR million  | EBOe & Subsidiaries |              | Savings Banks |              | Other Austria |              | Austria      |              |
|---|---------------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|
|   | 1-6 13              | 1-6 14       | 1-6 13        | 1-6 14       | 1-6 13        | 1-6 14       | 1-6 13       | 1-6 14       |
| Net interest income   | 269.9               | 304.5        | 394.6         | 442.5        | 202.6         | 198.2        | 867.1        | 945.3        |
| Net fee and commission income   | 169.3               | 169.3        | 195.2         | 203.1        | 86.8          | 88.3         | 451.4        | 460.7        |
| Dividend income   | 10.0                | 9.2          | 21.7          | 20.5         | 0.4           | 1.6          | 32.1         | 31.3         |
| Net trading and fair value result   | 7.7                 | 3.1          | 11.6          | 3.3          | 40.4          | 11.9         | 59.7         | 18.3         |
| Net result from equity method investments   | 4.0                 | 0.1          | 0.0           | 0.0          | 0.7           | 0.0          | 4.7          | 0.1          |
| Rental income from investment properties & other operating leases   | 9.3                 | 9.3          | 12.5          | 21.6         | 43.1          | 20.1         | 64.9         | 51.0         |
| General administrative expenses   | -307.8              | -292.7       | -459.8        | -470.0       | -178.3        | -152.3       | -945.8       | -915.0       |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | 0.7                 | -0.8         | 3.6           | 3.1          | 1.4           | 0.5          | 5.7          | 2.8          |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | -39.1               | -56.8        | -63.0         | -90.3        | -171.8        | -120.6       | -274.0       | -267.7       |
| Other operating result  | -6.4                | 12.2         | -14.1         | -52.8        | -27.4         | -19.8        | -47.8        | -60.3        |
| Levies on banking activities  | -4.8                | -6.1         | -4.5          | -7.0         | -0.2          | -0.2         | -9.5         | -13.2        |
| <b>Pre-tax result from continuing operations</b>  | <b>117.5</b>        | <b>157.3</b> | <b>102.2</b>  | <b>81.2</b>  | <b>-2.0</b>   | <b>28.0</b>  | <b>217.8</b> | <b>266.5</b> |
| Taxes on income   | -27.6               | -35.1        | -23.0         | -18.9        | -2.9          | -31.7        | -53.6        | -85.8        |
| <b>Net result for the period</b>  | <b>90.0</b>         | <b>122.2</b> | <b>79.2</b>   | <b>62.3</b>  | <b>-4.9</b>   | <b>-3.7</b>  | <b>164.2</b> | <b>180.7</b> |
| Net result attributable to non-controlling interests  | 3.3                 | 4.2          | 62.9          | 55.3         | 0.0           | 3.8          | 66.2         | 63.3         |
| <b>Net result attributable to owners of the parent</b>  | <b>86.6</b>         | <b>118.0</b> | <b>16.3</b>   | <b>6.9</b>   | <b>-4.9</b>   | <b>-7.5</b>  | <b>98.0</b>  | <b>117.4</b> |
| Operating income  | 470.1               | 495.4        | 635.5         | 691.1        | 374.1         | 320.2        | 1,479.7      | 1,506.7      |
| Operating expenses  | -307.8              | -292.7       | -459.8        | -470.0       | -178.3        | -152.3       | -945.8       | -915.0       |
| <b>Operating result</b>   | <b>162.4</b>        | <b>202.7</b> | <b>175.8</b>  | <b>221.1</b> | <b>195.8</b>  | <b>167.9</b> | <b>533.9</b> | <b>591.7</b> |
| Risk-weighted assets (credit risk, eop)   | 11,576              | 11,809       | 22,501        | 22,129       | 16,639        | 15,827       | 50,717       | 49,765       |
| Average allocated capital   | 1,147               | 1,080        | 2,135         | 1,992        | 1,799         | 1,436        | 5,081        | 4,508        |
| Cost/income ratio   | 65.5%               | 59.1%        | 72.3%         | 68.0%        | 47.7%         | 47.6%        | 63.9%        | 60.7%        |
| Return on allocated capital   | 15.8%               | 22.8%        | 7.5%          | 6.3%         | -0.5%         | -0.5%        | 6.5%         | 8.1%         |
| Total assets (eop)  | 42,681              | 42,390       | 56,163        | 57,162       | 40,624        | 36,067       | 139,468      | 135,619      |
| Total liabilities excluding equity (eop)  | 40,727              | 40,151       | 52,421        | 53,021       | 23,198        | 19,351       | 116,346      | 112,524      |

## Geographical area - Central and Eastern Europe

| in EUR million  | Czech Republic |              | Romania      |              | Slovakia     |              | Hungary      |               | Croatia     |              | Serbia     |             | Central and Eastern Europe |                |
|---|----------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|-------------|--------------|------------|-------------|----------------------------|----------------|
|   | 1-6 13         | 1-6 14       | 1-6 13       | 1-6 14       | 1-6 13       | 1-6 14       | 1-6 13       | 1-6 14        | 1-6 13      | 1-6 14       | 1-6 13     | 1-6 14      | 1-6 13                     | 1-6 14         |
| Net interest income   | 503.9          | 462.7        | 318.4        | 257.6        | 212.0        | 220.1        | 150.8        | 139.0         | 120.9       | 130.1        | 15.9       | 16.0        | 1,322.0                    | 1,225.4        |
| Net fee and commission income   | 222.8          | 202.4        | 74.2         | 80.7         | 58.4         | 60.2         | 59.2         | 68.6          | 31.3        | 37.7         | 6.2        | 6.6         | 452.1                      | 456.4          |
| Dividend income   | 1.7            | 1.7          | 2.3          | 0.3          | 0.2          | 0.5          | 0.0          | 0.1           | 0.1         | 0.2          | 0.0        | 0.0         | 4.3                        | 2.8            |
| Net trading and fair value result   | 38.0           | 43.5         | 50.5         | 45.6         | 4.0          | 5.3          | -1.8         | 3.9           | 10.0        | 12.3         | 1.3        | 0.9         | 102.0                      | 111.5          |
| Net result from equity method investments   | 0.0            | 0.0          | 0.0          | -0.1         | 4.8          | 3.6          | 0.0          | 0.0           | 0.6         | 0.7          | 0.0        | 0.2         | 5.3                        | 4.4            |
| Rental income from investment properties & other operating leases   | 16.7           | 15.0         | 2.3          | 2.3          | 0.9          | 0.9          | 0.1          | 0.5           | 0.1         | 16.1         | 0.0        | 0.0         | 20.1                       | 34.8           |
| General administrative expenses   | -368.2         | -329.6       | -185.5       | -158.5       | -121.0       | -129.9       | -89.9        | -83.6         | -70.5       | -89.0        | -18.2      | -18.8       | -853.2                     | -809.3         |
| Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net | 5.9            | 5.0          | 0.0          | 0.1          | 0.5          | 0.5          | 0.0          | -2.5          | 0.2         | 1.4          | 0.0        | 0.0         | 6.6                        | 4.5            |
| Net impairment loss on financial assets not measured at fair value through profit or loss                 | -78.0          | -69.9        | -229.6       | -292.6       | -23.6        | -26.2        | -110.4       | -61.6         | -72.8       | -82.2        | -4.7       | -4.7        | -519.1                     | -537.1         |
| Other operating result  | 20.0           | 0.3          | -38.6        | -21.3        | -26.2        | -21.7        | -94.0        | -201.2        | -0.8        | -2.6         | 0.1        | -0.3        | -139.6                     | -246.8         |
| Levies on banking activities  | 0.0            | 0.0          | 0.0          | 0.0          | -21.0        | -20.7        | -80.4        | -70.1         | 0.0         | 0.0          | 0.0        | 0.0         | -101.4                     | -90.8          |
| <b>Pre-tax result from continuing operations</b>  | <b>362.9</b>   | <b>331.2</b> | <b>-5.9</b>  | <b>-85.7</b> | <b>110.1</b> | <b>113.3</b> | <b>-86.0</b> | <b>-136.7</b> | <b>19.0</b> | <b>24.6</b>  | <b>0.5</b> | <b>-0.1</b> | <b>400.7</b>               | <b>246.5</b>   |
| Taxes on income   | -72.6          | -64.9        | 128.3        | 7.2          | -21.5        | -25.6        | -6.0         | -6.3          | -4.1        | -3.2         | -0.1       | 0.6         | 24.0                       | -92.3          |
| <b>Net result for the period</b>  | <b>290.3</b>   | <b>266.2</b> | <b>122.4</b> | <b>-78.6</b> | <b>88.6</b>  | <b>87.6</b>  | <b>-92.0</b> | <b>-142.9</b> | <b>14.9</b> | <b>21.4</b>  | <b>0.4</b> | <b>0.5</b>  | <b>424.6</b>               | <b>154.3</b>   |
| Net result attributable to non-controlling interests  | 1.4            | 2.9          | 5.7          | -5.0         | 0.0          | 0.0          | 0.0          | 0.0           | 4.0         | 7.1          | 0.1        | 0.0         | 11.1                       | 5.0            |
| <b>Net result attributable to owners of the parent</b>  | <b>288.9</b>   | <b>263.4</b> | <b>116.7</b> | <b>-73.6</b> | <b>88.5</b>  | <b>87.6</b>  | <b>-92.0</b> | <b>-142.9</b> | <b>11.0</b> | <b>14.3</b>  | <b>0.3</b> | <b>0.5</b>  | <b>413.5</b>               | <b>149.3</b>   |
| Operating income  | 783.3          | 725.3        | 447.8        | 386.5        | 280.3        | 290.5        | 208.2        | 212.2         | 162.9       | 197.0        | 23.4       | 23.8        | 1,905.9                    | 1,835.3        |
| Operating expenses  | -368.2         | -329.6       | -185.5       | -158.5       | -121.0       | -129.9       | -89.9        | -83.6         | -70.5       | -89.0        | -18.2      | -18.8       | -853.2                     | -809.3         |
| <b>Operating result</b>   | <b>415.1</b>   | <b>395.7</b> | <b>262.3</b> | <b>228.0</b> | <b>159.3</b> | <b>160.6</b> | <b>118.4</b> | <b>128.6</b>  | <b>92.4</b> | <b>108.0</b> | <b>5.2</b> | <b>5.0</b>  | <b>1,052.7</b>             | <b>1,026.0</b> |
| Risk-weighted assets (credit risk, eop)   | 14,599         | 13,388       | 7,989        | 6,706        | 4,321        | 4,024        | 4,111        | 3,433         | 3,714       | 4,270        | 478        | 548         | 35,212                     | 32,369         |
| Average allocated capital   | 1,656          | 1,464        | 1,438        | 1,221        | 518          | 504          | 517          | 501           | 398         | 446          | 56         | 73          | 4,583                      | 4,210          |
| Cost/income ratio   | 47.0%          | 45.4%        | 41.4%        | 41.0%        | 43.2%        | 44.7%        | 43.1%        | 39.4%         | 43.3%       | 45.2%        | 77.8%      | 79.1%       | 44.8%                      | 44.1%          |
| Return on allocated capital   | 35.3%          | 36.7%        | 17.2%        | -13.0%       | 34.5%        | 35.1%        | -35.9%       | -57.5%        | 7.6%        | 9.7%         | 1.5%       | 1.3%        | 18.7%                      | 7.4%           |
| Total assets (eop)  | 36,928         | 32,797       | 15,630       | 14,453       | 11,524       | 12,251       | 8,795        | 7,294         | 8,855       | 8,889        | 767        | 888         | 82,499                     | 76,572         |
| Total liabilities excluding equity (eop)  | 33,421         | 29,269       | 13,981       | 12,796       | 10,161       | 10,877       | 8,174        | 6,842         | 7,859       | 7,863        | 645        | 759         | 74,240                     | 68,405         |

## 27. Risk management

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. Erste Group's proactive risk policy and strategy aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

Concerning risk policy and strategy as well as regarding risk management organisation, reference is made to the chapter of the same name in the Annual Report 2013.

### Current regulatory topics

#### Regulatory capital

Since 1, January 2014, Erste Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements are implemented within the European Union via the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR), as well as within the regulatory technical standards. Erste Group applies these rules and calculates the capital ratios according to Basel 3, taking into consideration the Austrian transitional provisions which are laid down in the CRR Begleitverordnung, published by the Austrian regulator.

The European Banking Authority (EBA) published the disclosure requirements for the regulatory capital and regulatory capital requirements on 26 July 2013. Erste Group has adapted the charts, which are published, accordingly. Positions which are not relevant for Erste Group or not having any impact on the capital ratios are not shown.

Own funds under Basel 3 consist of common equity tier 1 - CET1, additional tier 1 - AT1 and tier 2 - T2. In order to determine the capital ratios, each respective capital component, after consideration of all the regulatory deductions and filters, is set into relation to the total risk.

According to the final rules the minimum ratio for CET1 amounts to 4.5%, which can be increased based on the buffer regime according to CRD IV. The minimum capital requirement for tier 1 capital (CET1 plus AT1) and for total own funds are 6% and 8%, respectively. According to the Austrian transitional provisions the minimum ratios for 2014 amount to 4% for CET1, 5.5% for Tier 1 and 8% for total own funds. Additional capital buffers for the year 2014 have not been determined or communicated so far.

The consolidated regulatory capital and the consolidated regulatory capital requirements are calculated based on the CRR scope of consolidation. Based on Article 4 (1) (3), (16) to (27) CRR in line with Article 18 and 19 CRR, the scope consists of credit institutions, investment firms, financial institutions and ancillary service undertakings. This definition differs from the Accounting scope of consolidation according to IFRS which also includes insurance companies and other entities

#### Leverage ratio

The leverage ratio represents the regulatory core capital (Tier 1) in relation to the leverage exposure according to Article 428a and 429 CRR. Essentially, the leverage exposure is consistent with the unweighted on- and off-balance sheet items considering valuation- and risk-adjustments as defined within the CRR.

In January 2014, the Basel Committee on Banking Supervision published the "Basel III leverage ratio framework and disclosure requirements", which is a revised version of the global guideline on calculation and disclosure requirements for the leverage ratio. This framework is currently evaluated on a European level and will be incorporated into the legislation of the European Union by January 2015. In Erste Group, the respective impacts are being analysed and the disclosure requirements which will come into force in January 2015 are in implementation.

#### Asset Quality Review of the European Central Bank

In preparation of assuming full responsibility for supervision as part of the single supervisory mechanism (SSM) the European Central Bank (ECB) is currently conducting a comprehensive review of the asset quality and the risk assessment in banks which will fall under direct ECB supervision among which is Erste Group. The review including the stress test is planned to be finalised by November 2014.

The assessment will be based on a capital benchmark of 8% common equity tier 1, drawing on the definition of the CRD IV and the CRR, including transitional arrangements, for both the AQR and the baseline stress test scenario.

#### Credit risk

The classification of credit assets into risk grades is based on Erste Group's internal ratings. For the purpose of external reporting, internal rating grades of Erste Group are grouped into the following four risk categories:

##### Low risk

Typically regional customers with well-established and rather long-standing relationships with Erste 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 with clients in this risk category.

##### Management attention

Vulnerable non-retail clients, which 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 by the borrower: 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, Erste Group applies the 'customer view' in Austria. Accordingly, if a customer defaults on one product then all of that customer's performing products are classified as non-performing. For corporate borrowers in CEE, the customer view is also applied. However, in the Retail and SME segment in some subsidiaries in CEE, Erste Group uses the 'product view', so that only the product actually in default is counted as a NPL whereas the other products of the same customer are considered performing.

### Credit risk exposure

Credit risk exposure relates to the following balance sheet items:

- \_ Financial assets - held for trading (without equity instruments),
- \_ Financial assets - at fair value through profit or loss (without equity instruments),
- \_ Financial assets - available for sale (without equity instruments),
- \_ Financial assets - held to maturity,
- \_ Loans and Receivables,
- \_ Derivatives - hedge accounting, and
- \_ Off balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

From the first quarter of 2014, demand and overnight deposits with credit institutions are classified as "cash and balances with

central banks" and therefore are no longer part of credit risk exposure.

The credit risk exposure comprises the gross amount without taking into account loan loss provisions, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions. The figures as of 31 December 2013 which are mentioned in this chapter refer to values after restatement of the consolidated financial statements. Similarly, absolute and percentage differences between 30 June 2014 and 31 December 2013 correspond to values of the restated balance sheet as of 31 December 2013.

The credit risk exposure of Erste Group increased by 0.3% or EUR 727 million from EUR 210.3 billion as of 31 December 2013 to EUR 211.0 billion as of 30 June 2014.

Erste Group's credit risk exposure is presented below divided into the following classes:

- \_ by Basel 3 exposure class and financial instrument,
- \_ by industry (NACE) and risk category,
- \_ by country of risk and risk category,
- \_ by business segment and risk category and
- \_ by geographical segment and risk category.

Furthermore, a breakdown of loans and receivables to customers is presented as follows:

- \_ loans and receivables to customers by business segment and risk category,
- \_ loans and receivables to customers by geographical segment and risk category (inclusive coverage of non-performing loans by loans and receivables to customers) and
- \_ loans and receivables to customers by geographical segment and currency.

## Credit risk exposure

The tables on the following pages give a break-down of Erste Group's credit risk exposure (gross of allowances for credit losses) by different categories as of the end of the reporting period and end of the prior year.

### Credit risk exposure by Basel 3 exposure class and financial instrument

| in EUR million           | Loans and receivables  |                | Debt securities                     |                                     |   |                                       | Positive fair value of derivatives | Contingent credit risk liabilities | Gross exposure |
|--------------------------|------------------------|----------------|-------------------------------------|-------------------------------------|---|---------------------------------------|------------------------------------|------------------------------------|----------------|
|                          |                        |                | Financial assets - held to maturity | Financial assets - held for trading | Financial assets - at fair value through profit or loss | Financial assets - available-for-sale |                                    |                                    |                |
|                          | to credit institutions | to customers   |                                     |                                     |   |                                       |                                    |                                    |                |
|                          | At amortised cost      |                |                                     | At fair value                       |   |                                       |                                    |                                    |                |
| <b>As of 30 Jun 2014</b> |                        |                |                                     |                                     |   |                                       |                                    |                                    |                |
| Sovereigns               | 664                    | 7,451          | 15,438                              | 5,453                               | 89  | 15,169                                | 280                                | 1,130                              | 45,673         |
| Institutions             | 7,912                  | 54             | 852                                 | 474                                 | 99  | 3,104                                 | 8,088                              | 289                                | 20,871         |
| Corporates               | 22                     | 57,023         | 667                                 | 305                                 | 62  | 2,353                                 | 599                                | 14,978                             | 76,010         |
| Retail                   | 0                      | 63,152         | 0                                   | 0                                   | 0   | 0                                     | 2                                  | 5,311                              | 68,464         |
| <b>Total</b>             | <b>8,598</b>           | <b>127,679</b> | <b>16,957</b>                       | <b>6,232</b>                        | <b>250</b>  | <b>20,626</b>                         | <b>8,968</b>                       | <b>21,708</b>                      | <b>211,018</b> |
| <b>As of 31 Dec 2013</b> |                        |                |                                     |                                     |   |                                       |                                    |                                    |                |
| Sovereigns               | 1,462                  | 7,659          | 15,449                              | 5,026                               | 144   | 12,682                                | 524                                | 1,227                              | 44,174         |
| Institutions             | 7,585                  | 57             | 1,476                               | 384                                 | 112   | 4,033                                 | 7,184                              | 420                                | 21,250         |
| Corporates               | 14                     | 57,288         | 856                                 | 258                                 | 65  | 2,720                                 | 576                                | 15,446                             | 77,224         |
| Retail                   | 0                      | 62,695         | 0                                   | 0                                   | 0   | 6                                     | 2                                  | 4,940                              | 67,643         |
| <b>Total</b>             | <b>9,062</b>           | <b>127,698</b> | <b>17,781</b>                       | <b>5,668</b>                        | <b>322</b>  | <b>19,442</b>                         | <b>8,286</b>                       | <b>22,033</b>                      | <b>210,291</b> |

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are presented in aggregated form in the tables below and in other tables in the section 'Credit Risk'. The aggregated exposure class 'sovereigns' also contains regional and local governments as well as public sector entities in addition to central

governments, central banks, international organisations and multinational development banks.

Loans and advances to credit institutions are shown including demand and overnight deposits as of 31 December 2013 and excluding demand and overnight deposits as of 30 June 2014.

## Credit risk exposure by industry (NACE) and risk category

| in EUR million                   | Low risk       | Management attention | Substandard  | Non-performing | Gross exposure |
|----------------------------------|----------------|----------------------|--------------|----------------|----------------|
| <b>As of 30 June 2014</b>        |                |                      |              |                |                |
| Agriculture and forestry         | 1,555          | 454                  | 61           | 300            | 2,371          |
| Mining                           | 383            | 114                  | 5            | 34             | 536            |
| Manufacturing                    | 9,956          | 1,562                | 310          | 1,792          | 13,620         |
| Energy and water supply          | 3,254          | 400                  | 84           | 234            | 3,972          |
| Construction                     | 6,687          | 1,474                | 168          | 1,586          | 9,915          |
| Development of building projects | 2,853          | 452                  | 63           | 505            | 3,873          |
| Trade                            | 7,398          | 1,539                | 292          | 1,503          | 10,732         |
| Transport and communication      | 4,382          | 553                  | 98           | 326            | 5,359          |
| Hotels and restaurants           | 2,325          | 904                  | 275          | 729            | 4,232          |
| Financial and insurance services | 32,839         | 1,241                | 59           | 428            | 34,567         |
| Holding companies                | 4,601          | 442                  | 21           | 278            | 5,342          |
| Real estate and housing          | 17,693         | 2,562                | 524          | 1,287          | 22,066         |
| Services                         | 4,553          | 810                  | 140          | 485            | 5,987          |
| Public administration            | 37,953         | 541                  | 11           | 15             | 38,521         |
| Education, health and art        | 1,957          | 497                  | 59           | 343            | 2,857          |
| Households                       | 44,294         | 6,118                | 1,431        | 3,357          | 55,201         |
| Other                            | 446            | 170                  | 421          | 48             | 1,083          |
| <b>Total</b>                     | <b>175,675</b> | <b>18,938</b>        | <b>3,938</b> | <b>12,466</b>  | <b>211,018</b> |
| <b>As of 31 December 2013</b>    |                |                      |              |                |                |
| Agriculture and forestry         | 1,580          | 471                  | 84           | 270            | 2,405          |
| Mining                           | 390            | 131                  | 5            | 63             | 589            |
| Manufacturing                    | 9,373          | 1,763                | 451          | 1,702          | 13,290         |
| Energy and water supply          | 3,225          | 410                  | 96           | 217            | 3,948          |
| Construction                     | 6,878          | 1,471                | 198          | 1,811          | 10,358         |
| Development of building projects | 2,858          | 385                  | 48           | 600            | 3,892          |
| Trade                            | 7,139          | 1,597                | 310          | 1,536          | 10,583         |
| Transport and communication      | 4,438          | 588                  | 73           | 335            | 5,434          |
| Hotels and restaurants           | 2,318          | 908                  | 230          | 864            | 4,320          |
| Financial and insurance services | 32,569         | 1,694                | 49           | 497            | 34,808         |
| Holding companies                | 4,722          | 329                  | 23           | 311            | 5,386          |
| Real estate and housing          | 17,454         | 2,720                | 556          | 1,244          | 21,974         |
| Services                         | 4,684          | 895                  | 170          | 464            | 6,213          |
| Public administration            | 37,224         | 548                  | 32           | 22             | 37,827         |
| Education, health and art        | 2,065          | 449                  | 62           | 365            | 2,941          |
| Households                       | 43,383         | 6,281                | 1,362        | 3,408          | 54,434         |
| Other                            | 472            | 42                   | 623          | 29             | 1,166          |
| <b>Total</b>                     | <b>173,192</b> | <b>19,969</b>        | <b>4,302</b> | <b>12,828</b>  | <b>210,291</b> |

## Credit risk exposure by country of risk and risk category

| in EUR million                        | Low risk       | Management attention | Substandard  | Non-performing | Gross exposure |
|---------------------------------------|----------------|----------------------|--------------|----------------|----------------|
| <b>As of 30 June 2014</b>             |                |                      |              |                |                |
| <b>Core markets</b>                   | <b>144,622</b> | <b>17,101</b>        | <b>3,631</b> | <b>11,224</b>  | <b>176,578</b> |
| Austria                               | 76,744         | 8,365                | 1,605        | 3,148          | 89,863         |
| Czech Republic                        | 28,271         | 2,490                | 481          | 1,086          | 32,328         |
| Romania                               | 11,112         | 2,647                | 462          | 3,165          | 17,386         |
| Slovakia                              | 14,236         | 812                  | 249          | 551            | 15,848         |
| Hungary                               | 7,053          | 1,090                | 285          | 1,555          | 9,982          |
| Croatia                               | 6,513          | 1,369                | 418          | 1,578          | 9,878          |
| Serbia                                | 692            | 327                  | 132          | 141            | 1,292          |
| <b>Other EU</b>                       | <b>25,847</b>  | <b>1,187</b>         | <b>235</b>   | <b>821</b>     | <b>28,090</b>  |
| <b>Other industrialised countries</b> | <b>2,525</b>   | <b>37</b>            | <b>22</b>    | <b>122</b>     | <b>2,706</b>   |
| <b>Emerging markets</b>               | <b>2,683</b>   | <b>613</b>           | <b>49</b>    | <b>300</b>     | <b>3,644</b>   |
| Southeastern Europe/CIS               | 1,406          | 539                  | 48           | 268            | 2,261          |
| Asia                                  | 867            | 13                   | 1            | 15             | 895            |
| Latin America                         | 58             | 18                   | 1            | 3              | 80             |
| Middle East/Africa                    | 352            | 43                   | 0            | 14             | 409            |
| <b>Total</b>                          | <b>175,675</b> | <b>18,938</b>        | <b>3,938</b> | <b>12,466</b>  | <b>211,018</b> |
| <b>As of 31 December 2013</b>         |                |                      |              |                |                |
| <b>Core markets</b>                   | <b>144,071</b> | <b>17,981</b>        | <b>3,918</b> | <b>11,591</b>  | <b>177,560</b> |
| Austria                               | 75,710         | 8,225                | 1,599        | 3,289          | 88,824         |
| Czech Republic                        | 29,635         | 2,695                | 532          | 1,098          | 33,959         |
| Romania                               | 10,729         | 3,080                | 704          | 3,346          | 17,860         |
| Slovakia                              | 13,640         | 879                  | 269          | 509            | 15,299         |
| Hungary                               | 7,177          | 1,334                | 292          | 1,671          | 10,474         |
| Croatia                               | 6,448          | 1,440                | 476          | 1,538          | 9,902          |
| Serbia                                | 731            | 327                  | 45           | 139            | 1,242          |
| <b>Other EU</b>                       | <b>23,681</b>  | <b>1,195</b>         | <b>296</b>   | <b>865</b>     | <b>26,037</b>  |
| <b>Other industrialised countries</b> | <b>2,867</b>   | <b>153</b>           | <b>30</b>    | <b>132</b>     | <b>3,182</b>   |
| <b>Emerging markets</b>               | <b>2,574</b>   | <b>641</b>           | <b>57</b>    | <b>240</b>     | <b>3,511</b>   |
| Southeastern Europe/CIS               | 1,442          | 596                  | 57           | 205            | 2,300          |
| Asia                                  | 675            | 12                   | 0            | 17             | 704            |
| Latin America                         | 67             | 2                    | 0            | 3              | 72             |
| Middle East/Africa                    | 389            | 30                   | 0            | 15             | 435            |
| <b>Total</b>                          | <b>173,192</b> | <b>19,969</b>        | <b>4,302</b> | <b>12,828</b>  | <b>210,291</b> |

In the table above the credit exposure is based on the risk country of the borrower. Accordingly, this break-down differs from the credit exposure distribution by Erste Group's geographical segments.

The growth of credit risk exposure by EUR 727 million from 31 December 2013 to 30 June 2014 reflects a decrease of EUR 1 billion, or 0.6%, in the core markets, coupled with an increase of

EUR 2.1 billion, or 8.6%, in the other EU member states (EU 28 excluding core markets) and a decline of EUR 476 million, or 15.0%, in other industrialised countries, as well as a gain of EUR 133 million, or 3.8%, in emerging markets. The countries of Erste Group's core market and the EU account for almost 97% of total credit risk exposure as of 30 June 2014. At 1.7%, credit risk exposure in emerging markets remains of minor significance.



## Credit risk exposure by business segment and risk category

| in EUR million  | Low risk       | Management attention | Substandard  | Non-performing | Gross exposure |
|---|----------------|----------------------|--------------|----------------|----------------|
| <b>As of 30 June 2014</b>                             |                |                      |              |                |                |
| Retail  | 42,243         | 4,957                | 1,282        | 3,441          | 51,923         |
| Small and Medium Enterprises                          | 19,632         | 2,951                | 512          | 2,761          | 25,856         |
| Asset/Liability Management and Local Corporate Center | 28,410         | 239                  | 182          | 28             | 28,859         |
| Savings Banks   | 42,693         | 6,801                | 1,119        | 2,613          | 53,226         |
| Large Corporates                                      | 13,186         | 1,506                | 152          | 1,389          | 16,234         |
| Commercial Real Estate                                | 5,879          | 1,505                | 534          | 2,061          | 9,978          |
| Other Corporate                                       | 3,181          | 453                  | 40           | 150            | 3,824          |
| Group Markets   | 19,621         | 325                  | 35           | 7              | 19,988         |
| Group Corporate Center                                | 831            | 201                  | 82           | 16             | 1,130          |
| <b>Total</b>  | <b>175,675</b> | <b>18,938</b>        | <b>3,938</b> | <b>12,466</b>  | <b>211,018</b> |
| <b>As of 31 December 2013</b>                         |                |                      |              |                |                |
| Retail  | 41,264         | 4,994                | 1,244        | 3,487          | 50,989         |
| Small and Medium Enterprises                          | 22,620         | 3,845                | 639          | 3,553          | 30,657         |
| Asset/Liability Management and Local Corporate Center | 27,428         | 429                  | 126          | 30             | 28,013         |
| Savings Banks   | 42,451         | 6,670                | 1,022        | 2,681          | 52,824         |
| Large Corporates                                      | 10,826         | 896                  | 266          | 653            | 12,642         |
| Commercial Real Estate                                | 6,309          | 1,780                | 580          | 2,210          | 10,879         |
| Other Corporate                                       | 3,232          | 455                  | 78           | 189            | 3,955          |
| Group Markets   | 17,864         | 279                  | 30           | 3              | 18,176         |
| Group Corporate Center                                | 1,197          | 620                  | 317          | 22             | 2,156          |
| <b>Total</b>  | <b>173,192</b> | <b>19,969</b>        | <b>4,302</b> | <b>12,828</b>  | <b>210,291</b> |

## Credit risk exposure by geographical segment and risk category

| in EUR million                        | Low risk       | Management attention | Substandard  | Non-performing | Gross exposure |
|---------------------------------------|----------------|----------------------|--------------|----------------|----------------|
| <b>As of 30 June 2014</b>             |                |                      |              |                |                |
| Austria                               | 105,751        | 10,943               | 2,183        | 5,380          | 124,257        |
| Erste Bank Oesterreich & Subsidiaries | 31,824         | 2,554                | 463          | 1,095          | 35,936         |
| Savings Banks                         | 42,693         | 6,801                | 1,119        | 2,613          | 53,226         |
| Other Austria                         | 31,235         | 1,588                | 601          | 1,672          | 35,096         |
| Central and Eastern Europe            | 61,675         | 7,664                | 1,672        | 7,039          | 78,050         |
| Czech Republic                        | 28,359         | 2,148                | 424          | 876            | 31,807         |
| Romania                               | 9,337          | 2,473                | 424          | 3,011          | 15,245         |
| Slovakia                              | 11,655         | 591                  | 222          | 490            | 12,958         |
| Hungary                               | 5,221          | 921                  | 256          | 1,309          | 7,708          |
| Croatia                               | 6,540          | 1,283                | 332          | 1,258          | 9,414          |
| Serbia                                | 562            | 249                  | 13           | 95             | 919            |
| Other                                 | 8,250          | 331                  | 82           | 47             | 8,710          |
| <b>Total</b>                          | <b>175,675</b> | <b>18,938</b>        | <b>3,938</b> | <b>12,466</b>  | <b>211,018</b> |
| <b>As of 31 December 2013</b>         |                |                      |              |                |                |
| Austria                               | 102,356        | 10,902               | 2,015        | 5,603          | 120,876        |
| Erste Bank Oesterreich & Subsidiaries | 31,423         | 2,447                | 400          | 1,143          | 35,413         |
| Savings Banks                         | 42,451         | 6,670                | 1,022        | 2,681          | 52,824         |
| Other Austria                         | 28,482         | 1,785                | 593          | 1,778          | 32,638         |
| Central and Eastern Europe            | 62,162         | 8,355                | 1,969        | 7,202          | 79,688         |
| Czech Republic                        | 30,174         | 2,353                | 464          | 874            | 33,865         |
| Romania                               | 8,979          | 2,624                | 659          | 3,168          | 15,431         |
| Slovakia                              | 11,015         | 661                  | 245          | 453            | 12,374         |
| Hungary                               | 5,064          | 1,111                | 235          | 1,425          | 7,834          |
| Croatia                               | 6,402          | 1,365                | 357          | 1,195          | 9,319          |
| Serbia                                | 528            | 241                  | 10           | 86             | 865            |
| Other                                 | 8,675          | 712                  | 318          | 22             | 9,727          |
| <b>Total</b>                          | <b>173,192</b> | <b>19,969</b>        | <b>4,302</b> | <b>12,828</b>  | <b>210,291</b> |

## Loans and receivables to customers

The tables on the following pages present the structure of the customer loan book (gross of allowances for loan losses) broken-down by different categories as of the end of the reporting period and as of the end of the prior business year.

### Loans and receivables to customers by business segment and risk category

| in EUR million  | Low risk      | Management attention | Substandard  | Non-performing | Gross customer loans |
|---|---------------|----------------------|--------------|----------------|----------------------|
| <b>As of 30 June 2014</b>                             |               |                      |              |                |                      |
| Retail  | 37,687        | 4,595                | 1,250        | 3,420          | 46,952               |
| Small and Medium Enterprises                          | 15,937        | 2,456                | 459          | 2,698          | 21,549               |
| Asset/Liability Management and Local Corporate Center | 80            | 12                   | 14           | 18             | 125                  |
| Savings Banks   | 28,528        | 6,007                | 917          | 2,506          | 37,957               |
| Large Corporates                                      | 6,841         | 1,095                | 134          | 1,196          | 9,266                |
| Commercial Real Estate                                | 5,445         | 1,417                | 493          | 2,035          | 9,390                |
| Other Corporate                                       | 1,356         | 294                  | 35           | 106            | 1,792                |
| Group Markets   | 205           | 82                   | 0            | 0              | 287                  |
| Group Corporate Center                                | 192           | 72                   | 81           | 16             | 361                  |
| <b>Total</b>  | <b>96,271</b> | <b>16,030</b>        | <b>3,383</b> | <b>11,996</b>  | <b>127,679</b>       |
| <b>As of 31 December 2013</b>                         |               |                      |              |                |                      |
| Retail  | 37,190        | 4,704                | 1,215        | 3,466          | 46,576               |
| Small and Medium Enterprises                          | 16,523        | 3,134                | 568          | 3,413          | 23,638               |
| Asset/Liability Management and Local Corporate Center | 127           | 9                    | 6            | 17             | 159                  |
| Savings Banks   | 28,566        | 5,898                | 880          | 2,571          | 37,915               |
| Large Corporates                                      | 5,362         | 698                  | 239          | 535            | 6,834                |
| Commercial Real Estate                                | 5,747         | 1,699                | 565          | 2,146          | 10,157               |
| Other Corporate                                       | 1,331         | 322                  | 59           | 126            | 1,838                |
| Group Markets   | 207           | 30                   | 0            | 0              | 238                  |
| Group Corporate Center                                | 208           | 87                   | 25           | 22             | 343                  |
| <b>Total</b>  | <b>95,263</b> | <b>16,582</b>        | <b>3,557</b> | <b>12,296</b>  | <b>127,698</b>       |

### Loans and receivables to customers by geographical segment and risk category

| in EUR million                        | Low risk      | Management attention | Substandard  | Non-performing | Gross customer loans |
|---------------------------------------|---------------|----------------------|--------------|----------------|----------------------|
| <b>As of 30 June 2014</b>             |               |                      |              |                |                      |
| Austria                               | 62,132        | 9,488                | 1,735        | 5,093          | 78,449               |
| Erste Bank Oesterreich & Subsidiaries | 24,827        | 2,204                | 288          | 1,018          | 28,337               |
| Savings Banks                         | 28,528        | 6,007                | 917          | 2,506          | 37,957               |
| Other Austria                         | 8,778         | 1,278                | 530          | 1,568          | 12,155               |
| Central and Eastern Europe            | 33,947        | 6,392                | 1,567        | 6,856          | 48,762               |
| Czech Republic                        | 15,510        | 1,749                | 385          | 855            | 18,500               |
| Romania                               | 4,650         | 2,025                | 393          | 2,933          | 10,000               |
| Slovakia                              | 6,749         | 555                  | 211          | 426            | 7,941                |
| Hungary                               | 2,548         | 830                  | 254          | 1,306          | 4,939                |
| Croatia                               | 4,109         | 1,140                | 313          | 1,242          | 6,804                |
| Serbia                                | 380           | 92                   | 11           | 94             | 578                  |
| Other                                 | 192           | 149                  | 81           | 47             | 469                  |
| <b>Total</b>                          | <b>96,271</b> | <b>16,030</b>        | <b>3,383</b> | <b>11,996</b>  | <b>127,679</b>       |
| <b>As of 31 December 2013</b>         |               |                      |              |                |                      |
| Austria                               | 61,666        | 9,596                | 1,666        | 5,280          | 78,207               |
| Erste Bank Oesterreich & Subsidiaries | 24,586        | 2,145                | 247          | 1,070          | 28,049               |
| Savings Banks                         | 28,566        | 5,898                | 880          | 2,571          | 37,915               |
| Other Austria                         | 8,514         | 1,552                | 539          | 1,638          | 12,243               |
| Central and Eastern Europe            | 33,388        | 6,881                | 1,866        | 6,994          | 49,130               |
| Czech Republic                        | 15,360        | 1,875                | 410          | 850            | 18,495               |
| Romania                               | 4,652         | 2,103                | 645          | 3,052          | 10,453               |
| Slovakia                              | 6,204         | 624                  | 234          | 407            | 7,469                |
| Hungary                               | 2,741         | 984                  | 234          | 1,421          | 5,380                |
| Croatia                               | 4,048         | 1,210                | 333          | 1,179          | 6,771                |
| Serbia                                | 383           | 84                   | 10           | 86             | 562                  |
| Other                                 | 208           | 105                  | 25           | 22             | 361                  |
| <b>Total</b>                          | <b>95,263</b> | <b>16,582</b>        | <b>3,557</b> | <b>12,296</b>  | <b>127,698</b>       |

## Non-performing loans and receivables to customers by business segment and coverage by risk provisions

| in EUR million  | Non-performing loans | Gross customer loans | Allowances for customer loans | NPL ratio   | NPL coverage (exc collateral) |
|---|----------------------|----------------------|-------------------------------|-------------|-------------------------------|
| <b>As of 30 June 2014</b>                             |                      |                      |                               |             |                               |
| Retail  | 3,420                | 46,952               | 2,366                         | 7.3%        | 69.2%                         |
| Small and Medium Enterprises                          | 2,698                | 21,549               | 1,724                         | 12.5%       | 63.9%                         |
| Asset/Liability Management and Local Corporate Center | 18                   | 125                  | 14                            | 14.5%       | 78.4%                         |
| Savings Banks   | 2,506                | 37,957               | 1,573                         | 6.6%        | 62.8%                         |
| Large Corporates                                      | 1,196                | 9,266                | 776                           | 12.9%       | 64.9%                         |
| Commercial Real Estate                                | 2,035                | 9,390                | 1,142                         | 21.7%       | 56.1%                         |
| Other Corporate                                       | 106                  | 1,792                | 71                            | 5.9%        | 66.6%                         |
| Group Markets   | 0                    | 287                  | 1                             | 0.0%        | 627.7%                        |
| Group Corporate Center                                | 16                   | 361                  | 8                             | 4.4%        | 47.3%                         |
| <b>Total</b>  | <b>11,996</b>        | <b>127,679</b>       | <b>7,674</b>                  | <b>9.4%</b> | <b>64.0%</b>                  |
| <b>As of 31 December 2013</b>                         |                      |                      |                               |             |                               |
| Retail  | 3,466                | 46,576               | 2,361                         | 7.4%        | 68.1%                         |
| Small and Medium Enterprises                          | 3,413                | 23,638               | 2,124                         | 14.4%       | 62.2%                         |
| Asset/Liability Management and Local Corporate Center | 17                   | 159                  | 14                            | 10.6%       | 83.2%                         |
| Savings Banks   | 2,571                | 37,915               | 1,551                         | 6.8%        | 60.3%                         |
| Large Corporates                                      | 535                  | 6,834                | 415                           | 7.8%        | 77.7%                         |
| Commercial Real Estate                                | 2,146                | 10,157               | 1,210                         | 21.1%       | 56.4%                         |
| Other Corporate                                       | 126                  | 1,838                | 73                            | 6.8%        | 58.1%                         |
| Group Markets   | 0                    | 238                  | 0                             | 0.0%        | 432.0%                        |
| Group Corporate Center                                | 22                   | 343                  | 4                             | 6.5%        | 20.0%                         |
| <b>Total</b>  | <b>12,296</b>        | <b>127,698</b>       | <b>7,753</b>                  | <b>9.6%</b> | <b>63.1%</b>                  |

## Non-performing loans and receivables to customers by geographical segment and coverage by risk provisions

| in EUR million                        | Non-performing loans | Gross customer loans | Allowances for customer loans | NPL ratio   | NPL coverage (exc collateral) |
|---------------------------------------|----------------------|----------------------|-------------------------------|-------------|-------------------------------|
| <b>As of 30 June 2014</b>             |                      |                      |                               |             |                               |
| Austria                               | 5,093                | 78,449               | 3,111                         | 6.5%        | 61.1%                         |
| Erste Bank Oesterreich & Subsidiaries | 1,018                | 28,337               | 697                           | 3.6%        | 68.4%                         |
| Savings Banks                         | 2,506                | 37,957               | 1,573                         | 6.6%        | 62.8%                         |
| Other Austria                         | 1,568                | 12,155               | 841                           | 12.9%       | 53.6%                         |
| Central and Eastern Europe            | 6,856                | 48,762               | 4,520                         | 14.1%       | 65.9%                         |
| Czech Republic                        | 855                  | 18,500               | 678                           | 4.6%        | 79.3%                         |
| Romania                               | 2,933                | 10,000               | 1,894                         | 29.3%       | 64.6%                         |
| Slovakia                              | 426                  | 7,941                | 358                           | 5.4%        | 83.9%                         |
| Hungary                               | 1,306                | 4,939                | 806                           | 26.4%       | 61.7%                         |
| Croatia                               | 1,242                | 6,804                | 713                           | 18.3%       | 57.4%                         |
| Serbia                                | 94                   | 578                  | 71                            | 16.3%       | 75.8%                         |
| Other                                 | 47                   | 469                  | 44                            | 10.0%       | 93.8%                         |
| <b>Total</b>                          | <b>11,996</b>        | <b>127,679</b>       | <b>7,674</b>                  | <b>9.4%</b> | <b>64.0%</b>                  |
| <b>As of 31 December 2013</b>         |                      |                      |                               |             |                               |
| Austria                               | 5,280                | 78,207               | 3,102                         | 6.8%        | 58.7%                         |
| Erste Bank Oesterreich & Subsidiaries | 1,070                | 28,049               | 682                           | 3.8%        | 63.7%                         |
| Savings Banks                         | 2,571                | 37,915               | 1,551                         | 6.8%        | 60.3%                         |
| Other Austria                         | 1,638                | 12,243               | 868                           | 13.4%       | 53.0%                         |
| Central and Eastern Europe            | 6,994                | 49,130               | 4,647                         | 14.2%       | 66.4%                         |
| Czech Republic                        | 850                  | 18,495               | 667                           | 4.6%        | 78.4%                         |
| Romania                               | 3,052                | 10,453               | 2,043                         | 29.2%       | 66.9%                         |
| Slovakia                              | 407                  | 7,469                | 352                           | 5.4%        | 86.4%                         |
| Hungary                               | 1,421                | 5,380                | 884                           | 26.4%       | 62.2%                         |
| Croatia                               | 1,179                | 6,771                | 635                           | 17.4%       | 53.9%                         |
| Serbia                                | 86                   | 562                  | 66                            | 15.3%       | 76.6%                         |
| Other                                 | 22                   | 361                  | 5                             | 6.2%        | 20.6%                         |
| <b>Total</b>                          | <b>12,296</b>        | <b>127,698</b>       | <b>7,753</b>                  | <b>9.6%</b> | <b>63.1%</b>                  |

The NPL ratio is calculated by dividing non-performing loans and receivables by total loans and receivables. The NPL coverage ratio is calculated by dividing risk provisions by non-performing

loans and receivables to customers. Collateral or other recoveries are not taken into account.

## Loans and receivables to customers by geographical segment and currency

| in EUR million                        | EUR           | CEE-LCY       | CHF           | USD          | Other        | Gross customer loans |
|---------------------------------------|---------------|---------------|---------------|--------------|--------------|----------------------|
| <b>As of 30 June 2014</b>             |               |               |               |              |              |                      |
| Austria                               | 68,258        | 0             | 7,099         | 1,379        | 1,712        | 78,449               |
| Erste Bank Oesterreich & Subsidiaries | 25,478        | 0             | 2,597         | 50           | 211          | 28,337               |
| Savings Banks                         | 32,901        | 0             | 4,274         | 65           | 717          | 37,957               |
| Other Austria                         | 9,879         | 0             | 227           | 1,264        | 785          | 12,155               |
| Central and Eastern Europe            | 21,302        | 24,195        | 2,976         | 235          | 54           | 48,762               |
| Czech Republic                        | 1,416         | 17,017        | 4             | 33           | 29           | 18,500               |
| Romania                               | 5,999         | 3,878         | 0             | 115          | 7            | 10,000               |
| Slovakia                              | 7,921         | 0             | 0             | 5            | 16           | 7,941                |
| Hungary                               | 1,071         | 1,471         | 2,381         | 16           | 0            | 4,939                |
| Croatia                               | 4,474         | 1,693         | 574           | 61           | 1            | 6,804                |
| Serbia                                | 421           | 136           | 17            | 4            | 0            | 578                  |
| Other                                 | 402           | 15            | 4             | 48           | 0            | 469                  |
| <b>Total</b>                          | <b>89,963</b> | <b>24,209</b> | <b>10,079</b> | <b>1,661</b> | <b>1,767</b> | <b>127,679</b>       |
| <b>As of 31 December 2013</b>         |               |               |               |              |              |                      |
| Austria                               | 67,764        | 0             | 7,515         | 1,287        | 1,642        | 78,207               |
| Erste Bank Oesterreich & Subsidiaries | 25,065        | 0             | 2,718         | 42           | 225          | 28,049               |
| Savings Banks                         | 32,536        | 0             | 4,594         | 96           | 690          | 37,915               |
| Other Austria                         | 10,163        | 0             | 203           | 1,150        | 727          | 12,243               |
| Central and Eastern Europe            | 21,537        | 24,084        | 3,154         | 312          | 43           | 49,130               |
| Czech Republic                        | 1,498         | 16,920        | 5             | 56           | 17           | 18,495               |
| Romania                               | 6,398         | 3,862         | 0             | 184          | 8            | 10,453               |
| Slovakia                              | 7,450         | 0             | 0             | 6            | 13           | 7,469                |
| Hungary                               | 1,192         | 1,648         | 2,538         | 2            | 0            | 5,380                |
| Croatia                               | 4,584         | 1,526         | 594           | 61           | 5            | 6,771                |
| Serbia                                | 415           | 127           | 16            | 4            | 0            | 562                  |
| Other                                 | 309           | 0             | 5             | 47           | 0            | 361                  |
| <b>Total</b>                          | <b>89,610</b> | <b>24,084</b> | <b>10,673</b> | <b>1,647</b> | <b>1,685</b> | <b>127,698</b>       |

### Market risk

The following table shows the value at risk of the trading book at the 99% confidence level using equally weighted market data and with a holding period of one day.

| in EUR million | Dec 13     | Jun 14     |
|----------------|------------|------------|
| Interest       | 2.2        | 2.0        |
| Currency       | 0.9        | 0.9        |
| Shares         | 2.7        | 2.9        |
| Commodity      | 0.3        | 0.2        |
| Volatility     | 0.5        | 0.5        |
| <b>Total</b>   | <b>3.9</b> | <b>4.5</b> |

The method used is subject to limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved. This restriction applies to the inclusion of credit spreads in the calculation of the VaR. Credit spreads are only applied to sovereign issuers. For all other positions, only the general market risk is considered.

### Liquidity risk

In Erste Group's liquidity strategy for 2014 long term issuance is planned to reach EUR 1.75 billion during the year. Year-to-date issuance is in line with the plan, amounting to EUR 1,094 million and consisting of EUR 614 million in senior bonds, EUR 93 million in Pfandbriefe (covered bonds), and EUR 387 million in subordinated debt.

### 28. Related party transactions

As of 30 June 2014, Erste Group had in relation to the DIE ERSTE österreichische Spar-Casse Privatstiftung (the main shareholder of Erste Group's parent entity, hereinafter the 'Privatstiftung') accounts payable of EUR 231.3 million (31 December 2013: EUR 49.9 million) and accounts receivable of EUR 26.5 million (31 December 2013: EUR 48.7 million). In addition, standard derivative transactions for hedging purposes were in place between Erste Group and the Privatstiftung as of 30 June 2014, namely interest rate swaps with caps in the notional amount of EUR 282.0 million (31 December 2013: EUR 282.0 million). Furthermore, as of 30 June 2014 the Privatstiftung held bonds issued by Erste Group Bank AG in the amount of EUR 0.4 million (31 December 2013: EUR 5.2 million). Erste Group held as of 30 June 2014 debt securities issued by the Privatstiftung in the amount of EUR 1.5 million (31 December 2013: EUR 7.0 million).

### 29. Contingent liabilities - litigations

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

### 30. Fair value of financial instruments

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 of the fair value hierarchy).

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

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

The measurement of fair value at Erste Group 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

Erste 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 modeling 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, option models of Black-Scholes- and Hull-White-type as well as hazard rate models. 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.

Erste Group values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

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 Erste group's credit quality. Erste Group has implemented an approach, where the modeling of the expected exposure is based on option replication strategies. This modeling approach is considered for the most relevant portfolios and products. 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. Erste Group's probability of default has been derived from the buy-back levels of Erste group's issuances. Netting has only been considered for a few counterparties where the impact was

material. For those netting has been applied for both CVA and DVA.

For collateralised derivatives the effect of collateral received is considered and reduces the amount of CVA accordingly. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.

According to the described methodology the cumulative CVA-adjustments amounts to EUR (54,7) million and the total DVA-adjustment amounts to EUR 11.0 million.

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

A level 3 position involves one or more significant inputs that are not directly observable on the market. Additional price verifica-

tion steps need to be done. These may include reviewing relevant historical data and benchmarking to similar transactions, among others. This involves estimation and expert judgment.

The responsibility for valuation of a position of measured at fair value is independent from trading units. Additionally Erste Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value determination and validation. The target of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

### Fair value hierarchy

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

| in EUR 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         |               |
|--|--|---------------|---|---------------|--|------------|---------------|---------------|
|  | Dec 13   | Jun 14        | Dec 13  | Jun 14        | Dec 13   | Jun 14     | Dec 13        | Jun 14        |
| <b>Assets</b>  |  |               |   |               |  |            |               |               |
| Financial assets - held for trading                          | 1,981  | 2,732         | 10,205  | 10,130        | 96   | 92         | 12,283        | 12,954        |
| Derivatives  | 15   | 4             | 6,231   | 6,385         | 96   | 91         | 6,342         | 6,480         |
| Other trading assets   | 1,966  | 2,728         | 3,975   | 3,744         | 0  | 1          | 5,941         | 6,474         |
| Financial assets - at fair value through profit or loss      | 233  | 194           | 240   | 210           | 56   | 51         | 529           | 456           |
| Financial assets - available for sale                        | 14,601   | 15,346        | 5,632   | 6,173         | 248  | 208        | 20,481        | 21,727        |
| Derivatives - hedge accounting                               | 68   | 88            | 1,875   | 2,389         | 0  | 11         | 1,944         | 2,489         |
| <b>Total assets</b>  | <b>16,883</b>                                    | <b>18,360</b> | <b>17,952</b>   | <b>18,902</b> | <b>401</b>   | <b>362</b> | <b>35,237</b> | <b>37,625</b> |
| <b>Liabilities</b>   |  |               |   |               |  |            |               |               |
| Financial liabilities - held for trading                     | 348  | 762           | 6,127   | 6,390         | 0  | 0          | 6,475         | 7,152         |
| Derivatives  | 12   | 19            | 6,075   | 6,328         | 0  | 0          | 6,087         | 6,347         |
| Other trading liabilities                                    | 336  | 743           | 52  | 62            | 0  | 0          | 388           | 805           |
| Financial liabilities - at fair value through profit or loss | 0  | 0             | 2,339   | 2,278         | 0  | 0          | 2,339         | 2,278         |
| Deposits from customers                                      | 0  | 0             | 460   | 435           | 0  | 0          | 460           | 435           |
| Debt securities issued                                       | 0  | 0             | 1,879   | 1,843         | 0  | 0          | 1,879         | 1,843         |
| Other financial liabilities                                  | 0  | 0             | 0   | 0             | 0  | 0          | 0             | 0             |
| Derivatives - hedge accounting                               | 15   | 18            | 629   | 706           | 0  | 0          | 644           | 724           |
| <b>Total liabilities</b>                                     | <b>362</b>                                       | <b>780</b>    | <b>9,096</b>  | <b>9,374</b>  | <b>0</b>   | <b>0</b>   | <b>9,458</b>  | <b>10,154</b> |

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

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

In the first half of 2014 the total amount of Level 1 financial assets increased by EUR 1.477 billion. The change in volume of Level 1 securities (growth by EUR 1.468 billion) is determined by matured and sold positions or new investments in the amount of EUR 1.632 billion. The amount of securities that have been reclassified from Level 1 to Level 2 in 2014 (due to changed market activity and change to modelled fair value) was 164 million.

The total amount of Level 2 financial assets has increased by EUR 1.075 billion in the first half of 2014. The rise of Level 2 derivatives of about EUR 669 million is mainly caused by chang-

es in market value. The Level 2 securities fair value change due to matured, sold or new investments amounts to EUR 254 million.

The changes are summarized in the following table

|                                  | Level 1      | Level 2      |
|----------------------------------|--------------|--------------|
| <b>Securities</b>                |              |              |
| Net transfer from Level 1        | 0            | 164          |
| Net transfer from Level 2        | -164         | 0            |
| Net transfer from Level 3        | 0            | 0            |
| Purchases/sales/expiries         | 1,632        | 254          |
| Changes in derivatives           | 8            | 669          |
| <b>Total year-to-date change</b> | <b>1,477</b> | <b>1,075</b> |

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

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

| in EUR million  | As of      | Gain/loss in profit or loss | Gain/loss in other comprehensive income | Purchases | Sales/settlements | Additions to the group | Disposals out of the group | Transfers into Level 3 | Transfers out of Level 3 | Currency translation | As of      |
|---|------------|-----------------------------|---|-----------|-------------------|------------------------|----------------------------|------------------------|--------------------------|----------------------|------------|
|   |            |                             |   |           |                   |                        |                            |                        |                          |                      | Dec 13     |
| <b>Assets</b>   |            |                             |   |           |                   |                        |                            |                        |                          |                      |            |
| Financial assets - held for trading                     | 96         | -5                          | 0                                       | 1         | -1                | 0                      | 0                          | 1                      | 0                        | 0                    | 92         |
| Derivatives   | 96         | -5                          | 0                                       | 1         | -1                | 0                      | 0                          | 0                      | 0                        | 0                    | 91         |
| Other trading assets                                    | 0          | 0                           | 0                                       | 0         | 0                 | 0                      | 0                          | 1                      | 0                        | 0                    | 1          |
| Financial assets - at fair value through profit or loss | 56         | -3                          | 0                                       | 0         | -3                | 0                      | 0                          | 0                      | 0                        | 0                    | 51         |
| Financial assets - available-for-sale                   | 248        | 3                           | 4                                       | 7         | -62               | 1                      | 0                          | 5                      | 0                        | 2                    | 208        |
| Derivatives - hedge accounting                          | 0          | 0                           | 0                                       | 0         | 0                 | 0                      | 0                          | 11                     | 0                        | 0                    | 11         |
| <b>Total assets</b>                                     | <b>400</b> | <b>-6</b>                   | <b>4</b>                                | <b>9</b>  | <b>-65</b>        | <b>1</b>               | <b>0</b>                   | <b>18</b>              | <b>0</b>                 | <b>2</b>             | <b>362</b> |
| <b>Assets</b>   |            |                             |   |           |                   |                        |                            |                        |                          |                      |            |
|   | Dec 12     |                             |   |           |                   |                        |                            |                        |                          |                      | Jun 13     |
| Financial assets - held for trading                     | 148        | -4                          | 0                                       | 11        | -21               | 0                      | 0                          | 0                      | 0                        | 0                    | 134        |
| Derivatives   | 139        | -5                          | 0                                       | 0         | 0                 | 0                      | 0                          | 0                      | 0                        | 0                    | 134        |
| Other trading assets                                    | 9          | 1                           | 0                                       | 11        | -21               | 0                      | 0                          | 0                      | 0                        | 0                    | 0          |
| Financial assets - at fair value through profit or loss | 24         | -1                          | 0                                       | 3         | 0                 | 0                      | 0                          | 10                     | 0                        | 0                    | 34         |
| Financial assets - available-for-sale                   | 189        | 4                           | 1                                       | 1         | -42               | 18                     | 0                          | 28                     | -15                      | 0                    | 183        |
| Derivatives - hedge accounting                          | 0          | 0                           | 0                                       | 0         | 0                 | 0                      | 0                          | 0                      | 0                        | 0                    | 0          |
| <b>Total assets</b>                                     | <b>360</b> | <b>-1</b>                   | <b>1</b>                                | <b>14</b> | <b>-63</b>        | <b>18</b>              | <b>0</b>                   | <b>38</b>              | <b>-15</b>               | <b>0</b>             | <b>352</b> |

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

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

| in EUR million  | Gain/loss in profit or loss |            |
|---|-----------------------------|------------|
|   | 1-6 13                      | 1-6 14     |
| <b>Assets</b>   |                             |            |
| Financial assets - held for trading                     | 12.7                        | 5.7        |
| Derivatives   | 12.7                        | 5.5        |
| Other trading assets                                    | 0.0                         | 0.3        |
| Financial assets - at fair value through profit or loss | -1.1                        | 0.7        |
| Derivatives - hedge accounting                          | 0.0                         | 0.0        |
| <b>Total</b>  | <b>11.6</b>                 | <b>6.5</b> |

The volume of Level 3 financial assets can be allocated to the following two categories:

- \_ Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- \_ Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.



## Unobservable inputs and sensitivity analysis for Level 3 measurements

The range of unobservable valuation parameters used in Level 3 measurements in first half of the year 2014 is shown in the following table:

| Financial assets  | Type of instrument              | Fair value in EUR million | Valuation technique   | Significant unobservable inputs | Range of unobservable inputs (weighted average) |
|---|---------------------------------|---------------------------|---|---------------------------------|---|
| <b>As of 30 June 2014</b>                               |                                 |                           |   |                                 |   |
| Positive fair value of derivatives                      | Forwards, swaps, options        | 87.1                      | Discounted cash flow and option models with CVA adjustment based on potential future exposure | PD<br>LGD                       | 0.37% - 100%<br>(15.38%)<br>60%                 |
| Financial assets - at fair value through profit or loss | Fixed and variable coupon bonds | 6.0                       | Discounted cash flow  | Credit spread                   | 0.9% - 7.5%<br>(1.3%)                           |
| Financial assets - available for sale                   | Fixed and variable coupon bonds | 178.1                     | Discounted cash flow  | Credit spread                   | 0.1% - 4.5%<br>(1.9%)                           |
| <b>As of 31 December 2013</b>                           |                                 |                           |   |                                 |   |
| Positive fair value of derivatives                      | Forwards, swaps, options        | 96.0                      | Discounted cash flow and option models with CVA adjustment based on potential future exposure | PD<br>LGD                       | 0.23% - 100%<br>(17.8%)<br>40%                  |
| Financial assets - at fair value through profit or loss | Fixed and variable coupon bonds | 6.8                       | Discounted cash flow  | Credit spread                   | 2.1% - 12%<br>(3.3%)                            |
| Financial assets - available for sale                   | Fixed and variable coupon bonds | 156.3                     | Discounted cash flow  | Credit spread                   | 0.5% - 4.5%<br>(2.0%)                           |

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters could be drawn from a range of reasonably possible alternatives. In preparing the financial statements, levels for the parameters are chosen

from these ranges using judgment consistent with prevailing market evidence.

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

| in EUR million                    | Positive fair value changes when applying alternative valuation parameters |             | Negative fair value changes when applying alternative valuation parameters |              |
|-----------------------------------|--|-------------|--|--------------|
|                                   | Dec 13   | Jun 14      | Dec 13   | Jun 14       |
| <b>Derivatives</b>                | <b>41.5</b>  | <b>34.1</b> | <b>-31.0</b>   | <b>-29.3</b> |
| Income statement                  | -  | 34.1        | -  | -29.3        |
| Other comprehensive income        | -  | 0.0         | -  | 0.0          |
| <b>Debt securities</b>            | <b>12.9</b>  | <b>13.4</b> | <b>-17.2</b>   | <b>-17.9</b> |
| Income statement                  | -  | 1.6         | -  | -2.1         |
| Other comprehensive income        | -  | 11.8        | -  | -15.8        |
| <b>Equity instruments</b>         | <b>2.4</b>   | <b>4.2</b>  | <b>-4.7</b>  | <b>-8.3</b>  |
| Income statement                  | -  | 2.8         | -  | -5.6         |
| Other comprehensive income        | -  | 1.4         | -  | -2.7         |
| <b>Total</b>                      | <b>56.7</b>  | <b>51.7</b> | <b>-52.9</b>   | <b>-55.5</b> |
| <b>Income statement</b>           | <b>-</b>   | <b>38.5</b> | <b>0.0</b>   | <b>0.0</b>   |
| <b>Other comprehensive income</b> | <b>-</b>   | <b>13.2</b> | <b>0.0</b>   | <b>0.0</b>   |

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. Positive correlation effects between PDs and LGDs are taken into account in the sensitivity analysis.

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

| in EUR million                                   | As of 31 December 2013 |            | As of 30 June 2014 |            |
|--|------------------------|------------|--------------------|------------|
|  | Carrying amount        | Fair value | Carrying amount    | Fair value |
| <b>Assets</b>                                    |                        |            |                    |            |
| Cash and cash balances                           | 9,300                  | 9,300      | 7,267              | 7,267      |
| Financial assets - held to maturity              | 17,779                 | 18,919     | 16,955             | 18,647     |
| Loans and receivables to credit institutions     | 8,377                  | 8,209      | 8,548              | 8,606      |
| Loans and receivables to customers               | 119,945                | 118,177    | 120,005            | 120,810    |
| <b>Liabilities</b>                               |                        |            |                    |            |
| Financial liabilities measured at amortised cost | 171,246                | 170,563    | 168,155            | 167,307    |
| Deposits from banks                              | 17,299                 | 16,987     | 18,803             | 18,491     |
| Deposits from customers                          | 121,955                | 120,181    | 119,814            | 117,827    |
| Debt securities issued                           | 31,245                 | 33,109     | 29,190             | 30,635     |
| Other financial liabilities                      | 286                    | 286        | 348                | 354        |
| <b>Financial guarantees and commitments</b>      |                        |            |                    |            |
| Financial guarantees                             | n/a                    | -223       | n/a                | -221       |
| Irrevocable commitments                          | n/a                    | 466        | n/a                | 83         |

## 31. Average number of employees during the financial period (weighted according to the level of employment)

|   | 1-6 13        | 1-6 14        |
|---|---------------|---------------|
| <b>Domestic</b>                               | <b>15,999</b> | <b>15,701</b> |
| Erste Group, EB Oesterreich and subsidiaries  | 8,585         | 8,475         |
| Haftungsverbund savings banks                 | 7,414         | 7,226         |
| <b>Abroad</b>                                 | <b>31,905</b> | <b>30,348</b> |
| Česká spořitelna Group                        | 10,925        | 10,455        |
| Banca Comercială Română Group                 | 7,729         | 7,062         |
| Slovenská sporiteľňa Group                    | 4,190         | 4,211         |
| Erste Bank Hungary Group                      | 2,741         | 2,798         |
| Erste Bank Croatia Group                      | 2,541         | 2,675         |
| Erste Bank Serbia                             | 931           | 986           |
| Erste Bank Ukraine                            | 748           | 0             |
| Savings banks subsidiaries                    | 1,135         | 1,143         |
| Other subsidiaries and foreign branch offices | 965           | 1,018         |
| <b>Total</b>                                  | <b>47,904</b> | <b>46,049</b> |

## 32. Regulatory capital and capital requirements

### Capital structure according to the EU directive 575/2013 (CRR)

| in EUR million  | Article pursuant to CRR                  | Dec 13        | Jun 14        |               |
|---|--|---------------|---------------|---------------|
|   |  | Basel 2.5     | Phased-in     | Final         |
| <b>Common equity tier 1 capital (CET1)</b>  |  |               |               |               |
| Capital instruments eligible as CET1 capital  | 26 (1) (a) (b), 27 to 30, 23 (1) (f), 42 | 0             | 7,247         | 7,247         |
| Own CET1 instruments  | 36 (1) (f), 42                           | 0             | -47           | -47           |
| Retained earnings   | 26 (1) (c), 26 (2)                       | 0             | 4,824         | 4,824         |
| Interim loss  | 36 (1) (a)                               | 0             | -930          | -930          |
| Accumulated other comprehensive income  | 4 (100), 26 (1) (d)                      | 0             | -578          | -578          |
| Minority interest recognised in CET1 capital  | 4 (120) 84                               | 0             | 2,528         | 2,528         |
| Transitional adjustments due to additional minority interests   | 479, 480                                 | 0             | 594           | 0             |
| Prudential filter: cash flow hedge reserve  | 33 (1) (a)                               | 0             | -82           | -82           |
| Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities                     | 33 (1) (b)                               | 0             | -54           | -54           |
| Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | 33 (1) (c), 33 (2)                       | 0             | -15           | -15           |
| Value adjustments due to the requirements for prudent valuation   | 34, 105                                  | 0             | -141          | -141          |
| Regulatory adjustments relating to unrealised gains and losses  | 467, 468                                 | 0             | -582          | -144          |
| Goodwill  | 4 (113), 36 (1) (b), 37                  | 0             | -825          | -825          |
| Other intangible assets   | 4 (115), 36 (1) (b), 37 (a)              | 0             | -599          | -599          |
| Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities         | 36 (1) (c), 38                           | 0             | -117          | -117          |
| IRB shortfall of credit risk adjustments to expected losses   | 36 (1) (d), 40, 158, 159                 | 0             | -312          | -312          |
| Other transitional adjustments CET1   | 469 to 472, 478, 481                     | 0             | 2,250         | 0             |
| Interim loss (80%)  |  | 0             | 744           | 0             |
| Goodwill (80%)  |  | 0             | 660           | 0             |
| Other intangibles (80%)   |  | 0             | 479           | 0             |
| IRB shortfall of provisions to expected losses (80%)  |  | 0             | 250           | 0             |
| Deferred tax assets that rely on future profitability and do not arise from temporary differences (100%)                        |  | 0             | 117           | 0             |
| Excess of deduction from AT1 items over AT1 capital   | 36 (1) (j)                               | 0             | -1,708        | 0             |
| <b>Common equity tier 1 capital (CET1)</b>  | <b>50</b>                                | <b>11,199</b> | <b>11,456</b> | <b>10,757</b> |
| <b>Additional tier 1 capital (AT1)</b>  |  |               |               |               |
| Capital instruments eligible as AT1 capital   | 51 (a), 52 to 54, 56 (a), 57             | 0             | 0             | 0             |
| Own AT1 instruments   | 52 (1) (b), 56 (a), 57                   | 0             | 0             | 0             |
| Instruments issued by subsidiaries that are given recognition in AT1 capital  | 85, 86                                   | 0             | 0             | 0             |
| Transitional adjustments due to grandfathered AT1 capital instruments   | 483 (4) (5), 484 to 487, 489, 491        | 0             | 300           | 0             |
| AT1 instruments of financial sector entities where the institution has a significant investment                                 | 4 (27), 56 (d), 59, 79                   | 0             | 0             | 0             |
| Other transitional adjustments AT1  | 474, 475, 478, 481                       | 0             | -2,008        | 0             |
| Interim loss (80%)  |  | 0             | -744          | 0             |
| Goodwill (80%)  |  | 0             | -660          | 0             |
| Other intangibles (80%)   |  | 0             | -479          | 0             |
| IRB shortfall of provisions to expected losses (40%)  |  | 0             | -125          | 0             |
| Excess of deduction from AT1 items over AT1 capital   | 36 (1) (j)                               | 0             | 1,708         | 0             |
| <b>Additional tier 1 capital (AT1)</b>  | <b>61</b>                                | <b>361</b>    | <b>0</b>      | <b>0</b>      |
| <b>Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1) capital</b>                                |  | <b>11,560</b> | <b>11,456</b> | <b>10,757</b> |

The table will be continued on the subsequent page.

Continuation of the table:

| in EUR million   | Article pursuant to CRR              | Dec 13        | Jun 14               |               |
|--|--------------------------------------|---------------|----------------------|---------------|
|  |                                      | Basel 2.5     | Basel 3<br>Phased-in | Final         |
| <b>Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1) capital</b>           |                                      | <b>11,560</b> | <b>11,456</b>        | <b>10,757</b> |
| <b>Tier 2 capital (T2)</b>   |                                      |               |                      |               |
| Capital instruments and subordinated loans eligible as T2 capital  | 62 (a), 63 to 65, 66 (a), 67         | 0             | 3,379                | 3,379         |
| Own T2 instruments   | 63 (b) (i), 66 (a), 67               | 0             | -27                  | -27           |
| Instruments issued by subsidiaries recognised in T2 capital  | 87, 88                               | 0             | 493                  | 493           |
| Transitional adjustments due to additional recognition in T2 capital of instruments issued by subsidiaries | 480                                  | 0             | 301                  | 0             |
| Transitional adjustments due to grandfathered T2 capital instruments and subordinated loans                | 483 (6) (7), 484, 486, 488, 490, 491 | 0             | 58                   | 0             |
| IRB excess of provisions over expected losses eligible   | 62 (d)                               | 0             | 477                  | 477           |
| Standardised approach general credit risk adjustments  | 62 (c)                               | 0             | 134                  | 134           |
| Other transitional adjustments to tier 2 capital   | 476, 477, 478, 481                   | 0             | -125                 | 0             |
| IRB shortfall of provisions to expected losses (40%)   |                                      | 0             | -125                 | 0             |
| T2 instruments of financial sector entities where the institution has a significant investment             | 4 (27), 66 (d), 68, 69, 79           | 0             | 0                    | 0             |
| Items deductible due to transitional provisions in T2 capital  | 476 to 478, 481                      | 0             | 0                    | 0             |
| <b>Tier 2 capital (T2)</b>   | <b>71</b>                            | <b>4,206</b>  | <b>4,692</b>         | <b>4,457</b>  |
| <b>Short-term subordinated capital (tier-3)</b>  |                                      | <b>228</b>    | <b>0</b>             | <b>0</b>      |
| <b>Total own funds</b>   |                                      | <b>15,994</b> | <b>16,147</b>        | <b>15,215</b> |
| Capital requirement (phased-in)  | 92 (3), 95, 96, 98                   | 7,832         | 7,843                | 7,946         |
| <b>CET1 capital ratio</b>  | <b>92 (2) (a)</b>                    | <b>11.4%</b>  | <b>11.7%</b>         | <b>10.8%</b>  |
| <b>Tier 1 capital ratio</b>  | <b>92 (2) (b)</b>                    | <b>11.8%</b>  | <b>11.7%</b>         | <b>10.8%</b>  |
| <b>Total capital ratio</b>   | <b>92 (2) (c)</b>                    | <b>16.3%</b>  | <b>16.5%</b>         | <b>15.3%</b>  |

The capital structure table above is based on EBA's final draft for implementing technical standards on disclosure for own funds published on 26 July 2013. Positions not relevant for Erste Group are not shown. Basel 3 final figures (fully loaded) are calculated based on the current requirements according to CRR. Changes are possible due to final Regulatory Technical Standards (RTS), that are not yet available. The Basel 2.5 comparison is limited to sum-positions as the composition according to Basel 3 materially deviates from the composition according to Basel 2.5. Risk data in the regulatory capital and capital requirements tables are preliminary.

#### Risk structure according to EU directive 575/2013 (CRR)

| in EUR million                                   | Article pursuant to CRR              | Dec 13                      |                     | Jun 14                                  |                                 |
|--|--------------------------------------|-----------------------------|---------------------|---|---------------------------------|
|  |                                      | Calculation base/total risk | Capital requirement | Calculation base/total risk (phased-in) | Capital requirement (phased-in) |
| Total risk exposure amount                       | 92 (3), 95, 96, 98                   | 97,901                      | 7,832               | 98,041                                  | 7,843                           |
| Risk-weighted assets (credit risk)               | 92 (3) (a) (f)                       | 84,857                      | 6,789               | 83,455                                  | 6,676                           |
| Standardised approach                            |                                      | 19,590                      | 1,567               | 17,808                                  | 1,425                           |
| IRB approach                                     |                                      | 65,267                      | 5,221               | 65,647                                  | 5,252                           |
| Settlement risk                                  | 92 (3) (c) (ii), 92 (4) (b)          | 0                           | 0                   | 0                                       | 0                               |
| Trading book, foreign FX risk and commodity risk | 92 (3) (b) (i) and (iii), 92 (4) (b) | 2,852                       | 228                 | 2,720                                   | 218                             |
| Operational risk                                 | 92 (3) (e) 92 (4) (b)                | 10,192                      | 815                 | 10,405                                  | 832                             |
| Exposure for CVA                                 | 92 (3) (d)                           | 0                           | 0                   | 1,461                                   | 117                             |
| Other exposure amounts (including Basel 1 floor) | 3, 458, 459, 500                     | 0                           | 0                   | 0                                       | 0                               |

| in EUR million                                   | Article pursuant to CRR              | Dec 13                      |                     | Jun 14                              |                             |
|--|--------------------------------------|-----------------------------|---------------------|-------------------------------------|-----------------------------|
|  |                                      | Calculation base/total risk | Capital requirement | Calculation base/total risk (final) | Capital requirement (final) |
| Total risk exposure amount                       | 92 (3), 95, 96, 98                   | 0                           | 0                   | 99,321                              | 7,946                       |
| Risk-weighted assets (credit risk)               | 92 (3) (a) (f)                       | 0                           | 0                   | 84,735                              | 6,779                       |
| Standardised approach                            |                                      | 0                           | 0                   | 17,808                              | 1,425                       |
| IRB approach                                     |                                      | 0                           | 0                   | 66,927                              | 5,354                       |
| Settlement risk                                  | 92 (3) (c) (ii), 92 (4) (b)          | 0                           | 0                   | 0                                   | 0                           |
| Trading book, foreign FX risk and commodity risk | 92 (3) (b) (i) and (iii), 92 (4) (b) | 0                           | 0                   | 2,720                               | 218                         |
| Operational risk                                 | 92 (3) (e) 92 (4) (b)                | 0                           | 0                   | 10,405                              | 832                         |
| Exposure for CVA                                 | 92 (3) (d)                           | 0                           | 0                   | 1,461                               | 117                         |
| Other exposure amounts (including Basel 1 floor) | 3, 458, 459, 500                     | 0                           | 0                   | 0                                   | 0                           |

### **33. Events after the reporting date**

There have not been any significant events after the reporting period except for the adjusting event which is described in the note 9.

## Statement of all Legal Representatives

We confirm to the best of our knowledge that the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Vienna, 31 July 2014

The Management Board

Andreas Treichl, mp  
Chairman

Franz Hochstrasser, mp  
Vice Chairman

Andreas Gottschling, mp  
Member

Herbert Juranek, mp  
Member

Gernot Mittendorfer, mp  
Member

## Your Notes

We have prepared this report with the greatest possible care and have thoroughly checked the data presented in it. However, we cannot rule out errors associated with rounding, transmission, typesetting or printing. The English version of the report is a translation.

#### **Note regarding forward-looking statements**

This report contains forward-looking statements. These statements are based on current estimates, assumptions and projections of Erste Group Bank AG and currently available public information. They are not guarantees of future performance and involve certain known and yet unknown risks and uncertainties and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the actual results or performance to be materially different from those that may be expressed or implied by such statements. Erste Group Bank AG does not assume any obligation to update the forward-looking statements contained in this report.

## Shareholder Events

30 October 2014 Results for the three quarters of 2014  
27 February 2015 Full-year preliminary results 2014  
12 May 2015 Annual general meeting

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## Ticker Symbols

Reuters: ERST.VI  
Bloomberg: EBS AV  
Datastream: O:ERS  
ISIN: AT0000652011