Slovenská sporiteľňa, a. s., Member of Erste Group

Annual Report 2014

SLOVENSKÁ sporiteľňa

Contents

The Company at a glance

Registered office: Tomášikova 48
832 37 Bratislava
Slovak Republic
Company reg. no. (IČO): 00151653
Legal form: joint-stock company
Line of business: universal bank

Shareholders as at 31.12.2014:

EGB Ceps Holding GmbH – 100.00%

Significant participations:

Realitná spoločnosť Slovenskej sporiteľne, a. s., 100.00%
Leasing Slovenskej sporiteľne, a. s., 100.00%
Derop B.V., 85.00%
Erste Group IT SK, spol. s r.o., 51.00%
Procurement Services SK, spol. s r.o., 51.00%
Slovak Banking Credit Bureau, spol. s r.o., 33.33%
Prvá stavebná sporiteľňa, a. s., 9.98%
Factoring Slovenskej sporiteľne, a. s., 100.00% - On 31 October 2014, the company was dissolved without liquidation; merger with Slovenská sporiteľňa

Contact:
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www.slsp.sk
info@slsp.sk

Credit ratings of Slovenská sporiteľňa, a.s. as at 31.12.2014

Fitch Ratings

Long-term Issuer Default Rating	**A**
Short-term Issuer Default Rating	**F1**
Viability rating	**bbb+**
Support rating	**1**
Outlook	**negative**

This annual report has been prepared in accordance with Act no. 431/2002 Coll. on Accounting as later amended and in accordance with Act no. 566/2001 Coll. on Securities and Investment Services and changes and amendments to certain acts as later amended ("Securities Act") as Slovenská sporiteľňa is securities dealer. This annual report substitutes annual financial report as defined in Act no. 429/2002 Coll. on the Stock Exchange as later amended ("Stock Exchange Act") as Slovenská sporiteľňa is issuer of debt securities admitted to trading on a regulated market. Information stated in section "Annexes" includes information required by § 77 (2) b) of Securities Act. This annual report includes statement in accordance with § 34 (2) c) of Stock Exchange Act.

Statement by the Chairman of the Board of Directors and the CEO

Dear partners,

For Slovenská sporiteľňa, 2014 was another year of excellent performance and multiple awards.

We delivered very good results. Growth, especially in loans, prudent risk management and disciplined cost management resulted in a slight increase in operating profit. Further good news is that we grew both in retail and corporate sectors.

I am very pleased that the Bank successfully passed a comprehensive test of the European Central Bank – asset quality review and stress testing. It is a great accomplishment that Slovenská sporiteľňa ranked as the eleventh most stable bank in the euro area. The results confirmed that the Bank is prepared to withstand potential turmoil. Our clients can be assured that we are a trustworthy financial partner and that we will continue to refine the banking environment and support economic growth in Slovakia.

For the third time, I had the honour of receiving the prestigious award of TREND TOP Bank of the Year. Similarly, I also highly appreciate the golden hat-trick from the international journal The Banker. Nevertheless, I recognise that banking is not only about crystal trophies. The real banking happens every day at our branches or through modern digital channels. I am therefore pleased when our clients are satisfied. We have always tried to engage in activities that make sense. On behalf of my colleagues I can promise you that they will continue to do so. I believe that Slovenská sporiteľňa will continue to excel also in the future. The Bank has all the prerequisites for it – skilled and dedicated people, a clear vision and a strategy.

With success, the sense of responsibility grows as well. Therefore, we try to give something back to the society, in which we are active. Last year, we distributed more than €500,000 in support of the development of financial literacy, sport, culture and social assistance in all regions of Slovakia. Furthermore, we have been working hard to make banking services available to those who have difficult access to them today.

When assessing our success, I used to say that we are only as successful as are our clients. I hope that this connection remains true. I trust that it will remain beneficial, not only for the bank but especially for its clients.

Thank you for your trust,

Jozef Síkela

Financial highlights

According to IFRS	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014
Prepared in accordance with the International Financial Reporting Standards	(mil. eur)	(mil. eur)	(mil. eur)	(mil. eur)
Balance sheet total	11 349	11 777	11 699	12 969
Loans and advances to credit institutions	613	290	80	179
Loans and advances to customers	6 697	7 093	7 513	8 434
Financial assets	3 656	3 925	3 731	3 953
Customer deposits	8 034	8 413	9 091	9 666
Equity	1 039	1 205	1 291	1 311
Net profit	195	188	185	183
Selected ratios	(in %)	(in %)	(in %)	(in %)
Return on equity	20.0	16.9	15.1	14.5
Return on assets	1.7	1.6	1.6	1.5
Cost income ratio	39.6	42.3	42.8	44.5
Net interest margin	4.5	4.2	4.2	4.0
Loans to deposits ratio	83.4	84.3	82.6	83.6
Capital adequacy	15.6	20.1	25.2	19.9
Tier 1 ratio	11.6	16.3	20.8	17.7
Other figures				
Number of employees	4 170	4 210	4 208	4 275
Number of branches	292	297	292	292
Number of ATMs	748	773	770	779
Number of payment cards	1 307 393	1 261 358	1 327 197	1 390 876

Top management
Board of Directors of Slovenská sporiteľňa, a.s.

Jozef Síkela
Chairman of the Board and CEO

Jozef Síkela is a graduate of the University of Economics in Prague and has been working in banking since 1992. His banking career began at Creditanstalt AG in Vienna, where he worked in the International Risk Management Department. In 1999, he moved to Bank Austria Creditanstalt in the Czech Republic, where he was director of Corporate Customers Division, and then, in 2001, he took charge of corporate banking in Česká spořitelna. In 2006, he joined Erste Bank Ukraine, serving as Deputy CEO responsible for corporate banking and regional network development. In 2009 he became CEO of Erste Bank Ukraine, with responsibility for corporate banking, financial markets, controlling, accounting, human resources and communication.

The Supervisory Board of Slovenská sporiteľňa elected Mr. Síkela as Chairman of the Board and CEO of Slovenská sporiteľňa with effect from 1 June 2010. Until 31 December 2014 he was responsible for risk management, compliance and legal services, office of the board, quality management, human resources, communication, sponsoring, marketing and market research, and subsidiaries.

Positions at other companies:
Mr Síkela was a member of the managing board of the Slovak Banking Association, the Council of the Deposit Protection Fund, the managing board of the Slovak-Austrian Trade Chamber, the supervisory boards of Factoring Slovenskej sporiteľne (until 1 November 2014) and Leasing Slovenskej sporiteľne, chairman of the supervisory board of Prvá stavebná sporiteľňa, and of the board of trustees of Nadácia Slovenskej sporiteľne.

ŠTEFAN MÁJ
Deputy Chairman of the Board and First Deputy CEO

Štefan Máj is a graduate of the Management Faculty at the University of Economics in Bratislava. From 1991 to 1995 he worked for Slovenská sporiteľňa, first as head of the Property Management Unit, then as general director of the Technology Division, and later as a board member. In 1995, he joined Komerční banka Bratislava, serving as a member of the Board of Directors and Deputy CEO until December 1998, when he returned to Slovenská sporiteľňa to become Deputy CEO. Mr Máj was a member of the Slovak Finance Ministry's steering group for the restructuring and privatisation of selected banks and restructuring of the financial sector.
He has responsibility for accounting, controlling, property management, balance sheet management and physical security. He is currently the Bank's Chief Environmental Officer.

Positions with other companies:
Štefan Máj is a member of the supervisory boards of Factoring Slovenskej sporiteľne (until 1 November 2014), LANED and Realitná spoločnosť Slovenskej sporiteľne. He is a member of the supervisory boards of Leasing Slovenskej sporiteľne and Nadácia Slovenskej sporiteľne, and an executive of Procurement Services SK. He is also chairman of the board of trustees of the non-profit civic association Včelí dom.

TOMÁŠ SALOMON
Board Member and Deputy CEO

Tomáš Salomon is a graduate of the Faculty of Services and Tourism of the University of Economics in Bratislava. He began his career in finance in 1997 at the group GE Capital in the Czech Republic, where he progressively focused on restructuring the company's processes and on project management. In 2000 he became a member of the Board of Directors of GE Capital Bank, with responsibility for retail banking, distribution network and marketing. In 2003 he took over responsibility for the development of strategic products of the GE Capital group. In 2004 he left to become the Chairman of the Board of Directors and CEO of Poštová banka in the Slovak Republic. Since 2008, he was involved in private investment projects in the field of mobile payments in the Czech Republic.
He was a Board Member at Slovenská sporiteľňa since 1 July 2013 until 31 December 2014. He was a member of the board responsible for retail banking.

Positions with other companies:
Until 31 December 2014, Tomáš Salomon was a member of the supervisory board of Realitná spoločnosť Slovenskej sporiteľne.

PETER KRUTIL
Board Member and Deputy CEO

Peter Krutil is a graduate of the Faculty of Management at the University of Economics in Bratislava, and served internships at Creditanstalt Vienna and Creditanstalt London. From 1991 to 1993, he was a securities dealer for VÚB, where he worked on the listing of new companies on the Bratislava Stock Exchange. In 1993, he joined Tatra banka as a dealer in money and capital markets. Later that year, he took up a senior management position at Creditanstalt Securities, o.c.p., a.s., Bratislava, where he stayed until 1998, eventually becoming a member of the Board of Directors. In 1998, Mr Krutil moved to the Slovak Ministry of Economy, and in December of the same year he was elected a board member of Slovenská sporiteľňa. He is responsible for the management of corporate banking and capital markets.

Positions with other companies:
Peter Krutil is a chairman of the supervisory board of Leasing Slovenskej sporiteľne, and a member of the supervisory boards of Factoring Slovenskej sporiteľne and Nadácia Slovenskej sporiteľne.

PETR BRÁVEK
Board Member and Deputy CEO

Petr Brávek began his career in banking at Creditanstalt, where he was involved in the implementation of a number of key banking projects.

In 2001, he moved to HVB Czech Republic as the member of the Board of Directors responsible for organisation, finance and private banking. From 2005, he served on the Board of Directors of Prague Airport, from where he moved to Česká spořitelna as director of organisation and CIO in 2007. He came to Slovenská sporiteľňa from the position of chairman and CEO of sIT Solutions Holding in Vienna. There he was involved in the important project of restructuring IT at Erste Group.

On 1 April 2012, he became a board member of Slovenská sporiteľňa. He is responsible for information technology, organisation, information systems security, central back office retail and payments & settlement.

Positions with other companies:

Peter Brávek is a member of the supervisory board of Prvá stavebná sporiteľňa.

Overview of changes in the Board following 31 December 2014

On 31 December 2014, Jozef Síkela resigned from his position of Chairman of the Board and CEO, due to his appointment to the position of board member at Erste Group Bank AG.

From 1 January 2015, the position of the new CEO and Chairman of the Board, elected by the Supervisory Board, was taken up by the former Deputy Chairman of the Board and the First Deputy CEO, Štefan Máj, who also temporarily took over the responsibility for risk management of the Company.

Effective on the same day, Tomáš Salomon resigned from his position in the Board of Directors since he was appointed as a board member of Česká spořitelna. Responsibility for retail banking was temporarily handed over to the member of the Board of Directors and Deputy CEO, Peter Krutil, who is also responsible for corporate banking management.

Due to his apointment to the Board of Directors of Erste Group Bank AG, Petr Bravek will resign from his position in the Board of Directors of Slovenská sporiteľňa. He was responsible for IT and bank operations.

To replace the departing members of the Board of Directors, the shareholder nominated Bernhard Spalt and Richard Chomist as their replacements. Until recently, Bernhard Spalt was a Board member of the sister company Erste Bank Hungary. In Slovenská sporiteľňa he should be responsible for risk management. Similarly, Richard Chomist was the executive of the daughter company Erste Group IT SK spol. s.r.o.. In Slovenská sporitaľňa he should be responsible for IT and bank operations.

Supervisory Board of Slovenská sporiteľňa, a.s.

Gernot Mittendorfer
chairman

Franz Hochstrasser until 22 December 2014
deputy chairman

Herbert Juranek until 18 December 2014
member

Jan Homan
member

Beatrica Melichárová
member

Štefan Šipoš
member

Slovak economy in 2014

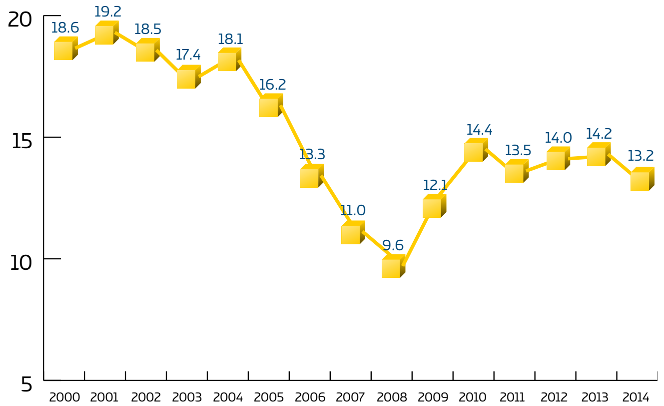
- **Economic growth accelerated**
- **Domestic demand has returned as the main driver of growth**
- **Consumer prices stagnated last year**
- **ECB rates fell close to zero**
- **Slovakia out of the Excessive deficit procedure**

Improvement in the economy in 2014

The Slovak economy in 2014 performed better than in the previous year. Real GDP growth reached 2.4%, representing an upturn against the 1.4% from 2013. The main driving force behind growth in 2014 was domestic demand. Over the course of the year, gross investments surprised on the positive side helping to create the right conditions for economic growth also in the future. Labour market improvement, manifesting in the growth of wages and employment, allowed for an increase in household consumption. Near-zero inflation in 2014 substantially contributed to the significant increase in real wage growth.

Moreover, unemployment decreased, albeit it still remains high compared to its pre-crisis levels. Expressed in the internationally comparable ILO methodology, the average unemployment rate in 2013 stood at 14.2%, whilst in 2014 it was 13.2%. The trade balance in 2014 remained in a substantial surplus of about 6% of GDP. Export and import dynamics have slowed down recently, with domestic demand taking the place of net exports as the main growth driver.

Unemployment rate developement



Prices remained at the 2013 level

Inflation pressures in Slovakia have vanished recently, with consumer prices in 2014 showing slight deflation, falling on average by 0.1%. Compared to 2013, when prices grew on average by 1.4%, the 2014 figures present a significant slowdown.

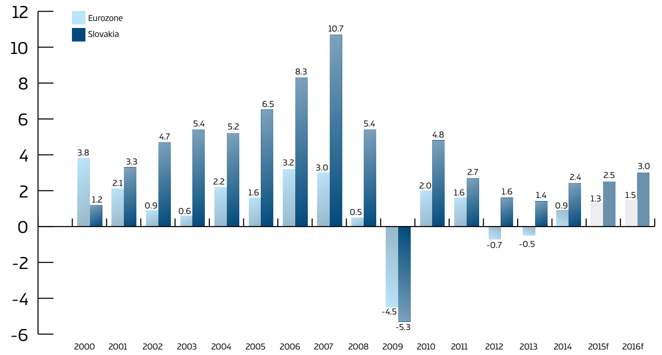
Good harvest contributed to lower food prices, and the fall in oil prices was reflected in lower fuel and energy prices. Low inflation could be seen in the whole Eurozone, particularly due to falling energy prices. Inflation could increase slightly in 2015, aided by wage growth and a weaker euro. However, consumer price growth should not be significant, mainly due to the fall in oil prices.

Mild growth of Eurozone last year

Eurozone managed to get out of recession in 2014. While the euro area recorded a negative growth rate of 0.5% in 2013, 2014 growth reached approximately 1%. Even though Eurozone growth started off rather well at the beginning of the year, over the course of the year the growth rate slowed down again.

The euro area's workhorse, Germany, reached a growth rate of 1.6%, thus marking a three-year high. The development in the European periphery was far from homogenous. Greece and Spain saw an improvement in their situation, while the economies of Italy and Cyprus continued to shrink. Following an increase a year earlier, the unemployment rate in the euro area fell in 2014. Inflation remained very low, averaging only 0.4% in 2014, with a dip into the negative territory at the end of the year.

GDP growth



Low inflation led the ECB to loosen monetary policy

In light of the falling inflation expectations, the European Central Bank (ECB) lowered its key interest rates to record lows – the main refinancing operations rate was reduced to 0.05% and the corridor of overnight rates to -0.2% and 0.3%. The European Central Bank also implemented other measures aimed at reviving the Eurozone, such as targeted longer-term refinancing operations and purchases of asset-backed securities (ABS). The ECB extended its purchase programme towards a full-scale quantitative easing in January 2015. The programme extension builds on existing ABS and covered bonds programmes and is intended to last at least until end-September 2016. Purchases of private and public bonds should amount to €60 billion a month. The move did not come as a surprise and it was already calculated into the market expectations. As a result of the anticipated announcement and the actual move of ECB, yields on German and Slovak government bonds fell to record lows.

Domestic demand should continue to drive growth

In 2015, the Slovak economy should maintain its growth rate at around 2.5%, supported again mostly by domestic demand. Whether the current growth can be sustained will depend on the resurgence of demand for Slovak exports. A helping hand in this regard should come from the weaker euro against the US dollar. Low oil prices pose a positive risk to the expected Slovak economic growth rate. Negative risks remain the geopolitical tension in Ukraine and the persistent, relatively sluggish growth in the euro area, Slovakia's main trading partner.

Slovakia out of the excessive deficit procedure

In 2013, the public deficit fell below 3% of GDP, allowing Slovakia to leave the Excessive deficit procedure. The fiscal deficit in 2014 could end up at around 2.9% of GDP. The 2015 budget foresees a small decrease in the fiscal deficit to 2.5% of GDP.

The measures aimed at reducing the budget deficit include leaving the VAT at 20% (instead of the originally planned return to the 19% level), changes in the rules for writing off assets for tax purposes, steps aimed at better tax collection and the ongoing reform of public administration. On the other hand, the government has concurrently implemented measures increasing expenditure, such as lower social contributions for low-income groups and higher wages for teachers. Therefore in the end, the deficit is expected to fall only slightly against its 2014 value.

Management report on the Bank's activities in 2014
Data taken from the consolidated financial statements

REVIEW OF FINANCIAL RESULTS

- **Slovenská sporiteľňa in 2014 achieved a consolidated net profit of €182.1 million, representing a slight decrease of €2.8 million against a year earlier**
- **Total assets increased by 11% to almost €13 billion, mainly due to higher volume of customer business**
- **The total lending to customers rose by 13% in 2014**
- **The volume of client deposits increased by 6%**
- **The loan-to-deposit ratio stood at 83.6%, confirming the Bank's stable liquidity position and creating foundations for future growth**
- **The cost-income ratio rose from 42.8% in 2013 to 44.5% in 2014, primarily due to the reintroduction of the Deposit Protection Fund (DPF) levy and the rise in personnel expenses**
- **Net interest revenue rose by €16 million, thanks to higher volume of loans to customers; with a positive impact also due to the decrease in interest rates on deposits, related to the change in the structure in favour of current and savings accounts as opposed to term deposits**
- **Fee and commission income rose by almost €6 million against 2013, largely due to changes of fees at current and giro accounts, and also thanks to growth in the sale of mutual funds, insurance products and higher number of customer transactions**
- **General operating costs increased by 6.9%, mainly due to the reintroduction of the DPF levy. Without this effect, the increase would have been 3.5%**
- **Other operating result was influenced primarily by the bank levy, which, however, fell by €9.7 million to €31.5 million. This positive impact was almost completely offset by the reintroduction of the DPF levy amounting to €8.9 million**
- **The increase in provisioning was a result of the strong growth of the loan portfolio and prudent approach to credit risk management**

Strong growth in lending

Slovenská sporiteľňa's total assets reached almost €13 billion at the end of 2014, representing strong growth of 11% (€1.3 billion) against a year earlier. This represented 21% market share (based on standalone figures). This growth results primarily from strong growth in customer business. The volume of loans to customers grew at a stronger pace than in previous years. Loans to customers rose by 13% (924 million), primarily due to retail lending, which rose by 17%. The volume of lending to corporate customers, including the public sector, remained almost at the same level as in 2013 (€2.3 billion)*. The total volume of loans to customers reached almost €8.1 billion, constituting 62% of total assets.

The securities portfolio totalled €3.8 billion at the end of 2014. Securities held to maturity formed a 68% share. Over the course of 2014, almost all investments were purchases of Slovak government bonds, assigned mainly to the available-for-sale portfolio, which increased by €360 million over the year.

The slight fall in non-tangible assets to €90 million is primarily linked to the depreciation of the bank information system. The decrease in the volume of tangible assets was mainly due to gradual depreciation, revaluation and sales of individual tangible assets.

Over the year, the volume of total customer deposits grew by 6.3% (by €576 million) to €9.7 billion, in large part due to retail deposits, where the Bank recorded growth of 5.4%* (€403 million)*. This growth was largely due to increased volumes on current and giro accounts, as well as saving accounts. On the contrary, the Bank recorded a decrease on term deposits and passbooks.

In 2014, the Bank also succeeded in raising the volume of deposits from corporate customers and the public sector, by €193 million to almost €1.8 billion. The ratio of net loans to deposits stood at 83.6% at the end of 2014 (compared to 82.6% in 2013). The Bank's liquidity position is stable and creates conditions for further growth in lending to customers.

Slovenská sporiteľňa recorded a €316 million increase in deposits from banks, particularly from the parent company, as an additional source of financing. In 2014, the Bank issued debt securities in the total volume of almost €370 million; of which mortgage covered bonds amounted to €243 million. The rest were bonds and investment certificates. The Bank's equity remained virtually unchanged at €1.3 billion.

Net interest income rose, while interest margin fell

Slovenská sporiteľňa's net interest revenue rose by €16 million (3.6%) against a year earlier to €464 million. The Bank achieved this growth in particular due to continuing growth of lending, alongside lower interest rates on deposit products. A shift in the structure of deposit products, in favour of current and giro accounts and away from term deposits, also contributed to the higher net interest income. The Bank achieved significant growth in net interest income despite historically low market interest rates and strong pressure on loan margins, both for newly granted and refinancing.

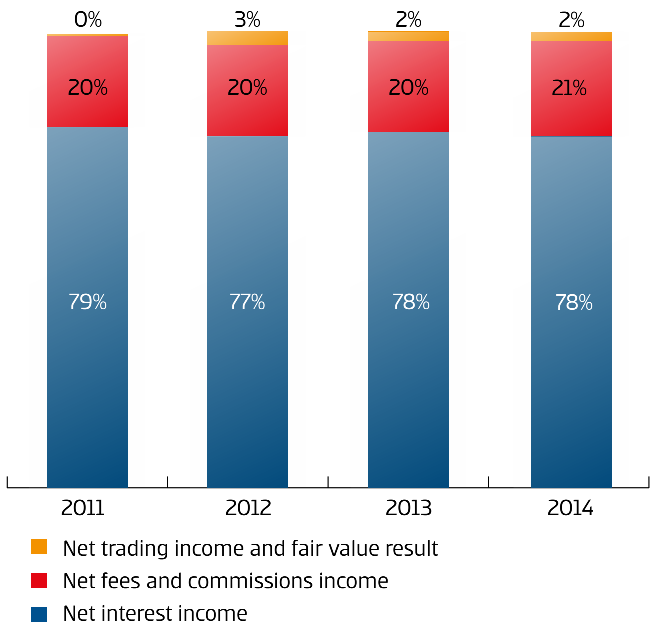
With excess liquidity in the banking sector, the year 2014 brought intense competition among the banks, particularly in loans. As a consequence, interest income was almost €4 million lower than in 2013. Interest income from securities grew slightly by €6.4 million, despite lower yields on newly acquired government bonds in 2014.

The fall in interest costs on the liabilities side by almost €20 million was attributable in large part to the fall in interest rates on term deposits and savings accounts. A change in the structure of deposits in favour of current and giro accounts also played a role. The share of net interest income to total operating income remained almost unchanged at 78% in 2014, though the net interest margin fell by 20 basis points against 2013 to 4.0%. The fall in interest margins was noticeable particularly on the loan side, due to more intense competition.

The Bank invested surplus liquidity mostly into short-term interbank assets within the Erste Group, as well as into Slovak government bonds. The Bank's transparent and responsible pricing policy, growing volumes of loans and deposits, as well as efficient liquidity management are creating the right conditions for growth in net interest income in the near future.

** Data are from internal sources according to business lines.*

Income structure

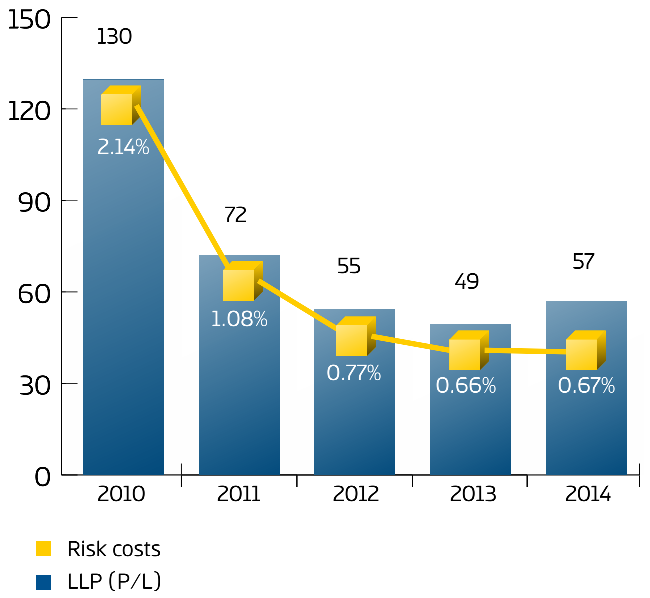


Growth in fee revenues, net trading income decreased

Net fee and commission income rose over the year by 5.1% to more than €123 million, benefiting particularly from changes of fees on current and giro accounts, as well as higher sales of funds and insurance products. The fall in loan maintenance fees compared to last year was due to regulation from mid-2013, and was partially offset by higher commission income from new and refinancing loans. In 2014, the Bank also recorded growth in fees for payments and card fees, will which rose by €2.5 million. In the contrary, the volume of fees from penalties went down by almost €0.6 million. A positive impact on fee and commission income came from increased fees for securities transactions, up by more than €0.4 million. The Bank's share of net commission and fee income to total operating income increased slightly from 20% in 2013 to 21% in 2014.

Net income from trading and from the revaluation of financial assets and liabilities at fair value fell against a year earlier by €2 million to €9.6 million. The main reason for the fall in trading income was the negative revaluation of derivatives in line with the IFRS methodology (CVA/DVA – credit / debit value adjustment) in connection to the hedging of derivative transactions with the parent company in the volume of €1.9 million. An additional reason was that profit transfer from Erste Group trading was €0.5 million lower than in 2013. On the other hand, income from the revaluation of financial assets and liabilities at fair value rose by €2.2 million against a year earlier, partly due to the positive revaluation of the portfolio priced at fair value (in particular Sporo realitný fond).

Provisioning and risk costs

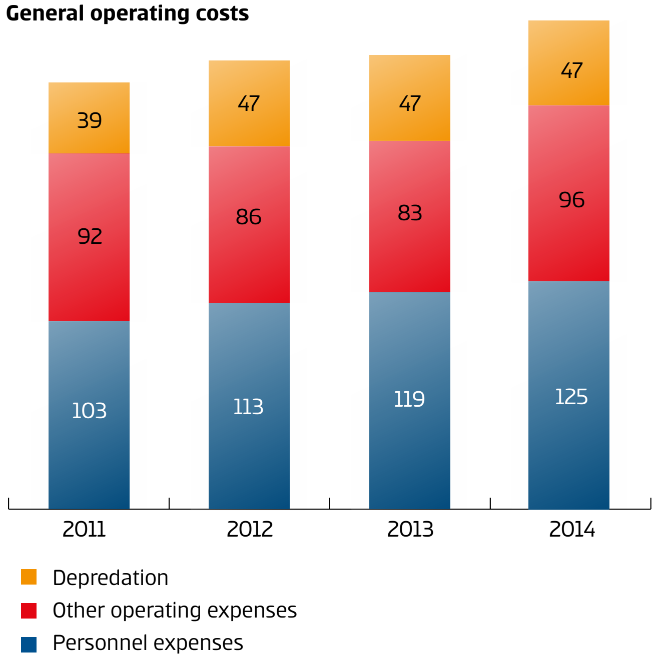


Growth in costs due to Deposit Protection Fund levy

General administrative expenses rose against a year earlier by 6.9% to €267.8 million. The main reason for this increase was the reintroduction of the Deposit Protection Fund levy with a negative impact on costs in the amount of €8.9 million. Payments for group services within the Erste Group, in the volume of €2 million, also played a role. Excellent business results, as well as the increased volume and amount of business with customers, also led to higher wage costs, which rose by 5.2% in 2014. If these costs were not included, the year-on-year growth in general administrative expenses would be 2.5%. Despite the slightly higher cost growth in 2014, the Bank is continuously working to streamline processes with an emphasis on strict and responsible cost management.

Compared to 2013, the operating result increased by €2.3 million (by 0.7%) to €333.8 million.

General operating costs



Stable development of risk costs

The other operating result was affected mostly by the bank levy, which amounted to €31.5 million in 2014. In 2014, the cumulative levy for the banking sector as a whole reached the first level defined in the law. As a result, the levy was €9.7 million lower than in 2013.

In 2014, Slovenská sporiteľňa's risk costs amounted to 0.67%, reflecting stable development in comparison with 2013. Net provisioning of €57.4 million was 16% higher than in 2013. However, the increase corresponds to the growth in the Bank's loan portfolio. Risk costs decreased in the retail and corporate segments. In contrast, significant provisioning of €17.3 million was made in the real estate sector, as several customers with large credit exposures defaulted over the course of the year.

Return on equity almost 15%

The pre-tax profit of Slovenská sporiteľňa stood at €239.5 million in 2014. The Bank achieved almost the same pre-tax profit as in 2013. Despite, the income tax increased almost by €3 million against a year earlier. The main reason was the one-off effect of a change in the tax assessment of provisions in 2013. The overall effective income tax rate was 23.7% in 2014 (compared to 22.5% in 2013).

In 2014, The Bank's consolidated net profit was slightly down by €2.8 million to €182.1 million. The main reasons include higher provisioning, which was connected to the strong growth in the loan portfolio, the reintroduction of the Deposit Protection Fund levy, as well as the intensified competitive pressure on margins in new and refinancing loans.

In 2014, return on equity stood at 14.5% (compared to 15.1% in 2013).

CUSTOMER CARE AND SERVICE QUALITY

- **Slovenská sporiteľňa cares about its clients**
- **Third time in a row the Bank of the year according to the weekly Trend**

Slovenská sporiteľňa listens to what its clients have to say

Slovenská sporiteľňa seeks to provide services and products that are in line with the Bank's values and which make sense for the client. Moreover, the Bank wants to provide value that clients expect.

Both the client experience and feedback are essential in the process of increasing the quality of products, services and processes. Thus, besides the main financial indicators, the Bank has included also a number of the key indicators evaluating the client experience.

During of 2014, the Bank supported staff motivation in this field. The favourable results of selected indicators reflect the involvement of branch staff, their managers as well as the company's top management. Service quality is measured by the quality index, expressing the results of clients' direct feedback and also the reliability in processing their requirements.

Inputs coming from the clients of Slovenská sporiteľňa also represent a valuable source of inspiration for further development. The Bank appreciates every input coming from its clients, irrespective of whether they are given in person at a branch, via a contact centre or in another manner. The Bank analyses the causes for negative client experience and strives to eliminate them as soon as possible. Selected inputs are brought to the attention of the ombudsman for Slovenská sporiteľňa, with whom a personal meeting may be arranged.

Owing also to these activities, Slovenská sporiteľňa has achieved excellent results in the field of client satisfaction and loyalty.

Slovenská sporiteľňa received prestigious awards at home and abroad

As in previous years, in 2014, several major awards, from both national and international institutions, were awarded to Slovenská sporiteľňa. For the third year in a row, the Bank won the most prestigious banking award in Slovakia – TREND TOP Bank of the Year 2014, by a wide margin over other banks.

The prestigious British journal The Banker, which belongs to The Financial Times group, named Slovenská sporiteľňa Bank of the Year 2014 in Slovakia. This award is one of the most respected indices of global banking and is considered an internationally recognised indicator of a bank's health, strength and profitability. It was the third year in a row that Slovenská sporiteľňa has received this award, and for the fourth time it won the Best Bank in Slovakia - Euromoney 2014 Awards for Excellence, from the British financial magazine Euromoney.

RETAIL SERVICES

- **Strengthened position in retail lending**
- **The Bank helped clients with property valuation and cadastre**
- **Saving account the most successful deposit product**

Slovenská sporiteľňa again the leader in housing loans

In 2014, Slovenská sporiteľňa strengthened its leading position in the mortgage lending market. Over the year it provided new housing loans and mortgage loans for young people in the total volume of about €1.45 billion, representing a more than 40% increase against 2013. As a result, the Bank increased its market share both in housing and retail loans.

Clients showed particular preference for the 5-year interest-rate fixation period, which was the choice of almost 90% of clients. The average loan maturity remained mostly unchanged compared to 2013, while clients applied for higher loans on average. The volume of an average new loan increased, reaching almost €50,000 in 2014. The growth in the volume and quantity of housing loans was encouraged by low interest rates, favourable real estate prices, stabilisation of the economy and favourable developments in labour market.

Easier path to new home

In spring, the Bank successfully introduced a new service saving clients time and money. For each new client taking a housing loan the Bank pays the costs for the property valuation prepared by a contracted valuation expert. Moreover, the Bank arranges and pays the costs for the registration of the mortgage at the cadastre. Thus, clients can save more than €200 in costs related to housing loan.

In 2014, the Bank continued to provide services that had proven successful, such as loan insurance and property insurance. Clients were able to obtain these quickly and easily at any Bank branch. Moreover, thanks to the loyalty scheme, clients could receive a preferential interest rate on their housing loan of up to 0.7 percentage points compared to the standard rate. The loyalty scheme is linked to client's usage of his current account and to loan insurance.

In the second half of 2014, the Bank increased the share of outstanding principal that can be repaid early without incurring a penalty fee outside of the re-fixation period. As of now, 20% of outstanding principal can be repaid early free of charge once a year. The rate increased from 10% applied previously.

Consumer loans successful in 2014

Slovenská sporiteľňa confirmed its leading market position also in the consumer loan segment. In 2014, the Bank provided new consumer loans amounting to almost €880 million. The average loan maturity increased to almost 7 years. The average volume of a new consumer loan increased as well.

In 2014, clients could benefit from combining several loans into one. Thanks to a quick and simple consolidation, not only could the clients get some extra money, but more importantly, they could also get a single lower instalment, thus simplifying the management of their monthly expenditures. Last year, the Bank also increased the efficiency of its procedures in order to facilitate and streamline the repayment of loans at other banks.

Besides traditional branch sales, Slovenská sporiteľňa also promoted alternative sales channels aiming to provide a quality product or service in a different form.

As in the case of housing loans, the loyalty scheme allowed clients to obtain consumer loans at better interest rates. For remitting their income and for loan insurance, clients got up to 2 percentage point reduction in the interest rate on new consumer loans. Consumer loan provision, administration of the loan account, early repayment as well as partial repayment was all free of charge.

Slovenská sporiteľňa remains the leader in retail deposits

Slovenská sporiteľňa retained the market leader position also in retail deposits with 26% market share. As in 2013, saving account was again the most successful deposit product in 2014. Clients were mostly interested in savings linked to the current account, which offered preferential interest rates. This product was used by almost half of the clients that have personal accounts. Compared to 2013, funds on saving accounts rose by €260 million and exceeded €1 billion.

Personal account with new benefits

The most popular current account at Slovenská sporiteľňa is the Personal Account. Its popularity stems, in a large part, from the loyalty scheme.

The most attractive benefit for the client is the 0.5 percent moneyback for card payments. This way, clients saved on average €15 a year on purchases by payment cards. Since December 2014, the Bank has been offering a new reward scheme for clients, in which up to 10% of the payment at selected merchants is returned back to the client. All the client has to do is to register at www.odmenaplus.sk and get another bonus when paying by a card. The bonus is credited to the client's account.

Clients with at least €10,000 savings at Slovenská sporiteľňa have their Personal Accounts free of charge. Furthermore, clients remitting their income to Slovenská sporiteľňa receive favourable rates on both savings and term deposits as well as lower repayment instalments on loans. An average client with a loan can thus annually make a saving of roughly one monthly installment.

Credit card with an unusual concept

Slovenská sporiteľňa had a successful year in the sale of credit cards, issuing 55,000 units over the course of 2014. The most popular credit card product was 'Štedrá karta' ('Generous Card'), which the Bank promoted also via a television campaign. Helped by the campaign, the volume of credit card transactions increased significantly by 70% to almost €140 million.

The difference between "Štedrá karta" and products offered by the competitors is in the way that clients pay for the money they have borrowed. The Bank's clients do not pay in the form of interest payment, but they pay a convenience fee instead, which is applied when the client uses the credit feature of the card. Clients know in advance the exact amount they are going to pay each month, which makes the product transparent for the client. The card offers additional benefits to encourage its use. These include 1% moneyback from the value of purchases , loyalty scheme Sphere and purchase insurance.

Bank for young people

From June to October, Slovenská sporiteľňa succeeded in acquiring 18,000 young clients, in part thanks to the Space Account campaign. The Bank offered young people the possibility to compete for discounts on flight tickets and for the reconstruction of a student dormitory room worth €10,000. Furthermore, Slovenská sporiteľňa financed the reconstruction of library of University of Economics in Bratislava.

Private banking portfolio grew

The product range of Slovenská sporiteľňa is supplemented by Erste Private Banking, which saw its portfolio under management grow by almost 15% in 2014. Sources outside the Bank contributed to this growth by more than 80%.

The actively managed portfolio service, provided solely to Erste Private Banking clients, remained unique in the market. In 2014, the volume of investments in actively managed portfolios almost doubled.

Over the past year the Bank brokered several attractive investment opportunities. A good example of the Bank's success was the offer of the subordinated bond of Erste Group Bank, which was sold out in three tranches. In 2014, investment certificates with 1-year maturity and an attractive yield became popular. The underlying asset of the investment certificates consisted of the securities of companies such as Erste Group Bank AG, ČEZ, etc.

In 2014, the Bank introduced a new service for clients of private banking, the gold custody in the Bank's central vault.

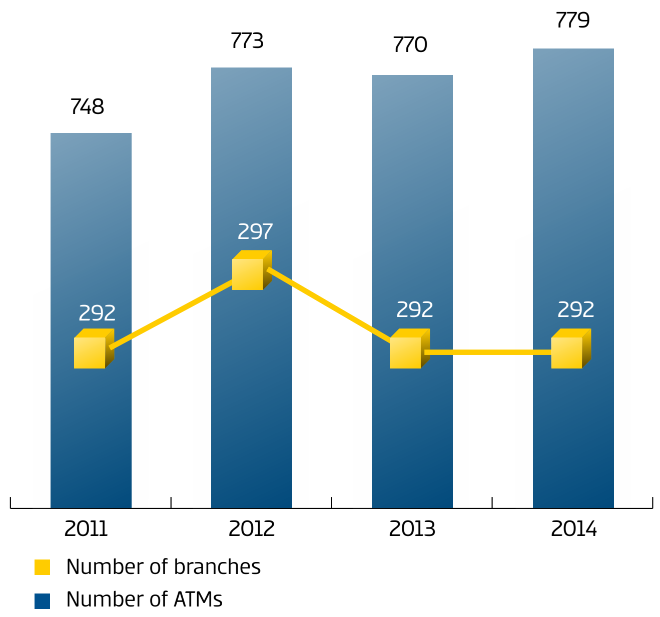
DISTRIBUTION NETWORK

- **The Bank continues to upgrade its branch network**
- **Digital channels increasingly popular**
- **Number of payments via POS terminals rose by a quarter**

Branch upgrades continue

Slovenská sporiteľňa, with 292 branches and 779 ATMs, has the largest banking distribution network in Slovakia. In 2014, it opened 3 new branches, relocated 4 to new premises and upgraded a further 13. Over the past year the Bank focused more on upgrading existing branches than opening new ones.

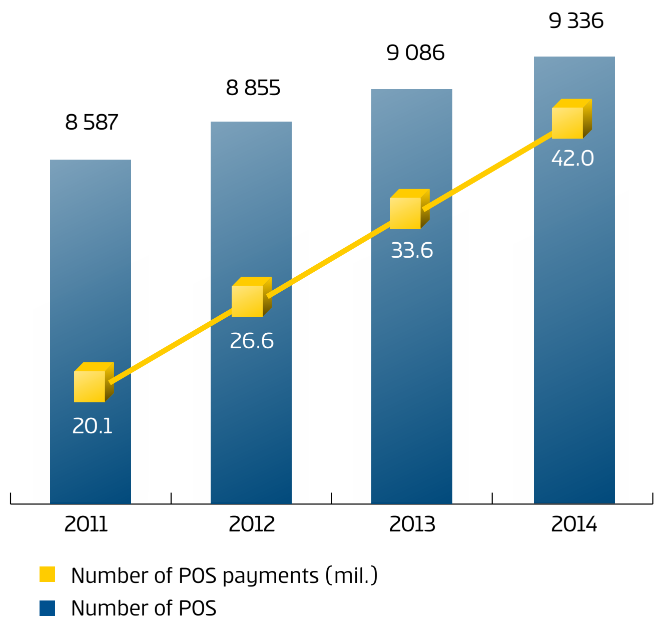
Branch upgrades continue



Significant rise in transactions made via POS terminals

In 2014, Slovenská sporiteľňa operated 9,336 POS terminals, representing an increase of 2.7% against a year earlier. The number of transactions made via POS terminals reached 42 million, up a quarter against a year earlier. Payment volumes increased by 14% to reach almost one billion euros. Clients are increasingly using POS terminals also for small payments. Compared to 2013, the average transaction decreased by more than €2 to €23. In a large part, this was due to the fact that almost 60% of Slovenská sporiteľňa POS terminals now enable contactless cards.

Number of payments via POS terminals rose by a quarter



Almost all payment cards are now contactless

At the end of 2014, Slovenská sporiteľňa's clients held more than 1.32 million cards, making it the leader among card issuers in Slovakia. Clients made 111 million card transactions, representing a year-on-year growth of 17%. The volume of transactions also increased, reaching nearly €5.8 billion, up 8% against a year earlier. The Bank continued in issuing contactless cards. By the end of the year, almost 97% of cards were contactless (compared to two thirds a year earlier). .

Higher sales via electronic channels

Slovenská sporiteľňa continued to refine products and services provided through electronic banking.

In 2014, The Bank focused on the sales through electronic channels, gradually simplifying web sales forms. Slovenská sporiteľňa also focused on optimising the user interface and more efficient communication in the internet banking environment. These steps led to a considerable rise in the sale of products through internet banking. Compared to 2013, the number of requests for new products or services received per month increased more than tenfold, suggesting that Slovenská sporiteľňa's clients are ready and willing to purchase new products electronically.

Number of mobile payments up significantly

The number of internet banking users has increased to 872,000. More than one tenth of these had one of Slovenská sporiteľňa's mobile applications installed on their smartphones. The number of payments made through mobile banking has grown by more than 130% on a year-on-year basis. Moreover, clients used this payment channel with increasing frequency also to make payments among themselves. This was one of the reasons why the Bank launched the mobile application Pay-to-mobile. The application enables clients to pay money between friends in a manner that is as simple as making a call. Instead of putting an account number, the client can simply choose a contact from the smartphone call list and the Bank will arrange the rest.

In 2014, Slovenská sporiteľňa, in cooperation with the MasterCard company, also offered a mobile wallet in the form of the MasterCard Mobile application. After a simple and secure registration of a payment card, the application facilitates single click and QR code payments at internet shops.

Communication with clients also through alternative channels

In 2014, Slovenská sporiteľňa's clients were able to communicate with the Bank also via alternative channels, such as SporoChat, SporoCall and Skype. In this manner, the Bank seeks to accommodate clients' preferences and enables them to save time and money.

CORPORATE BANKING

- **Strengthening of market position in corporate banking**
- **The Bank participated almost in all major transactions in the market**
- **Strategic partner for the public sector**

Stronger position in the corporate segment

In 2014, Slovenská sporiteľňa succeeded in strengthening its market position in the corporate banking. The Bank managed to slightly increase its market share in loans to corporates and municipalities to 12%. The bank's market share increased to 11.5% on the deposits side.

In 2014, Slovenská sporiteľňa was involved almost in all important transactions made in the market. Moreover, the Bank increased the profitability of the transaction products and services offered to corporate clients.

Active business policy for small and medium-sized enterprises

Slovenská sporiteľňa considers small and medium-size enterprises (SME) with an annual turnover of between €1 million and €75 million to be important clients for the Bank. This segment is served through the Bank's eight regional centres and additional eight corporate centres located in smaller towns.

The 2014 was a successful year for the Bank in the SME segment. Slovenská sporiteľňa continued in steps toward fulfilling its strategy to be "the bank of the first choice" for corporate clients. Due to its active business policy, the number of the Bank's active clients has increased, which has also been reflected in the year-on-year rise in profit from loans, deposits, trade financing and factoring. Likewise, the number and volume of payment transactions has grown by 8%.

In 2014, the number of SME cliencts reached almost 4200. The outstanding volume of loans provided to the SME segment stood at €779 million and the volume of deposits reached €353 million at the end of 2014. The share of long-term instalment loans to total loans provided to SMEs increased last year, forming 20% of the newly provided loans to the SME in 2014.

Easier access to loans for small companies

Slovenská sporiteľňa sees potential for development particularly in the segment of small clients (turnover €1–3 million). It aims to provide this segment with easier access to the financing. The Bank launched a loan up to €150,000, where it uses the publicly available information and does not require any additional information from clients.

Slovenská sporiteľňa expanded its service range offering new services related to monitoring of credit relationships with its client as well as valuation of a property that serves as collateral.

Participation in European programmes for corporate clients

Slovenská sporiteľňa participated in several programmes for corporate clients:

CEB – programme "Protection of the Environment/Housing Sector Energy Efficiency":
The Bank continued to cooperate with the Council of Europe Development Bank (CEB) under the programme for the promotion of the projects related to housing sector energy efficiency. Loans from the CEB's credit line are intended for apartment buildings under the management of apartment and non-residential premises owners' associations or administrators, and should support housing sector energy efficiency projects.

EIB – programme "EIB Loan for SMEs, MidCaps and Other Priorities":
The Bank supports the financing of investment projects and makes available the required operating capital to support the business development in partnership with the European Investment Bank (EIB).

EIF – programme "JEREMIE First Loss Portfolio Guarantee":
The Bank entered into a first-loss portfolio guarantee contract with the European Investment Fund (EIF) and the Slovak Guarantee & Development Fund, focused on implementation of the JEREMIE Initiative First Loss Portfolio Guarantee for supporting SMEs in Slovakia. It is based on the idea of the reduction of required loan collateral and reduction of the interest, while the EIF covers part of the credit risk.

EBRD – programme SLOVSEFF:
The Bank has extended its cooperation with the European Bank for Reconstruction and Development (EBRD) by a further €35 million. Loans from the credit line should support energy efficiency and renewable energy sources projects at municipalities (€20 million) as well as energy efficiency in residential buildings (€15 million).

Major market position in the large corporate clients segment

Slovenská sporiteľňa confirmed its major position in the segment of large corporate clients in 2014. Due to its active business policy, the Bank was involved in almost all major structured credit transactions thus strengthening its position in the loan segment. The Bank focused on providing transaction banking products, particularly factoring, actively. Moreover, the Bank significantly increased its activities in club and syndicated financing.

In 2014, Slovenská sporiteľňa served more than 300 large corporate clients. The volume of loans granted to them increased by €72 million compared to 2013, representing a year-on-year increase of 12.5%.

The improvement in the market position was also due to higher volumes and numbers of payment transactions, as well as higher term deposit volumes.

An important part of revenues was due to deposit products and other transaction banking products and services, greatly improving the credit and non-credit revenue indicator.

Over the course of 2014, the Bank focused on expanding the services it provides to corporate clients also in other countries where Erste Group operates.

Conservative approach to risk in real-estate financing

The volume of real estate loan portfolio continued to decline. The decline was due to the persistent low number and volume of new transactions in the real estate market, and also due to planned repayments of existing loans. In 2014, the majority of new loan agreements were for offices in Bratislava, and to a lesser extent also for residential projects in Bratislava and Košice as well as for business premises in various locations throughout Slovakia.

Strategic partner for the public sector

In 2014, Slovenská sporiteľňa was again a strategic partner for clients from the public and non-profit sectors. The outstanding volume of loans provided to this segment stood at €482 million and the volume of deposits reached €126 million at the end of 2014. For a number of years, this sector has been known for the absence of non-performing loans.

The Bank continued to pursue close cooperation with the Association of Towns and Municipalities in Slovakia, bringing together more than 92% of Slovak towns and villages, as well as with other professional organisations. As a consequence, the number of new clients almost doubled compared to 2013. In 2014, the Bank's market share in loans for municipalities increased substantially.

Representatives of the Bank regularly attend working groups with the aim of raising mutual information and knowledge in the field of legal awareness, economic relations and risk prevention at local and municipal authorities. There is also a high level of cooperation with professional organisations of towns and municipalities, such as the Association of Municipal Finance Officers, Association of Heads of Local Government Authorities and Association of Principal Controllers of the SR.

FINANCIAL MARKETS

- **Greater volume of debt securities issued**

A successful year in issuing debt securities

The 2014 was historically one of the most successful years for Slovenská sporiteľňa in new debt securities issuance, both in the total volume issued and in the financing terms agreed. The Bank issued debt securities for institutional and retail clients in the total value of nearly €370 million in 2014, of which two thirds were mortgage-backed securities. Moreover, Slovenská sporiteľňa actively participated as lead manager in the 15-year syndicated issue of government bonds in the total volume of €1.5 billion as well as in the 5-year issue of secured bonds by HB Reavis in the total value of €30 million.

PAYMENTS AND TRANSACTIONS

- **SEPA implementation continues**
- **The Bank maintains its leading position in transactions**

Changeover to SEPA in its last phase

Slovenská sporiteľňa has continued in implementing SEPA payment instruments, in particular in the field of SEPA direct debit collections. It has also begun preparations for the last milestone in its changeover to SEPA - exclusive use of the IBAN account number in domestic payments.

February 2014 was the final deadline for the implementation of uniform conditions for processing payments to the euro area countries. With regard to payments, the Bank implemented the uniform conditions already in July 2013, whilst in the case of direct debit collections, these were introduced in February 2014. The changeover took place without any substantial interruptions or significant impact on clients. The SEPA direct debit collections were made available both for retail customers and corporate clients.

The Bank has maintained its dominant position in the Slovak interbank transactions. Slovenská sporiteľňa's share was 21% of all transactions processed at the market.

The significant majority of payment orders are made via electronic banking services. Of the total amount of 35 million payment orders, 94% were made electronically.

In 2014 the Bank's clients made almost 41 million cash transactions in the total volume of €11.3 billion, representing a 2% growth against the last year. Of these, 90% were withdrawals. Slovenská sporiteľňa's customers made withdrawals of €3.9 billion through ATMs, representing an increase against a year earlier by almost 4%. Foreign-currency cash transactions amounted to the equivalent of €113 million and grew by 5% on a year-on-year basis.

In 2014, the Bank processed more than 54 million banknotes and 45 million coins.

Innovations in payments

In electronic banking, Slovenská sporiteľňa greatly streamlined and accelerated payments.

In 2014, the Bank successfully changed over to the single SEPA system ahead of schedule. As the changeover was demanding, the Bank also helped its clients. In cooperation with an important direct debit collector the Bank made the historically first changeover to the SEPA direct debit collection in the Slovak market.

Last year the Bank also tried to make payment services more attractive and introduced further benefits when making transactions among banks belonging to the Erste Group – there is no surcharge for payments made under the payment condition OUR within the Erste Group.

Furthermore, Slovenská sporiteľňa implemented FIT 2.0 – payments made in euros which, under certain conditions, are carried out on the same day without the urgency surcharge.

RISK MANAGEMENT

- **The Bank successfully passed the ECB comprehensive assessment**
- **Capital adequacy in 2014 decreased from 25.2% to 19.9%**
- **Implementation of a new definition of a non-performing loan based on the EBA methodology**

Risk management principles

Effective risk management is one of the basic pillars of the success of business operations of Slovenská sporiteľňa. Therefore, the Bank has for many years striven to implement and improve processes for monitoring, evaluating and managing all important risks to which it is exposed. The most significant of these risks are credit risk, market risk, operational risk and liquidity risk.

The Bank's objective in the area of risk management is to be able to identify all important risks to which it is exposed, accurately estimate their possible adverse impact and to have procedures in place to effectively manage and control them. Risk management at Slovenská sporiteľňa is governed by the following basic principles:

- prudent approach to risk, emphasising long-term sustainability;
- risk management is independent of business lines to the greatest possible degree, is centralised, and has sufficient resources and powers to fulfil its roles;
- risk management is integrated; the overall risk profile reflects links between individual types of risk; and risk exposure is constantly managed with regard to the amount of capital available;
- the Bank does not enter into transactions, investments or products involving risks that it cannot assess or manage.

In 2014, the Bank redefined its binding Risk Appetite Statement, which is a set of indicators determining the Bank's target risk profile. This document was one of the defining starting points in creating the Bank's strategic business plan.

Based on the ECB requirement, the Bank carried out a comprehensive stress testing that included all important risks. The results are used in capital management (creation of a capital reserve for unexpected stress events) and in the Bank's strategic planning.

Excellent results in the ECB comprehensive assessment

Before taking over the supervision of Slovenská sporiteľňa on 4 November 2014, the European Central Bank (ECB) subjected the Bank to the comprehensive assessment. The exercise took place in the period from February to September 2014.

The first part was the Asset Quality Review (AQR). In it, the ECB also assessed whether the risk is sufficiently covered by provisions and capital. The key capital indicator Core Tier 1 ratio (CET 1), adjusted to accommodate the AQR results, reached 19.5%, which significantly exceeded the required threshold of 8%.

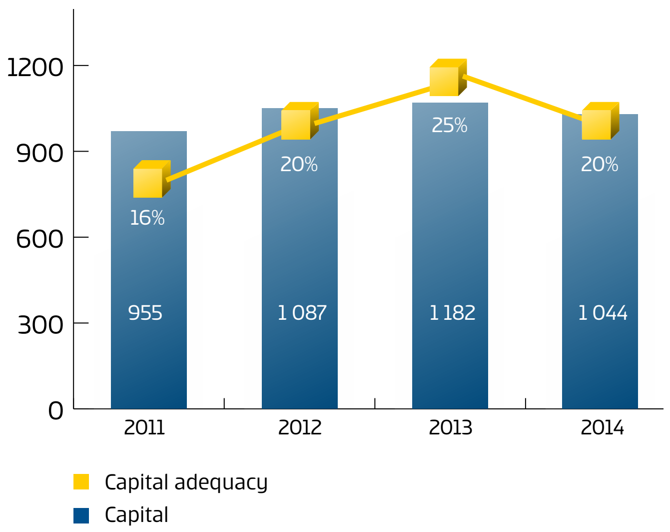
The second part of the comprehensive assessment involved stress tests, with the goal to estimate the shortfall of the Bank's own funds under different scenarios of economic development. The adjusted capital indicator CET 1, which evaluated the potential future impact of the baseline scenario over the horizon of three years, reached 19.9%, and was thus far above the ECB required limit of 8%. Under the adverse scenario, the Bank's CET 1 remained at 19.5%, likewise high above the regulator's requirement, which was set to 5.5%. Based on this indicator, Slovenská sporiteľňa ranked among the best euro area banks.

The results of the ECB's comprehensive assessment confirmed the Bank's financial stability and proved that there is no need for additional capital, even in the case of adverse shocks materializing at the market.

Decreased capital base

The Bank's consolidated capital adequacy decreased from 25.2% in 2013 to 19.9% in 2014. The key reason was the implementation of the Basel III requirement with an adverse impact on capital. Moreover, there was an increase in risk-weighted assets, in particular due to the considerable growth in the retail portfolio and estimated loss given default. Throughout the year, the Bank fulfilled the ECB's requirement to maintain capital adequacy of at least 11.7%.

Strong capital adequacy

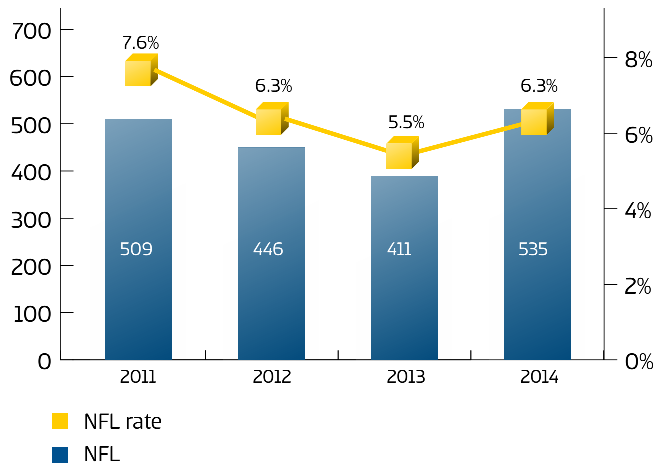


Share of non-performing loans increased

The Bank recorded an increase in the share of non-performing loans from 5.5% in 2013 to 6.3% in 2014. The increase was the result of a methodological change in the reporting of non-performing loans as well as the implementation of a new definition of a non-performing loan in Q3 2014. The new definition is in line with the EBA methodology. This methodological change affected mostly private clients. However, it did not affect the profitability of the Bank or the quality of the loan portfolio and no additional loan loss provisions were needed.

A prudent lending policy, prevention, more effective debt collection and regular write-offs and sale of non-performing loans had a positive impact in 2014. Provisioning worth €57.4 million in 2014 was higher than in previous year, owing mostly to a considerable increase in defaults in the real-estate financing.

Higher share of non-performing loans due to the new methodology



Non-performing retail loans up on new methodology, otherwise they would be down

The share of non-performing retail loans rose from 4.4% in 2013 to 5.3% in 2014. The rise was due to a change in the methodology for reporting non-performing loans, when the Bank switched from a product-based approach to a more conservative client-based approach.

According to the client-based approach, if a client has at least one credit product that is overdue more than 90 days or shows other signs of default, then all client's loans are treated as non-performing, including those that are being repaid in line with the schedule. Thus, indicators related to non-performing loans need not be comparable vis-a-vis previous periods or other banks. The reporting change was introduced as part of the harmonisation process in Erste Group. Ahead of schedule, the Bank also implemented new methodology for forborne exposures in line with EBA regulations.

If the non-performing loans were to be reported according to the previous method, there would have been a fall in non-performing loans in the retail segment in 2014. Despite the changes in the methodology, the volume of non-performing retail loans overdue by more than 90 days declined. The downward trend was achieved mostly through the regular sale of non-performing retail loans, continued outsourcing of the recovery of overdue loans (including loans backed by the real-estate and the pre-auction recovery of claims), initiation of voluntary auctions and favourable developments in the recovery of overdue loans.

Focus on low-risk groups

In 2014, Slovenská sporiteľňa successfully finished a project to improve its ability to assess the creditworthiness of clients with less intensive relationship with the Bank. This facilitated a significant increase in the client base that could be actively approached with pre-approved loan offers.

A substantial part of the growth of the loan portfolio came from the Bank's own clients. Here, Slovenská sporiteľňa used the advantage of its strong position in retail banking in Slovakia. Moreover, the Bank knows its clients well and is thus able to assess their risk profile more precisely.

Loans backed by the real estate were the driving force behind the loan portfolio growth. This portfolio is the most important within the retail segment, thus the Bank tests it carefully also for sensitivities to systemic risks. Another important contribution to growth in the credit portfolio came from consumer loans. The increase was to a large degree influenced by the ongoing market consolidation and the response of the Bank to current market trends. In the area of consumer loans, the share of own customers in newly-granted loans is greater than in the case of loans backed by the real estate.

More efficient real estate valuation

The Bank continued to develop the contractual collaboration with valuation experts. It focused on the quality and efficiency of the valuation process. The Bank organized certification trainings for contracted valuation experts. Furthermore, it expanded the web-based application through which electronic documents needed for the valuation may be exchanged. The application was also extended to include the corporate segment, thus enhancing and streamlining the whole lending process.

Among internal processes, the most significant change was the preparation of a new statistical model for property price revaluation.

Rise in the share of non-performing corporate loans

In corporate banking, the share of investment-grade loans increased, which was due to better quality of new loans.

The Bank adjusted the basic principles and policies for lending to each segment. The Early Warning System (EWS) plays an important role in this respect and thus is being constantly improved. Its main objective is to identify a potential problem at an early stage, allowing for a timely reaction. The attention of the EWS was focussed on prevention and on work with the standard portfolio.

The growth in the share of non-performing corporate loans from 7.3% in 2013 to 8.7% in 2014 was mostly due to the worsening of situation of several clients in the segment of real-estate financing.

Slovenská sporiteľňa recorded an increase in the volume of non-performing loans from €161 million in December 2013 to €192 million at the end of 2014. The Bank reports a year-on-year decrease in the number of clients overdue from 4.5% to 4.0%.

After the successful implementation of the automation of the credit process in retail, the Bank continued to strengthen the processes and monitoring also for the commercial real estate in order to increase the admissibility of this type of collateral. Furthermore, Slovenská sporiteľňa began preparations for a new comprehensive Collateral + Loss database to ensure the full integrity of the collected data.

The Bank intends to continue in steps already taken. The Bank puts an emphasis on prevention, good work with the non-performing loan portfolio, workflow configuration and expert specialisation.

HUMAN RESOURCES

- **Award for increased staff commitment**
- **Greater share of managers from within the company**

HR Gold 2014 prize for human resources

The main priority in human resources management for 2014 was communication and preparation for the implementation of new values of the Bank.

Slovenská sporiteľňa was awarded the prize "HR Gold 2014" for its human-resource project C*ontagious Humanity* or *How to Change Corporate Culture*. Within HR projects the jury took an interest in the Bank's initiative to promote corporate culture and increase engagement among staff members (Night Full of Inspirations; HydePark; Coffee with CEO for new employees; Banking with the Board of Directors, etc.).

In 2014, total staff fluctuation stood at 13%, with a voluntary fluctuation of 6%.

The men-to-women ratio was 49% to 51%.

Two thirds of new managers from within the Bank

The success rate of filling managerial positions from internal candidates increased. In 2014, two thirds of all managerial positions were filled by candidates from within Slovenská sporiteľňa's staff. Women held 57% managerial positions.

Within the branch network, a tool has been implemented for managing sales activities, providing both managers and sales staff with a comprehensive overview of the results obtained by employees. At the same time, it may be used for team development and to improve the quality of services provided.

Last year, also a tool which allows for a targeted verification of sales staff's knowledge and skills was implemented.

Alongside the training and certification of salesmen, 78% of retail network sales staff underwent training and examination with regard to individual product segments, as required under the Banks Act.

Slovenská sporiteľňa indroduced the basic principles of reward system

Through the Banking Act no. 483/2001 Z.z. as amended, provisions of the directive of European Parliament and Council No. 2013/36 /EU on approach to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the so-called CRD, were transposed to Slovak law. To comply with these, Slovenská sporiteľňa established the basic principles of reward system. The principles also take into account the risk management system, business strategy and long-term objectives of the Bank. The remuneration principles reflect the risk profile of the company as well as the measures to avoid conflicts of interest.

Supervisory Board Report

In performing its activities, the Supervisory Board of Slovenská sporiteľňa was governed by statutory provisions applicable in the Slovak Republic. It fulfilled tasks arising from the Bank's articles of association, made decisions on matters falling within its competence under the Bank's Competence Rules, governed by the Supervisory Board's internal rules of procedure.

In 2014, there were three regular meetings of the Supervisory Board and one vote per rollam. The Supervisory Board discussed and adopted a position on the separate and consolidated financial statements, the proposal for profit distribution and report of the Board of Directors on Business Activities and Assets. During the year, the Supervisory Board paid increased attention to the monitoring of Bank's risk management position, through regular quarterly reports submitted by the Board of Directors. At its meetings, the Supervisory Board discussed the Bank's internal audit report and, within its competence, approved its task plan. The Bank's Board of Directors regularly reported to the Supervisory Board about the business activities, fulfilment of the business plan, balance of the Company's assets, implementation of the Bank's major projects, participations and other matters related to the Company's development. Towards the end of the year, the Supervisory Board made personnel changes in the composition of the Board of Directors. Following the resignations of the Board Members, Jozef Síkela (Chairman of the Board) and Tomáš Salomon (Board Member), related to their appointment to new positions within the Erste Bank group, the Supervisory Board appointed Štefan Máj, effective from 1 January 2015, to take up the position of Chairman of the Board and CEO. Furthermore, the Supervisory Board has also acknowledged the resignation of the board members Herbert Juranek and Franz Hochstrasser. The process of electing new Supervisory Board members is currently underway.

During 2014, the Supervisory Board worked with the support of its advisory committees, namely the audit, credit, remuneration and nomination committees.

The Audit Committee of the Supervisory Board considered reports related to internal control, external audit of the Company's financial results and discussed the recommendations made in the external auditor's letter to the management. The Committee also discussed reports on the Bank's activities related to compliance and fraud. It also discussed implementation of the programme against money laundering and terrorism financing.

Decisions related to the Bank's lending business were made by the Credit Committee of the Supervisory Board. The decisions were made on an ad hoc basis and in accordance with the Bank's Competence Code.

The Supervisory Board's Remuneration Committee considered the remuneration principles of members of the Board of Directors as well as selected categories of employees. The primary focus was on the balancing of all risks related to the remuneration system so as to ensure long-term prudent management of the Company, its liquidity, capital, etc.

Effective from 1 January 2014, the Supervisory Board established a Nomination Committee, which addresses the personnel responsibilities of the Supervisory Board regarding the nomination of new members of the Bank's Board of Directors.

Over the course of 2014, the obligations of the members of the Supervisory Board were extended in accordance with the amendment to Act no. 483/2001 Coll. on banks (amendment in the wording of Act no. 213/2014 Coll.). The supervisory duties of the Supervisory Board were extended to include, among other things, supervision of adherence to remuneration principles and supervision of security and efficiency of the risk management.

The Supervisory Board discussed the audit of consolidated and separate balance sheets of Slovenská sporiteľňa as well as related profit and loss statement as of 31 December 2014. The audit was carried out by Ernst & Young Slovensko, s.r.o. in accordance with International Financial Reporting Standards as adopted by the European Union. The audit confirmed that the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2014. In the light of these facts, the Supervisory Board recommended the General Assembly to approve the Bank's financial statements for 2014, including the proposal for profit distribution for 2014.

Corporate governance report and statement of responsible persons

CORPORATE GOVERNANCE REPORT

Code of Corporate Governance

The management of Slovenská sporiteľňa fully recognises the importance of the Code of Corporate Governance. All decisions and measures are made in accordance with the Erste Group Code of Corporate Governance (hereinafter referred to as the "Code of Governance"). The Code of Governance is a key element of the corporate culture of Erste Group. Its principles and rules are strictly based on legally binding standards and the OECD Principles of Corporate Governance and the Austrian Code of Corporate Governance. As a member of the Erste Group, the Bank must abide to the Code of Governance. The Code of Governance is publicly available on the website www.erstegroup.com. Over the course of 2014, there were no deviations from the rules and principles contained in the Code of Governance. Slovenská sporiteľňa is a member of the Central European Corporate Governance Association. As an associate member it is committed to comply with the Code of Corporate Governance in Slovakia, which is available on the website of the Association www.cecga.org/sk.

The key principles of the effective and responsible corporate governance framework as well as the principles of transparency and disclosure are applied at levels in the Bank. They are applied towards Bank's shareholders as well as towards the clients and employees. Employees are informed about the Bank's strategy and results via a number of channels such as the roadshows of the Board of Directors, regular meetings, regional meetings, conferences as well as via internal communication channels, training programmes and meetings with managers. The responsibility of the Bank and its employees towards the clients, as well as towards each other, is the basis for strict compliance with the adopted rules and standards of the Global Compliance Code. The Bank applies a policy of zero tolerance towards any violation of the Code. The configuration, implementation and compliance with the Code were verified by a supervisory authority – the National Bank of Slovakia.

The supreme body of the Company is its General Assembly. It convenes at least once a year with the shareholder being present in person or through an authorised representative. The scope of competences of the General Assembly of Slovenská sporiteľňa's shareholders is governed by clause 6 of the Company's Articles of Association. Given the fact that Slovenská sporiteľňa has a sole shareholder, as the 100% shareholder it may exercise the competences of the General Assembly.

The Company's statutory body is the Board of Directors, comprising of five members. Board members are elected by the Supervisory Board. The Board of Directors performs its duties on the basis of and in compliance with the rules of procedure. Its duties and competences are defined in the Bank's Articles of Association, which are approved by the General Assembly.

Further information related to the provisions of Article 20 (7) of the Accounting Act is detailed in the Company's financial statements, which form an integral part of this Annual Report.

INTERNAL CONTROL SYSTEM

Slovenská sporiteľňa has clearly defined principles and standards of the internal control system. Effective internal control is the basis for sound risk management; it safeguards the Bank's assets, helps reduce or prevent the potential occurrence of serious errors or operational risk events, and helps to detect them in time of their occurence.

The internal control system has the following objectives:
- To prevent and detect errors and inefficient or unnecessary use of Bank's resources;
- To prevent and detect abuses and fraud;
- To improve the effectiveness and efficiency of banking operations;
- To improve the integrity, accuracy, timeliness and reliability of information;
- To raise the quality of record-keeping;
- To monitor compliance with laws, regulations and internal policies.

The Bank's Board of Directors is responsible for ensuring that an appropriate and efficient internal control system is implemented and that it is regularly monitored, evaluated and updated.

Managers at all levels are responsible for the implementation of and compliance with the internal control system within their organisational unit. Senior managers are responsible for internal control at the level of the executive, and may not delegate this responsibility.

The Bank's employees are responsible for their work and are governed by the principles of the internal control system. They perform their work in accordance with laws and internal guidelines of the Bank. Moreover, they comply with competences related to the approval and authorization for their work. Internal control is a part of their work and responsibilities. The results of each inspection are documented and responsible employees supervise the removal of any shortcoming found. They supervise the implementation of recommendations as well.

An independent component of the internal control system is the Internal Audit Division, which reports directly to the Bank's Supervisory Board. Internal Audit is fully independent of all Banks' activities. The independence is reflected in all stages of its work, particularly during identification and analysis of risks, the planning and preparation of audits, including the selection of review and evaluation methods, drafting and submission of audit reports, evaluation and follow-up of measures taken on the basis of the audit findings.

Internal audit provides independent and objective services by performing analyses and evaluations, issues opinions, information and recommendations, aimed at improving the processes of monitoring and evaluation of the adequacy and effectiveness of the Company's internal control system. Outsourced and insourced activities are also a subject to internal audit review and evaluation under local legislation.

STATEMENT OF RESPONSIBLE PERSONS

The responsible persons of Slovenská sporiteľňa, with its registered office at Tomášikova 48, 832 37 Bratislava, entered in the Commercial Register of District Court Bratislava I, section: Sa, file no.: 601/B, corporate registration no.: 00151653: Ing. Štefan Máj, Chairman of the Board of Directors and CEO, and Ing.Peter Krutil, Member of the Board of Directors and Deputy CEO, to the best of their knowledge hereby declare that the financial statements contained herein give a true and fair representation of assets, liabilities, financial situation and results of Slovenská sporiteľňa and companies consolidated by Slovenská sporiteľňa, and that this Annual Report represents a true and fair view of the development and results of Slovenská sporiteľňa's business operations and position, including the companies included in its consolidation for 2014, together with a description of the key risks and uncertainties it faces.

The organisation of the Company

General Assembly of Slovenská sporiteľňa

As the Bank's supreme body, the General Assembly has competence, inter alia, to amend the Articles of Association, decide on share capital increases or decreases, to elect or dismiss members of the Supervisory Board and other bodies stipulated in the Articles of Association (with the exception of the Supervisory Board members elected and dismissed by employees), to approve the Company's regular and extraordinary separate financial statements, to decide on the distribution of profits (or settlement of losses) and directors' pay, to decide to dismiss the Company or change its legal form, to have the Bank's shares removed from trading on the Stock Exchange, and to decide that the Bank will cease to be a public joint-stock company.

The Bank complies with statutory provisions related to the protection of shareholders' rights, with an emphasis on the timely disclosure of all relevant information on the state of the Company and in accordance with provisions on convening and managing of meetings of the General Assembly.

In 2014, one regular General Assembly was held and two decision of the sole shareholder were passed. The General Assembly approved the annual financial statements, the distribution of profit, as well as the Annual Report for 2013. At the same time, it approved Ernst & Young Slovakia, spol. s r.o. as the company auditor for 2014.

The Company's Articles of Association were updated in the decision of the sole shareholder, in accordance with the amendment to Act no. 483/2001 Coll. on banks (amended by Act no. 213/2014 Coll.), extending the capacity and competences of the Supervisory Board. The Supervisory Board was charged to supervise the compliance with remuneration principles and supervision of security and efficiency of the risk management. The General Assembly further extended the duties of the Board of Directors in risk management and appointed a new board member responsible for the risk management.

The updated Articles of Association also extended the competences of the remuneration committee, and amended the provisions on the Company's obligation to set up and maintain an efficient risk management system. The second decision of the sole shareholder was the decision to dismiss the 100% subsidiary Factoring Slovenskej sporiteľne, a.s. without liquidation by merging it with Slovenská sporiteľňa.

All information on the General Assembly's activities, its competences, a description of shareholders' rights and the procedure for their application are set out in the Company's Articles of Association. The full text is available at the Bank's headquarters and also on its website.

Supervisory Board

The Supervisory Board is the Bank's supreme supervisory body. The Supervisory Board has 6 members. Two-thirds of its members are elected by the General Assembly and one-third by employees of the Bank. Each member is appointed for five-year tenure. Membership on the Supervisory Board may not be deputised. The Supervisory Board oversees the Board of Directors as well as the Bank's business operations. Meetings are usually held on a quarterly basis. The competences of the Supervisory Board include, in particular, supervising compliance with generally binding legal regulations, compliance with the Bank's Articles of Association and the General Assembly's decisions, examining the Bank's financial statements and proposals for profit distribution or settlement of losses. The Supervisory Board regularly examines the report on the state of the Bank's business and balance of its assets, the Bank's risk management situation, the report on the remuneration system. It submits its opinions, recommendations and proposals for decisions to the General Assembly and Board of Directors, and assesses information from the Board of Directors regarding the Bank's key business objectives. It pre-approves the establishment of legal entities by the Bank, the appointment of the Internal Audit Division Director, elects members of the Board of Directors and its Chairman. The Supervisory Board regularly submits reports to the General Assembly to inform it of its activities.
The Supervisory Board may establish committees and set the scope of their activities. Operating in accordance with the Bank's rules of corporate governance, there are currently the following committees:

Audit Committee
The Audit Committee oversees the financial reporting process, the effectiveness of the internal control system (including IT security), compliance with statutory requirements, the effectiveness of risk management, internal audit activities. Moreover, it analyses recommendations made by external and internal auditors. Based on a proposal by the Board of Directors, it recommends an external auditor for the Company to the General Assembly. In accordance with applicable legal regulations, one of the committee members is an independent member with professional experience in accounting and audit. The audit committee convenes quarterly.

Credit Committee
The Credit Committee, in accordance with the Bank's Competence Rules, approves credit business (new business, amendment of terms of already-approved credit, restructuring and work-out) with corporate clients, municipalities and retail clients. It does not approve loans or guarantees for persons with a special relationship to the Bank, which are approved by the Board of Directors.

Remuneration Committee
The Remuneration Committee is established under the provisions of Act no. 493/2001 on banks, determining the rules for prudent management of banks and stockbrokers. The committee independently assesses the remuneration principles of selected categories of Bank employees. It focuses primarily on the mechanism for balancing all risks, liquidity and capital, and on compliance with the remuneration system, with the aim of achieving long-term prudent management of the Company. Implementation of the remuneration principles is subject to annual inspection by Internal Audit.

Nomination Committee
This committee was established by the Supervisory Board as an advisory body to fulfil the responsibilities related to the nomination of new members of the Bank's Board of Directors. It was established in compliance with Directive of the European Parliament CRD IV.

Board of Directors

The Board of Directors is the statutory body of the Bank; it manages the Bank's activities and acts on its behalf. It decides on all matters of the Bank not reserved under generally binding legal regulations or the Bank's Articles of Association for the General Assembly or Supervisory Board. Based on a decision of the Supervisory Board, the Board of Directors of Slovenská sporiteľňa has 5 members. In accordance with the Company's Articles of Association, the Chairman of the Board also serves as the CEO; the Deputy Chairman of the Board also serves as the first Deputy CEO; other members of the Board of Directors serve also as Deputy CEOs. Members of the Board of Directors are elected by the Bank's Supervisory Board, which also chooses the Chairman of the Board of Directors. The term of office of members of the Board of Directors is, in accordance with the Company's Articles of Association, 5 years.

Meetings of the Board of Directors are held at least once per month. There were 50 meetings held in 2014, at which the Board of Directors discussed the Bank's financial results, addressed the obligations of control activities, security policy, discussed internal audit reports, as well as reports concerning compliance and evaluation of the Bank's activities against money laundering and terrorism financing. Particular attention was paid to risk management, credit portfolio analyses, as well as monitoring customer behaviour in order to protect shareholders' and clients' funds. With the aim of streamlining and simplifying workflows, the Board of Directors also decided to make certain changes to the Company's organisational structure. Over the course of the year, the Board of Directors paid special attention to the activities related to the asset quality review and stress testing, which took place due to changes in banking supervision. On 4 November 2014, European central bank took over the responsibility for banking supervision in the euro area. The ECB will conduct direct supervision over 120 banks in the euro area including Slovenska sporitelna.

Members of the Board of Directors as of 31 December 2014 were:

Jozef Síkela, Chairman of the Board and CEO – responsible for risk management, compliance, human resources, quality management and ombudsman, communications and sponsoring, marketing and market research, legal services and participations.

Štefan Máj, Deputy Chairman of the Board and First Deputy CEO – responsible for accounting, controlling, property management, balance sheet management and physical security.

Peter Krutil, Board Member and Deputy CEO – responsible for corporate banking and capital markets

Petr Brávek, Board Member and Deputy CEO – responsible for information technology, information systems security, central back-office retail and payments and settlement.

Tomáš Salomon, Board Member and Deputy CEO – responsible for retail banking, cards and electronic banking, product management, the branch network and direct sales.

One of the competences of the Board of Directors is to establish advisory committees. The Board of Directors may delegate tasks and competences in certain areas to them. Over the course of 2014, the Board of Directors restructured the committees.

Assets and Liabilities Committee (ALCO)
The committee assesses and approves the management and control process of the Bank's financial flows, asset and liability structure so as to achieve an optimal balance between the Bank's profitability and its exposure to market risks. It evaluates the Bank's current position in terms of liquidity, market risks, capital adequacy, fulfilment of the planned balance sheet structure, and sets the securities portfolio strategy. The competencies of the committee also include the Bank's liquidity risk management. To this end, the committee has established a separate advisory committee – a committee for operating liquidity management.

Operating Liquidity Management Committee
The committee's task is to analyse and evaluate the Bank's liquidity position, and when necessary, to submit proposals to ALCO regarding liquidity management.

Credit Committee
The Credit Committee, in accordance with the Bank's Competence Rules and Lending Policy, approves lending business (new business, amendment of terms of already-approved business, restructuring and work-out) with corporate clients, municipalities and retail clients. It does not approve loans and guarantees for persons with a special relationship to the Bank, which are approved by the Board of Directors.

Product Pricing Committee
The Product Pricing Committee sets the prices at which the Bank and its subsidiaries sell products to customers. It approves the Bank's product-pricing strategy (interest and fees), receives information on developments in the structure of the Bank's products and subsidiaries' products, as well as their market position.

Business Committee
The committee analyses the business results and adopts measures to ensure that the Bank's business plan is fulfilled. It also reviews and analyses projects/activities ex-post, after going live, sets the Bank's marketing strategy together with an annual plan for marketing communication. Furthermore, the committee sets business & communication targets of key campaigns and evaluates them.

Cost Committee
The committee's role is to make recommendations to the Board of Directors on how to keep costs in line with the business plan. The committee sets business priorities, monitors the implementation of the cost saving strategy. The committee also monitors the responsibility of gestors for budget allocation to individual Bank units and for maintaining the level of costs at or below the level of the business plan.

Operational Risk & Compliance Committee (ORCO)
The ORCO Committee defines the strategy and processes for operational risk management, sets the degree of acceptability and levels of tolerance for operational risk. It sets measures for reducing or mitigating operational risk, including compliance risk. It defines procedures and strategy for reducing or mitigating risk arising from Bank´s activities against money laundering and terrorism financing, and measures for reducing the number of frauds and for mitigating their impact.

Risk Management Committee
The committee's responsibility is to maintain effective risk management system, to monitor and implement risk management strategy according to Article 27 (1) of the Banking Act. It provides support and information to the Board of Directors and the Supervisory Board in the context of the overall identification, analysis, monitoring, reporting and management of risks. Moreover, the committee fulfils other duties subject to Article 27 (2) of the amended Banking Act.

The committee also analyses and monitors the overall development of credit risk and proposes corrective measures. It has discretion to approve changes in the IRB approach under definition of National Bank of Slovakia and to approve internal risk management models. It monitors and explains the developments in risk-weighted assets and risk parameters; it ensures that the ICAAP principles are integrated into the Bank's management and business objectives (Risk Appetite Statement). The committee approves the RAS and stress testing methodologies, including their assessment. It coordinates stress test scenarios creation and approval while taking into account all possible material risk (credit, market, operational, liquidation risk, etc.), including their assessment.

Crisis Committee
The committee's role is to assess the situation in the case of an impending crisis and to manage the Bank's procedures at a time of crisis. The Crisis Committee takes decisions and establishes responsibilities during crisis; its role is to regularly monitor and evaluate the situation, to coordinate communication and to manage the Bank's procedures for stabilising and calming the situation.

Committee for the Customer Satisfaction Management
The committee is tasked with monitoring and evaluating indices and key parameters of customer satisfaction. It proposes new policies in measurement and management of quality. Moreover, the committee proposes measures for improving service quality and customer satisfaction in line with the Bank's strategic objectives.

Share capital

The Company has share capital of €212 million, comprising of 212,000 registered book-entry shares each with a par value of €1000. The shares carry the right to participate in management, profit sharing and liquidation balance and voting rights.

Shares forming the Company's share capital may be issued only as registered book-entry shares; changes to their form or type are forbidden by law. The Company is a private joint-stock company.

Securities issued by the Bank are transferable without restriction.

The Bank's share capital is wholly (100%) owned by EGB Ceps Holding GmbH, with its registered office at Graben 21, 1010 Vienna, Austria, which is a wholly (100%) owned subsidiary of EGB Ceps Beteiligungen GmbH, with its registered office at Graben 21, 1010 Vienna, Austria, which is a wholly (100%) owned subsidiary of Erste Group Bank, AG, with its registered office at Graben 21, 1010 Vienna, Austria. To date, Slovenská sporiteľňa had not issued any employee shares.

In February 2015, the envisaged change in the Bank's shareholders structure will be completed. Erste Group AG will become the new sole owner of 100% of Slovenská sporiteľňa's shares, and will acquire the shares by way of a transfer under Article 18 of Act no. 566/2001 Coll. on securities and investment services, as amended. The transfer of shares will not affect the personnel structure, the Bank's Board of Directors or the Supervisory Board. Nor will it influence the consolidated IFRS result of Erste Group Bank AG and the capital requirements of Erste Group Bank AG. The new shareholder will acquire the Bank's shares on its own behalf and has no obligation to exercise shareholder rights in favour of any third party or to act in compliance with any other shareholders of Slovenská sporiteľňa's, since the Company does not have any other shareholders.

Any decision to increase or decrease the bank's share capital may be taken only by the General Assembly. The Company is not aware of any significant agreements to which the Bank is a contracting party and which take effect, are amended or cease to be valid because of the change in control of the Bank, which occurred in connection with a takeover bid.

The Bank's relations with members of its bodies and its employees, regarding the end of their tenure or termination of employment, are governed by the Labour Code, Banking Act and Commercial Code.

Disclosure and transparency

The Bank strictly observes and complies with legal regulations, corporate governance principles and regularly provides the parent company's shareholders and investors with all relevant information on its business activities, financial and operating results and other important events. It provides customers and the general public with information on the Bank's financial results and strategic progress through press conferences and press releases, which are also available on the Bank's website. All information is prepared and disclosed in accordance with standards of accounting and disclosure of financial and non-financial information.

The Company performs its activities through its organisational units, comprising the headquarters, branch network, and other units established under the Bank's internal regulations. The Board of Directors is responsible for the development, implementation, coordination, monitoring and supervision of the Bank's business objectives.

In accordance with generally binding legal regulations, the Bank's competences and responsibilities are divided into:
a) risk management and banking activities;
b) lending and investment business;
c) monitoring of risks to which the Bank is exposed in conducting its banking activities with persons with a special relationship to the Bank.

Risk management is strictly separated from banking activities; the same as lending business is separated from investment business. The Bank maintains separate monitoring of risks to which it is exposed in banking activities toward persons with a special relationship to the Bank and takes measures to prevent misuse of inside information.

The Bank places an emphasis on anti-money laundering measures, and has established an independent compliance unit reporting directly to the Board member responsible for risk management. The unit's tasks also include monitoring the compliance of Bank's internal regulations with legal regulations of regulatory bodies, and identifying and dealing with fraud.

The Bank has a Global Compliance Code governing the basic principles of compliance with ethical standards at the Bank. The Code was designed according to the European Union requirements to harmonise legal regulations, and it aligns the internal standards of Slovenská sporiteľňa with the internal standards of Erste Group. It also reflects the requirements for a higher level of corporate culture, particularly in securities trading, where the Bank rigorously applies measures arising from the European Commission Markets in Financial Instruments Directive (MiFID) to increase the protection of consumers in their use of investment instruments. For Slovenská sporiteľňa, the Code represents mandatory rules and serves as a source of information for its employees. It is also a practical guide on how to apply statutory provisions in day-to-day contact with information that might alter the behaviour of market participants. Moreover, it is a point of reference for preventing or resolving conflicts of interest between the Bank, its staff, management and customers.

One of the key documents strengthening customer protection in the banking institutions environment is also the **Code of Ethics**. It is a set of ethical rules representing the Bank's commitment to provide high quality financial services to its clients while respecting the principles of fair and transparent business. The Code of Ethics is available in electronic information books in Bank's branches and is also published on the Bank's website www.slsp.sk.

Corporate social responsibility

The Bank as a part of everyday life

In 2014, Slovenská sporiteľňa was again a trustworthy banking partner. Through the support of various community projects the Bank was also a part of their everyday lives. In addition to established projects, the Bank also invested in new projects. By distributing more than a million euros Slovenská sporiteľňa ranked among the largest corporate donors in Slovakia.

Education of secondary school students
Over the past year, the Bank continued to support successful projects 'Poznaj svoje peniaze' ('Know Your Money') and 'Myslím ekonomicky' ('Think Like an Economist'), aimed at educating both students and teachers in financial matters. The Bank also prepared own e-learning competition 'Cvičná banka' ('Training Bank').

"What I like a lot is that the children can try out e-learning, a different style of work during the lesson, where most of the work is transferred to the students. It's something different for them, I see great progress every year in the practical orientation, learning how to correctly search for the necessary financial information and work with it," said Paula Šilhárová, teacher at the Business Academy Hlohovec, about the project 'Poznaj svoje peniaze'.

Inspiration for university students
'Teach for Slovakia' was a new educational project, which Slovenská sporiteľňa helped launching in Slovakia. The project is already well-established abroad and participation is considered to be prestigious. Its objective is to keep the smartest university students in their home country. Working at schools in less developed villages, students gain experience and, moreover, through their enthusiasm and ideas, they may inspire students as well as teachers there.

In 2014, the series of lectures 'Nápad premenený na úspech' ('An Idea Turned into Success') continued also with the financial support of Slovenská sporiteľňa. Many speakers shared their success stories, including the CEO of Slovenská sporiteľňa Jozef Síkela, co-owner of Martinus bookshop chain Michal Meško, and the CEO of Sygic, a company making GPS software, Michal Štencl.

"I enjoyed the lecture very much. It was comprehensible, inspiring and at the same time professional. I would appreciate more applied talks such as this one," said Michal Mešťan, a student at the Faculty of Economics in Banská Bystrica, about Jozef Síkela's lecture.

Supporting young football players
In the fourth year of the grant scheme "Futbal, to je hra!" ("Football, that's the Game!"), Nadácia Slovenskej sporiteľne supported projects focusing on the development of amateur youth football clubs in Slovakia. Thanks to the money from the grant scheme, clubs could renovate changing rooms and purchase technical and sports equipment.

"Hello and thank you. It's a great thing you have given us, we are really pleased. You gave us a present for the 10th anniversary of establishment and entry to the 1st Slovak women's and junior's league," said Pavol Čečko from the sports club Štich Humenné, expressing his appreciation for the foundation.

Culture in regions
Regional theatres in Nitra and Martin belong to strategic partners of Slovenská sporiteľňa. Besides them, the Bank also supported Aréna Theatre and continued in successful cooperation with L+S Studio in Bratislava. Thanks to the partnership with the Bratislava Puppet Theatre, even the youngest theatre goers can enjoy performances.

"Thanks to your help we have been able to successfully prepare new plays as well as organise events promoting creativity and healthy mental development of our youngest generation," said Ján Brtiš, manager of the Bratislava Puppet Theatre.

Helping those who need it
In 2014, Slovenská sporiteľňa created conditions for promotion and sales of products coming from sheltered workshops. The aim is to sustain the employment of disabled for whom work is not only a source of income, but also a therapy. Besides support of 'Radničkine trhy'('Town Hall Market'), the Bank also organised Easter and Christmas markets for employees in 2014.

"I would like to thank you for making it possible for our sheltered workshop to participate in the Christmas market you organised. It was very pleasant and I believe that your employees who purchased our products enjoyed themselves as well. We wish to thank them for supporting the continued existence of our sheltered tailor's shop," said Milka Harmathová from the sheltered workshop Klub Donna Rosi in appreciation of the cooperation.

Environmental policy of Slovenská sporiteľňa

In order to support protection and improvement of quality of the environment, Slovenská sporiteľňa prepared the Environmental Action Plan 2014 – 2016, which was approved by the Board of Directors of the Bank. The steps and measures contained therein are based on common environmental policy of Erste Group. The action plan includes more than 60 measures focusing on energy saving and improvement of quality management of Slovenská sporiteľňa buildings and sales points. Furthermore, its aim is to prevent negative impact on the environment. The Chief Environmental Officer (CEnO) is responsible for compliance with the principles and rules for protection of the environment. Member of the Board of Directors Štefan Máj was appointed to this position.

In 2014, activities of Slovenská sporiteľňa had no negative impact on the environment. Thanks to strict observance of energy-saving and environmental measures, energy consumption of Slovenská sporiteľňa decreased significantly. Compared to 2013, the Bank saved as much as 11% of electricity and 15% of gas.

Outlook for 2015

Objectives for 2015

In 2015, Slovenská sporiteľňa wants to further reinforce its leading position in the retail segment, both in loans and deposits.

The Bank wants to focus on better meeting changing clients' needs and expectations. It plans to devote greater attention to digital sales and communication channels so that customers' experience from banking with Slovenská sporiteľňa improves. By listening to its clients, the Bank aims to turn the information thus obtained into business opportunities in the form of new or innovated products. Slovenská sporiteľňa believes it is important to build long-term relationships with its customers. At the same time, it intends to focus more on attracting new clients.

Slovenská sporiteľňa's ambition is to become the Bank of the first choice for corporate clients. The Bank wants to strengthen its client-based orientation also on the side of corporate customers. Simplified and more effective procedures should help in this respect.

Slovenská sporiteľňa will continue to place an emphasis on effective cost management whilst taking into account related business benefits. The Bank wants to keep its operating cost-income ratio at a low level. Development in the area of loans must respect the acceptable rate of risk.

Expected economic and financial situation of Slovenská sporiteľňa

In 2015, Slovenská sporiteľňa expects the balance sheet to grow by approximately 8.5%, mainly due to an increase in transactions with clients, both in loans provided as well as deposits received. The expected overall rise in transactions with clients should lead to an increase in market shares, thus strengthening the leading position of Slovenská sporiteľňa's in the local market. The planned growth in loans should be funded mostly through deposits inflow and partially also through issuance of debt securities. At the end of 2015, the loans to deposit ratio is expected to stand at 92.7%, confirming the Bank's stable liquidity position.

Slovenská sporiteľňa expects to achieve favourable financial results at the end of 2015. However, the results will be below those of the last year, mainly due to increased taxes and social contributions (banking tax and resolution fund). The net operating income should grow on a year-on-year basis mostly due to an increase in net interest income (growth in volumes). Income from fees and commissions should grow as well, in particular as a result of the rising number of transactions with clients. Revenues from trading can be very volatile as they are affected by many market factors. Slovenská sporiteľňa's efficiency in cost management is confirmed by the cost-income ratio, which is expected to remain at the same level as in 2014, around 44%.

The key risks and uncertainties faced by Slovenská sporiteľňa lie in the complex macroeconomic conditions and financial market developments, the impact of legislative changes in the Slovak Republic on business activities, the scope of new regulatory measures, and lending conditions in the market

Annexes

Slovenská sporiteľňa, a.s.

Consolidated Financial Statements
prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the Year Ended 31 December 2014

and Independent Auditors' Report

Independent Auditors' Report to the Shareholder of Slovenská sporiteľňa, a.s.

Building a better working world

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
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Independent Auditors' Report

To the Shareholder of Slovenská sporiteľňa, a.s.:

We have audited the accompanying consolidated financial statements of Slovenská sporiteľňa, a.s. and consolidated companies ('the Group'), which comprise the consolidated balance sheet as at 31 December 2014, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

11 February 2015
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Mgr. Ján Džuppa
UDVA Licence No. 1032

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

I. Consolidated Income Statement

For the Year Ended 31 December 2014

in ths. EUR	Pozn.	2013	2014
Net interest income	1	447 968	463 937
Net fee and commission income	2	117 428	123 393
Dividend income	3	378	720
Net trading and fair value result	4	11 603	9 611
Net result from equity method investments		2 835	2 119
Rental income from investment properties & other operating leases	5	1 833	1 846
Personnel expenses	6	(118 904)	(125 081)
Other administrative expenses	7	(83 097)	(96 020)
Depreciation and amortisation	8	(48 525)	(46 676)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	9	2 049	1 266
Net impairment loss on financial assets not measured at fair value through profit or loss	10	(47 181)	(51 352)
Other operating result	11	(47 063)	(44 219)
Pre-tax result from continuing operations		**239 324**	**239 544**
Taxes on income	12	(53 950)	(56 798)
Net result for the period		**185 374**	**182 746**
Net result attributable to non-controlling interests		456	603
Net result attributable to owners of the parent		**184 918**	**182 143**

The notes on pages 67 to 143 are an integral part of these financial statements. Comparative amounts for 2013 have been reclassified due to change of the structure of Income statement; see Note 4 in part B.

These financial statements were approved and authorised for issue by the Board of Directors of the Bank on 11 February 2015.

Ing. Štefan Máj

Chairman of the Board of Directors and
Chief Executive Officer

Ing. Petr Brávek

Member of the Board and
Deputy of Chief Executive Officer

II. Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2014

in ths. EUR	2013	2014
Net result for the period	185 374	182 746
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Remeasurement of net liability of defined pension plans	(240)	64
Other changes	(190)	
Total	**(430)**	**64**
Items that may be reclassified to profit or loss		
Available for sale reserve (including currency translation)	16 056	32 275
Gain/loss during the period	16 046	32 377
Reclassification adjustments	10	(102)
Deferred taxes relating to items that may be reclassified	(3 241)	(7 101)
Gain/loss during the period	(3 238)	(7 123)
Reclassification adjustments	(2)	22
Total	12 815	25 175
Total other comprehensive income	12 385	25 239
Total comprehensive income	**197 759**	**207 985**
Total comprehensive income attributable to non-controlling interests	456	603
Total comprehensive income attributable to owners of the parent	197 303	207 382

The notes on pages 67 to 143 are an integral part of these financial statements.

III. Earnings per share

For the Year Ended 31 December 2014

		2013	2014
Net result for the period	in EUR thousand	185 374	182 746
Number of outstanding shares		212 000	212 000
Earnings per share	**in EUR**	**874**	**862**

IV. Consolidated Balance Sheet

As at 31 December 2014

in ths. EUR	Pozn.	2013	2014
Assets			
Cash and cash balances	13	329 978	408 119
Financial assets - held for trading	14	50 708	101 547
Derivatives	14	50 708	101 547
Financial assets - at fair value through profit or loss	15	31 171	20 203
Financial assets - available for sale	16	859 401	1 219 152
Financial assets - held to maturity	17	2 764 887	2 579 817
Loans and receivables to credit institutions	18	80 122	179 056
Loans and receivables to customers	19	7 161 197	8 085 570
Derivatives - hedge accounting	20	5 119	8 322
Property and equipment	22	210 241	188 726
Investment properties	22	2 805	3 306
Intangible assets	23	97 234	89 964
Investments injoint ventures and associates	21	24 785	24 313
Current tax assets	24	5	296
Deferred tax assets	24	36 582	34 249
Other assets	25	44 811	26 010
Total assets		**11 699 046**	**12 968 650**
Liabilities and equity			
Financial liabilities - held for trading		51 991	103 439
Derivatives		51 991	103 439
Financial liabilities measured at amortised cost		10 212 193	11 336 810
Deposits from banks	26	424 399	740 685
Deposits from customers	26	9 090 560	9 666 285
Debt securities issued	27	697 234	929 840
Derivatives - hedge accounting		18 159	49 077
Provisions	28	23 874	30 300
Current tax liabilities	24	2 612	22 958
Deferred tax liabilities	24	342	569
Other liabilities	29	98 702	114 716
Total equity		**1 291 173**	**1 310 781**
Equity attributable to non-controlling interests		3 215	3 802
Equity attributable to owners of the parent		1 287 958	1 306 979
Total liabilities and equity		**11 699 046**	**12 968 650**

The notes on pages 67 to 143 are an integral part of these financial statements. Comparative amounts for 2013 have been reclassified due to change of the structure of Balance sheet; see Note 4 in part B.

V. Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2014

in ths. EUR	Subscribed capital	Legal reserve fund	Other funds	Retained earnings	Available for sale reserve	Currency translation	Remeasu-rement of net liability of defined pension plans	Deferred tax	Other changes	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 31 December 2012	**212 000**	**79 795**	**39 326**	**850 825**	**27 155**	**(386)**	**(157)**	**(6 268)**	**-**	**1 202 291**	**2 766**	**1 205 057**
Dividends paid	-	-	-	(111 623)	-	-	-	-	-	(111 623)	(22)	(111 645)
Other changes	-	-	-	(203)	-	-	-	-	190	(13)	15	2
Total comprehensive income	-	-	-	184 918	16 056	-	(240)	(3 241)	(190)	197 303	456	197 759
Net result for the period	-	-	-	184 918	-	-	-	-	-	184 918	456	185 374
Other comprehensive income	-	-	-	-	16 056	-	(240)	(3 241)	(190)	12 385	-	12 385
Total equity as of 31 December 2013	**212 000**	**79 795**	**39 326**	**923 917**	**43 211**	**(386)**	**(397)**	**(9 508)**	**-**	**1 287 958**	**3 215**	**1 291 173**
Dividends paid	-	-	-	(188 259)	-	-	-	-	-	(188 259)	(14)	(188 273)
Other changes	-	-	-	(104)	-	-	-	2	-	(102)	(2)	(104)
Total comprehensive income	-	-	-	182 143	32 275	-	64	(7 100)	-	207 382	603	207 985
Net result for the period	-	-	-	182 143	-	-	-	-	-	182 143	603	182 746
Other comprehensive income	-	-	-	-	32 275	-	64	(7 100)	-	25 239	-	25 239
As of 31 December 2014	**212 000**	**79 795**	**39 326**	**917 697**	**75 486**	**(386)**	**(333)**	**(16 606)**	**-**	**1 306 979**	**3 802**	**1 310 781**

The notes on pages 67 to 143 are an integral part of these financial statements. Further details are disclosed in note 30.

VI. Consolidated Statement of Cash Flows
For the Year Ended 31 December 2014

in ths. EUR	2013	2014
Profit before income taxes	**239 324**	**239 544**
Adjustments for:		
Provisions for losses on loans, advances, off-balance sheet write-offs and unwinding	38 384	44 685
Provisions for liabilities and other liabilities	24 456	10 426
Impairment of tangible and intangible assets net	163	1 659
Depreciation and amortization	47 100	46 676
Profit/(loss) on disposal of fixed assets	1 150	2 040
Transfer of interest for financing activity	20 025	19 412
Net gains/(losses) from investing activities	(110 189)	(110 696)
Cash flows from operations before changes in operating assets and liabilities	**260 412**	**253 747**
(Increase)/decrease in operating assets:		
Minimum reserve deposits with the central bank	(21 232)	(47 719)
Loans and advances to financial institutions	198 919	(94 923)
Loans and advances to customers	(485 282)	(969 015)
Financial assets at fair value through profit or loss and securities available for sale	514 727	(316 506)
Other assets	12 757	18 279
Increase / (decrease) in operating liabilities:		
Amounts owed to financial institutions	(823 921)	316 286
Amounts owed to customers	677 993	575 725
Provision for liabilities and other provisions	(2 281)	(185)
Increase/(decrease) in derivative financial instruments (net)	(3 498)	28 323
Other liabilities	(33 463)	12 135
Net cash flows provided by / (used in) operating activities before income tax	**295 132**	**(223 854)**
Income taxes paid	(19 591)	(40 711)
Net cash flows provided by / (used in) operating activities	**275 541**	**(264 565)**
Cash flows from investing activities		
Purchase of securities held to maturity	(471 196)	(267 567)
Proceeds form securities held to maturity	147 336	458 339
Interest received from the securities held to maturity	108 498	103 166
Dividends received from subsidiaries, associates and other investments	2 901	2 836
Purchase of share in subsidiaries and associates	-	-
Purchase of intangible assets, property and equipment	(25 406)	(28 408)
Proceeds from sale of intangible assets, property and equipment	4 445	6 317
Net cash flows provided by / (used in) investing activities	**(233 422)**	**274 683**
Cash flows from financing activities		
Dividends paid	(111 600)	(188 259)
Repayment of subordinated debt	(80 000)	-
Interest paid on subordinated debt	(3 403)	(2 146)
Issue of the bonds	164 444	370 491
Repayment of the bonds	(77 664)	(147 029)
Interest paid to the holders of the bonds	(13 968)	(8 228)
Net cash flows provided by / (used in) financing activities	**(122 191)**	**24 829**
Effect of foreign exchange rate changes on cash and cash equivalents	926	(522)
Net increase / (decrease) in cash and cash equivalents	**(79 146)**	**34 425**
Cash and cash equivalents at beginning of period	**377 344**	**298 198**
Cash and cash equivalents at end of period	**298 198**	**332 623**
Operational cash flows from interest and dividends		
Interest paid	(88 420)	(55 903)
Interest received	426 845	422 666

The notes on pages 67 to 143 are an integral part of these financial statements.

Cash and cash equivalents are disclosed in note 13 and include also accounts with other credit institutions repayable on demand in amount €11.9 million as at 31 December 2014 (2013: €7.8 million) and are part of receivables to credit institutions disclosed in note 18. Cash and cash equivalents for the purpose of Cash flow statement exclude minimum mandatory reserves in amount of €87.4 million as at 31 December 2014 (2013: €39.7 million) which are disclosed in note 13.

VII. Notes to the Consolidated Financial Statements

A. GENERAL INFORMATION

Slovenská sporiteľňa, a. s. (hereafter 'the Bank' or 'Parent Company') has its registered office at Tomášikova 48, Bratislava, the Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Register on 1 April 1994. The identification number of the Bank is 00 151 653 and its tax identification number is 2020411536. The Bank is a universal bank offering a wide range of banking and financial services to commercial, financial, and private customers, principally in the Slovak Republic.

These consolidated financial statements are statements of the Bank and its subsidiaries and associates (the Group) that are disclosed in note 21.

As of 31 December 2014 the sole shareholder of the Bank was EGB Ceps Holding GmbH, with registered office at Graben 21, 1010 Vienna, Austria. Financial statements of Erste Group Bank AG (ultimate parent) will be available after their completion at Firmenbuchgericht Wien, Marxergasse 1a, 1030 Vienna, Austria Court.

The Board of Directors has at 31 December 2014 5 members:
Ing. Jozef Síkela (Chairman), Ing. Štefan Máj (Deputy Chairman), Ing. Peter Krutil (Member), Ing. Petr Brávek (Member) and Ing. Tomáš Salomon (Member) from July 1, 2013.

Changes in the Board of Directors after 31 December 2014
As at 31 December 2014 Ing. Jozef Síkela (Chairman) has abdicated due to his new position as a member of the Board of Directors in the Erste Group Bank AG.

The Supervisory Board of Slovenská sporiteľňa, a.s. has named Ing. Štefan Máj (previous Deputy Chairman) as a new Chairman of the Board of Directors and also the Chief Executive Officer (CEO) of the Bank starting with 1 January 2015.

As at 31 December 2014 Ing. Tomáš Salomon (member) has abdicated due to his new position as a member of the Board of Directors in the Česká spořitelna, a.s..

As at 31 March 2015 Ing. Petr Brávek (Member) will abdicate due to his new position as a member of the Board of Directors in the Erste Group Bank AG.

To replace the leaving members, the shareholder of the Bank has nominated Bernhard Spalt (currently member of the Board of the sister company Erste Bank Hungary) and Richard Chomist (currently as a Procurator of the subsidiary EGIT SK, spol. s r.o.) as a new members of the Board of Directors of the Bank. These personal changes are in proceeding and are subject to approval of the regulator of the Bank.

The Chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The Deputy Chairman of the Board of Directors is the First Deputy of the Chief Executive Officer. Other members of the Board of Directors are simultaneously the Deputies of the Chief Executive Officer.

Supervisory Board has 6 members. As of 31 December 2014, the members of the Supervisory Board were as follows: Gernot Mittendorfer M.B.A (Chairman), Mag. Jan Homan (Member), JUDr. Beatrica Melichárová (Member) and Ing. Štefan Šipoš (Member).

Two members of the Supervisory Board - Mr. Mag. Dr. Franz Hochstrasser (Deputy Chairman) resigned from this function as of December 22, 2014 and Mr. Herbert Juranek (Member) resigned from function as of December 18, 2014.

The Bank is subject to the regulatory requirements of the National Bank of Slovakia and other regulatory bodies defined by Slovak legislation.

Starting from 4 November 2014 the Group come under direct supervision of European Central Bank under Single Supervision Mechanism.

B. SIGNIFICANT ACCOUNTING POLICIES

1) Statement of compliance

Pursuant to Article 17a of Act no. 431/2002 Coll. on Accounting, effective from 1 January 2006 banks are required to prepare their separate and consolidated financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS). As a result, separate financial statements prepared in accordance with IFRS have effectively replaced financial statements prepared under Slovak Accounting Standards.

The financial statements of the Group for the previous period (31 December 2013) were signed and authorised for issue on 18 February 2014.

The consolidated financial statements of the Group for the financial year ending on 31 December 2014 and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union (the "EU") on the basis of IAS Regulation (EC) No. 1606/2002.

Except for certain standards issued but not yet effective and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU, IFRS as adopted by the EU does not currently differ from IFRS and its effective standards and interpretations as issued by the International Accounting Standards Board (IASB). The Group has determined that the standards not endorsed by the EU would not impact the separate financial statements had such standards been endorsed by the EU at the balance sheet date.

2) Basis of preparation

In accordance with the applicable measurement models prescribed or permitted under IFRS, the consolidated financial statements have been prepared on a cost (or amortized cost) basis, except for financial assets-available for sale, financial assets and liabilities held for trading (including derivatives), instruments subject to hedge accounting, as well as financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value.

These Consolidated Financial Statements were prepared using the going concern assumption that the Group will continue in operation for the foreseeable future.

The unit of measurement is thousands of EUR (EUR thousand, EUR ths), unless stated otherwise. The amounts in parentheses represent negative values. The tables in this report may contain rounding differences.

3) Subsidiaries and associates

The Consolidated Financial Statements present the accounts and results of the Group.

Subsidiaries

All subsidiaries controlled by the Bank are consolidated in the Group financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2014 and for the year then ended.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as that of the Bank and using consistent accounting policies. All intra-group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable to the owners of the Bank. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Investments in associates and joint ventures

Investments in associates are accounted for using the equity method. Under the equity method, an interest in an associate is recognised on the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2014 and for the year then ended.

Associates are entities over which the Group exercises significant influence ('associates'). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%.

Joint ventures are joint arrangements over which the Group exercises control jointly with one or more other venturers, with the venturers having rights to the net assets of the arrangement, rather than to the assets and liabilities relating to the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group is not involved in joint operations.

Acquisitions and disposals made during 2014

No acquisitions or disposals of subsidiaries or associates occurred during the year 2014.

Changes in the scope of consolidation during 2014

Effective from 1 November 2014 Factoring Slovenskej sporiteľne, a.s. (former subsidiary) was merged with Slovenská sporiteľňa, a.s. (parent company).

4) Accounting and measurement methods

Change of the structure of balance sheet, income statement and explanatory notes

Effective from 1 January 2014 the Bank, based on decision of Erste group, changed the structure of its balance sheet, income statement and some explanatory notes, in order to provide more reliable and relevant information about its financial position and performance.

The new structure has also been introduced in order to generate synergies in addressing the new IFRS-based Financial Reporting regulatory requirements ("FINREP"). FINREP was introduced in 2014 by the European Banking Authority ("EBA") and it represents a mandatory regulatory reporting framework applicable to EU based banking institutions.

Application of changed structure has no impact to already published results or Financial statements of the Group in the past. Comparative information in Financial statements of the Group for year ended 31 December 2014 has been changed based on new structure.
Summary of changes in the structure in Income statement:

- Dividend income and Rental income from investment properties and other operating leases are disclosed each on separate line in Income statement.
- Contribution to Deposit insurance fund is now part of Other administrative expenses (in the past part of Other operating result).
- Separate line for "Net impairment loss on financial assets and liabilities not measured at fair value through profit or loss" that includes also allocation and reversals of provision for loans to customers and to credit institutions as well as impairment loss for other types of financial asses is disclosed at the fact of Income statement.
- Allocation and release of provision for OFF Balance sheet items is disclosed in Other operating result.
- General administrative expenses are broken down to separate lines.

	OLD 2013	Interest income / expense	Dividend income	Rental income	Loan loss provisions / OFF BS reserves	Fair value result	General administrative expenses	Result from AFS / HTM	Rounding		NEW 2013
Interest income	533 893	(533 324)	(378)	(191)							
Interest expense	(85 356)	85 356									
Net interest and investment income	448 537	447 968								Net interest income	447 968
Provisions for losses on loans, advances and off-balance sheet credit risks	**(49 362)**				49 362						
Net interest and investment income after provisions	399 175										
Fee and commission income	**141 199**										
Fee and commission expense	(23 771)										
Net fee and commission income	117 428									Net fee and commission income	117 428
			378							Dividend income	378
Net trading result	13 256					(1 653)				Net trading and fair value result	11 603
			2 835							Net result from equity method investments	2 835
				1 833						Rental income from investment properties & other operating leases	1 833
General administrative expenses	(249 101)						249 101				
							(118 904)			Personnel expenses	(118 904)
							(83 097)			Other administrative expenses	(83 097)
				(1 642)			(46 883)			Depreciation and amortisation	(48 525)
								2 049		Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	2 049
					(47 181)					Net impairment loss on financial assets not measured at fair value through profit or loss	(47 181)
Other operating result	(41 434)		(2 835)		(2 181)	1 653	(217)	(2 049)		Other operating result	(47 063)
Profit for the year before income taxes	**239 324**	–	-	-	-		-	-	-	**Pre-tax result from continuing operations**	**239 324**
Income tax expense	(53 950)									Taxes on income	(53 950)
Net profit for the year after income taxes	**185 374**	–	-	-	-	-	-	-	-	**Net result for the period**	**185 374**

All comparative figures in these financial statements are reclassified based on the change of the structure as described above.

Summary of changes in the structure in Balance sheet - Assets:

- The structure of balance sheet is harmonized based on measurement principles as are defined in IAS 39.
- "Loans to customers" and "Loans to credit institutions" are presented in net and the Bank does not disclose separate position for Provisions for losses on financial assets in the face of balance sheet.
- Derivatives and derivatives – hedge accounting are presented on separate lines

	OLD 2013	Loans and receivables	Securities and deriva-tives	Associates	Intangible assets	Hedge accounting	Investment property	Rounding		NEW 2013
Assets									Assets	
Cash and balances at the central bank	329 978								Cash and cash balances	329 978
Loans and advances to financial institutions	80 122	(80 122)								
Loans and advances to customers	7 512 747	(7 512 747)								
Provisions for losses on loans and advances	(351 550)	351 550								
									Financial assets - held for trading	50 708
Financial assets at fair value through profit or loss	81 879		(81 879)							
			50 708						Derivatives	50 708
			31 171						Financial assets - at fair value through profit or loss	31 171
Securities available for sale	859 401							1	Financial assets - available for sale	859 402
Securities held to maturity	2 764 887							1	Financial assets - held to maturity	2 764 888
		80 122							Loans and receivables to credit institutions	80 122
		7 161 197							Loans and receivables to customers	7 161 197
						5 119			Derivatives - hedge accounting	5 119
Investments in associates	24 785			(24 785)						
Intangible assets	97 233				(97 233)					
Property and equi-pment	205 334						4 907		Property and equipment	210 241
Investment property	7 711						(4 907)	1	Investment properties	2 805
					97 233				Intangible assets	97 233
				24 785					Investments in joint ven-tures and associates	24 785
Current tax assets	5								Current tax assets	5
Deferred income tax asset	36 582							(1)	Deferred tax assets	36 581
Other assets	49 932					(5 119)		(2)	Other assets	44 811
Total assets	**11 699 046**	**0**	**0**	**(0)**	**-**	**-**	**-**	**-**	**Total assets**	**11 699 046**

All comparative figures in these financial statements are reclassified based on the change of the structure as described above.

Summary of changes in the structure in Balance sheet - Liabilities:

- The structure of balance sheet is harmonized based on measurement principles as are defined in IAS 39.
- Subordinated liabilities are disclosed in respective line based measurement principles as defined in IAS 39 without separate position on the face of balance sheet.
- Derivatives and derivatives – hedge accounting are presented on separate lines

	OLD 2013	Derivatives	Deposits	Debt securities issued	Provisions	Hedge accounting	Tax liabilities	Rounding		NEW 2013
Liabilities									Liabilities	
									Financial liabilities - held for trading	51 991
		51 991							Derivatives	51 991
Amounts owed to financial institutions	324 358		(324 358)							
Amounts owed to customers	9 090 560		(9 090 560)							
Debt securities in issue	624 234			(624 234)						
Provisions for liabilities and other provisions	23 874				(23 874)					
Financial liabilities at fair value through profit or loss	51 991	(51 991)								
									Financial liabilities measured at amortised cost	10 212 193
			424 399						Deposits from banks	424 399
			9 090 560						Deposits from customers	9 090 560
				697 234					Debt securities issued	697 234
						18 159			Derivatives - hedge accounting	18 159
					23 874				Provisions	23 874
Current income tax liability	2 612								Current tax liabilities	2 612
Deferred tax liabilities	342								Deferred tax liabilities	342
Other liabilities	116 861					(18 159)			Other liabilities	98 702
Subordinated capital	173 041		(100 041)	(73 000)						
Total liabilities	**10 407 873**	**-**	**0**	**(0)**	**-**	**-**	**-**	**-**	**Total liabilities**	**10 407 873**

All comparative figures in these financial statements are reclassified based on the change of the structure as described above.

Transactions and balances in foreign currency

The consolidated financial statements are presented in euro, which is the functional currency of the Group. The functional currency is the currency of the primary business environment in which an entity operates.

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.

For foreign currency translation, exchange rates quoted by the European Central Bank are used.

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 in the balance sheet and measured in accordance with their assigned categories.

The Group uses the following categories of financial instruments:

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

IAS 39 categories of financial instruments relevant for measurement are not necessarily the line items presented in the balance sheet. Specific 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 The Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, which is the date that an asset is delivered. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. 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 balances with central banks

Balances with central banks include only claims (deposits) against central banks which are repayable on demand. Repayable on demand means that it 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 position.

(iv) Derivative financial instruments

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

For presentation purposes derivatives are split into

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

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

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

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

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges fulfilling the conditions of IAS 39. In the 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).

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

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'.

The Group uses the fair value option in case of some hybrid financial liabilities, if:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortized 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. The Group does not have any specific plan to dispose of 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 the Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

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

(ix) Loans and receivables

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

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

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

(x) Financial liabilities measured at amortised cost

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

For presentation in the 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'.

Relationships between balance sheet items, measurement methods and categories of financial instruments:

Balance sheet position	Measurement principle			Financial instrument category
	Fair value	At amortized cost	Other	
Assets				
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
Loans and receivables to customers		x		Loans and receivables
Finance lease			IAS 17	n/a
Derivatives - hedge accounting	x			n/a
Liabilities and equity				
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 amortized cost		x		Financial liabilities measured at amortized 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

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

Embedded derivatives are separated from the host debt instruments if

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

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

At the Group, derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits that contain interest caps, floors or collars in the money, 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. The Group makes use of reclassification alternatives only in the case of held-to-maturity financial assets. If a significant credit deterioration in a held-to-maturity financial asset results in a change in the intention and ability to hold the asset until maturity, the asset is reclassified into available-for-sale financial assets category. Such reclassifications are not included in the limit that triggers automatic reclassification of the entire held-to-maturity portfolio

Derecognition of financial assets and financial liabilities

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

- the contractual rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset
- or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- and either:
  - it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset, but have 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 the Group retains substantially all the risks and rewards of ownership because the securities are repurchased when the repo transaction ends. Furthermore, the Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Group or are reflected in the repurchase price.

The corresponding cash received is recognised on the 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 the Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' and is accrued over the life of the agreement. Financial assets transferred out by the Group under repurchase agreements remain on the Group's 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 the Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item 'Net interest income'.

Securities lending and borrowing

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

Securities borrowed are not recognised on the 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

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

The Group uses the Basel II definition of default as a primary indicator of loss events. A default, as a loss event, is deemed to have occurred when a client is assigned internal rating R, i.e. when whatever of the following events has taken place:

- a client is unlikely to fully repay its credit obligations to the bank without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Bank;
- whatever condition or obligation under contract has been breached by client, on the basis of which the bank is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client whether in full or its part, charge the late payment interests or claim satisfaction of credit exposure from the means securing such credit obligation).

For assessment at portfolio level, indications of impairment are observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

(i) Financial assets carried at amortised cost

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

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

Impairment losses on financial assets carried at amortised cost are recognised as loss allowance. On the 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 the Group.

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

(ii) Available-for-sale financial assets

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

If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement under the line item 'Net impairment loss on financial assets'. Impairment losses and their reversals are recognised directly against the assets on the 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 the Group, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline refers to a market price that is permanently below the acquisition cost for a period of nine months up to the reporting date.

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

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

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

(i) Fair value hedges

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

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 37 Fair value of financial assets and liabilities.

Leasing

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

(i) The Group as a lessor

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

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

(ii) The Group as a lessee

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

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:

Type of property and equipment	Useful life in years 2014 and 2013
Own buildings and structures	30 years
Rented premises	10 years
Office furniture and equipment	4 – 6 years
Computer hardware	4 years
Passenger cars	4 years
Fixture and fittings	6 – 12 years

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'.

Intangible assets

The Group`s intangible assets include mostly computer software. 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 Group.

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:

Type of intangible assets	Useful life in years 2014 and 2013
Core banking system and related applications	8 years
Computer software	4 – 8 years

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

The Group 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.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Group 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 for non-financial assets excluding goodwill 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 Group 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 classification 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.

Financial guarantees

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

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

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. If no premium is received at contract inception, the fair value of a financial guarantee is nil, as this is the price that would be paid to transfer the liability in an orderly transaction between market participants. Subsequent to initial recognition, the financial guarantee contract is reviewed for the possibility that provisioning will be required under IAS 37. Such provisions are presented in the 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 the Group are for pensions and jubilee benefits. From IAS 19 categorisation perspective pension benefits qualify as post-employment defined benefits plans whereas jubilee benefits are other long-term employee benefits.

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.

See note 28 Provisions for key assumptions used in actuarial valuations.

The employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date, measured as the present value of the estimated future cash outflows discounted by the interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses from the jubilee benefit obligation are charged to the Income Statement in the current year. Actuarial gains and losses from post-employment defined benefit plans are recognised directly in equity in the period in which they occur.

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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

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

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

Fiduciary assets

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

Dividends on ordinary shares

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

Recognition of income and expenses

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

(i) Net interest income

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

Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all financial liabilities categories.

In net interest income also interest on derivative financial instruments held in the banking book is included. In addition, net interest cost on pension and jubilee obligations is presented here.

(ii) Net fee and commission income

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

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

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

(iii) Dividend income

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

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

(iv) Net trading and fair value result

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

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

(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 service cost for pension and jubilee obligations 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 the Group's ordinary activities. Furthermore, levies on banking activities are considered as part of other operating result.

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

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

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Group's policy.

Collateral valuation

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Group's reporting schedule, to the extent possible, the Group uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, and other independent sources.

5) Significant accounting judgements, assumptions and estimates

The separate financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 37 Fair value of financial assets and liabilities.

Impairment of financial assets

The Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.

Disclosures concerning impairment are provided in note 36 ´Risk management´, part Credit risk. Development of loan loss provisions is described in note 18 and 19).

Individual assessment of impairment
Loans and advances to retail clients with exposures exceeding EUR 200 thousand are generally considered by the Group as being individually significant and are analysed on an individual basis.

Loans and advances to institutions, sovereigns, corporate classes are generally considered by the Bank as being individually significant and are analysed on an individual basis regardless the materiality limits.

For impairment classification the Bank uses expected loss threshold of EUR 250 per client. Losses under this amount are considered immaterial.

Loans and advances with identified impairment are internally rated as defaulted. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments, as well as proceeds from collateral. Impairment amount is determined by the difference between the loan's gross carrying amount and the net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate.

Portfolio assessment of impairment
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit rating system.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of non-financial assets

The Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss which should be recorded in the income statement. Judgement and estimates are required to determine the value in use and fair value less costs to sell by estimating the timing and amount of future expected cash flows and the discount rates.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Disclosures concerning deferred taxes are in Note 24 Tax assets and liabilities.

Defined benefit obligation plans

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions, estimates used for the defined benefit obligation calculations as well as related amounts are disclosed in Note 28 Provisions.

Provisions

Recognition of provisions requires judgement with respect to whether the Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Provisions are disclosed in Note 28 Provisions and further details on provisions for contingent credit liabilities in Note 36 Risk management. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 28 Provisions.

6) Application of amended and new IAS/IFRS

The Group applied all Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB applicable for the accounting periods starting 1 January 2014 as adopted by the European Union ('EU') that are relevant to the Group's operations.

Standards and interpretations relevant to Group's operations, effective in the current period

The following new standards or amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period.

When the adoption of the standard or interpretation is considered to have an impact on the financial position or performance of the Group, its impact is described below:

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". Offsetting is not applicable for the Group, so this amendment has no impact to Financial statements.

Adoption of the following standards, which apply for the first time in 2013, did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
- IFRIC Interpretation 21 Levies (IFRIC 21)
- IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle

Standards and interpretations not yet effective

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

IFRS 9 Financial Instruments

The IFRS 9 was originally issued in November 2009 and is intended to replace IAS 39 Financial Instruments and is effective for annual periods beginning on or after 1 January 2018.

Classification and measurement of financial assets

All financial assets are measured at fair value on initial recognition, adjusted for transaction costs if the instrument is not accounted for at fair value through profit or loss (FVTPL). However, trade receivables without a significant financing component are initially measured at their transaction price as defined in IFRS 15 Revenue from Contracts with Customers.

Debt instruments are subsequently measured on the basis of their contractual cash flows and the business model under which the debt instruments are held. If a debt instrument has contractual cash flows that are solely payments of principal and interest on the principal outstanding and is held within a business model with the objective of holding the assets to collect contractual cash flows, it is accounted for at amortised cost. If a debt instrument has contractual cash flows that are solely payments of principle and interest on the principal outstanding and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, it is measured at fair value through other comprehensive income (FVOCI) with subsequent reclassification to profit or loss.

All other debt instruments are subsequently accounted for at FVTPL. Also, there is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in OCI (without subsequent reclassification to profit or loss).

Classification and measurement of financial liabilities

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model.

The ECL model applies to: debt instruments accounted for at amortised cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 Leases.

Entities are generally required to recognise either 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into).

The measurement of ECL must reflect a probability-weighted outcome, the effect of the time value of money, and based on reasonable and supportable information that is available without undue cost or effort.

Hedge accounting

Hedge effectiveness testing must be prospective and can be qualitative, depending on the complexity of the hedge.

A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable.

The time value of an option, the forward element of a forward contract and any foreign currency basis spread can be excluded from the designation as the hedging instrument and accounted for as costs of hedging.

More designations of groups of items as the hedged item are possible

Transition

An entity may elect to apply earlier versions of IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of IFRS 9 is adopted in its entirety for reporting periods beginning after 24 July 2014. The transition to IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at FVTPL without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of IFRS 7 Financial Instruments: Disclosures.

Impact

The application of IFRS 9 will result in significant changes to the Group's current accounting, systems and processes. The Group is in a process of quantifying of the impact of the adoption of the standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Following listing of standards and interpretations issued are those that the Group expects not to have any impact on disclosures, financial position or performance when applied at a future date:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) - effective for annual periods beginning on or after 1 January 2016 but not yet endorsed by EU
- IFRS 14 Regulatory Deferral Accounts - effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions - effective for annual periods beginning on or after 1 July 2014
- Annual improvements 2010-2012 Cycle - effective for annual periods beginning on or after 1 July 2014
- Annual improvements 2011-2013 Cycle - effective for annual periods beginning on or after 1 July 2014
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests -effective for annual periods beginning on or after 1 January 2016
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization - effective prospectively for annual periods beginning on or after 1 January 2016
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants - effective for annual periods beginning on or after 1 January 2016
- Amendments to IAS 27: Equity Method in Separate Financial Statements - effective for annual periods beginning on or after 1 January 2016
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 - effective for annual periods beginning on or after 1 January 2016.
- IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 -effective for annual periods beginning on or after 1 January 2016.

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. Based on the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

C. NOTES TO THE INCOME STATEMENT AND THE BALANCE SHEET

1) Net interest income

in ths. EUR	2013	2014
Interest income		
Financial assets - at fair value through profit or loss	746	527
Financial assets - available for sale	23 386	27 800
Financial assets - held to maturity	106 696	108 867
Loans and receivables	405 507	397 383
Derivatives - hedge accounting, interest rate risk	(3 499)	(5 107)
Other assets	491	160
Total interest income	**533 327**	**529 630**
Interest expenses		
Financial liabilities measured at amortised cost	(86 099)	(66 324)
Derivatives - hedge accounting, interest rate risk	759	760
Other liabilities	(19)	(129)
Total interest expense	**(85 359)**	**(65 693)**
Net interest income	**447 968**	**463 937**

In 2014, interest income includes a total of €7.5 million relating to impaired financial assets (2013: €6.2 million).

2) Net fee and commission income

in ths. EUR	2013	2014
Securities	4 051	5 888
Transfer orders	4 453	6 398
Other	(402)	(510)
Custody	387	219
Payment services	78 487	84 154
Card business	20 670	23 196
Other	57 817	60 958
Customer resources distributed but not managed	9 957	10 527
Collective investment	576	644
Insurance products	9 351	9 850
Other	30	28
Lending business	22 783	21 655
Guarantees given, guarantees received	2 591	3 738
Loan commitments given, loan commitments received	54	89
Other lending business	20 138	17 828
Other	1 763	950
Net fee and commission income	**117 428**	**123 393**

3) Dividend income

in ths. EUR	2013	2014
Financial assets designated at fair value through profit or loss	162	437
Available-for-sale financial assets	216	283
Total	**378**	**720**

4) Net trading and fair value result

in ths. EUR	2013	2014
Net trading result	13 256	9 053
Securities and derivatives trading	7 545	1 448
Foreign exchange transactions	5 711	7 605
Result from financial assets and liabilities designated at fair value through profit or loss	(1 653)	558
Net trading and fair value result	**11 603**	**9 611**

The line 'Securities and derivatives trading' includes gains from Erste Group Bank's market positions distributed according to approved rules based on the financial results of the local banks as described in note 14.

With effect from 4 February 2008, the Group has adopted a new business model of financial markets trading in cooperation with Erste Group Bank. Erste Group Bank has started to conduct all trading operations on a central trading book in order to better manage market risks from the group trading activities (i.e. transactions with retail, corporate and other institutional clients) with the exception of the equity risk trading and transactions for the Group's liquidity management purposes.

Trading gains (i.e. from Erste Group Bank's market positions) are distributed according to approved rules based on the financial results back to the Group's local banks and reported in the 'Net trading result'. The basic principle underlying these rules involves Erste Group Bank absorbing potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. Included in the new business model of financial markets trading is a reallocation of the trading costs for individual participating Erste Group Bank subsidiaries based on the Group's Cost Income Ratio.

5) Rental income from investment properties & other operating leases

in ths. EUR	2013	2014
Investment properties	330	387
Other operating leases	1 503	1 459
Rental income from investment properties & other operating leases	**1 833**	**1 846**

6) Personnel expenses

in ths. EUR	2013	2014
Wages and salaries	(86 052)	(90 206)
Compulsory social security	(29 361)	(31 052)
Long-term employee provisions	(436)	(240)
Other personnel expenses	(3 055)	(3 583)
Total	**(118 904)**	**(125 081)**

The average number of employees in the Group was 4 223 in 2014 and 4 213 in 2013, thereof five members of the Board of Directors in both years.

As at 31 December 2014 there were 4 275 employees at the Group (2013: 4 200 employees).

7) Other administrative expenses

in ths. EUR	2013	2014
Deposit insurance contribution	-	(8 854)
IT expenses	(29 931)	(30 609)
Expenses for office space	(21 145)	(21 128)
Office operating expenses	(12 467)	(12 039)
Advertising/marketing	(13 483)	(14 188)
Legal and consulting costs	(2 959)	(3 196)
Sundry administrative expenses	(3 112)	(6 006)
Total	**(83 097)**	**(96 020)**

The Group is legally obliged to make a contribution to the Deposit Protection Fund of Slovakia ("DPF") calculated based on its customer deposit liabilities. This contribution was reintroduced during 2014.

Composition of cost of audit and other advisory services provided by the audit company that are disclosed in 'Legal and consulting costs' is as follows:

in ths. EUR	2013	2014
Audit fees	(307)	(321)
Other services involving the issuance of a report	(224)	(245)
Other services	(121)	(122)
Total	**(651)**	**(770)**

8) Depreciation and amortisation

in ths. EUR	2013	2014
Software and other intangible assets	(21 058)	(22 943)
Owner occupied real estate	(16 845)	(14 060)
Investment properties	(1 426)	(1 425)
Office furniture and equipment and sundry property and equipment	(9 197)	(8 248)
Total	**(48 525)**	**(46 676)**

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

in ths. EUR	2013	2014
From sale of financial assets available for sale	1 695	102
From sale of financial assets held to maturity	354	1 060
From sale of loans and receivables	-	97
From repurchase of liabilities measured at amortised cost	-	7
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	**2 049**	**1 266**

10) Net impairment loss on financial assets not measured at fair value through profit or loss

in ths. EUR	2013	2014
Loans and receivables	(46 915)	(51 355)
Allocation to risk provisions	(97 359)	(321 125)
Release of risk provisions	53 052	268 879
Direct write-offs	(3 242)	(2 974)
Recoveries recorded directly to the income statement	634	3 865
Financial assets - held to maturity	(265)	3
Net impairment loss on financial assets not measured at fair value through profit or loss	**(47 181)**	**(51 352)**

Increase of balances for allocations / releases of risk provisions relates to the improvement of methodology and frequency of calculations.

11) Other operating result

in ths. EUR	2013	2014
Result from properties/movables/other intangible assets other than goodwill	1 265	(879)
Allocation to/release of other provisions	348	(448)
Allocation to/release of provisions for commitments and guarantees given	(2 181)	(6 031)
Levies on banking activities	(41 234)	(31 530)
Other taxes	(435)	(316)
Result from other operating expenses/income	(4 826)	(5 015)
Other operating result	**(47 063)**	**(44 219)**

The line 'Levies on banking activities' consists of banking tax.

12) Taxes on income

The actual tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Slovak Republic as follows:

in ths. EUR	2013	2014
Pre-tax profit/loss	241 581	239 544
Statutory tax rate	23%	22%
Income tax expense for the financial year at the domestic	55 564	52 700
Impact of decrease in tax rates	2 078	-
Impact of tax-exempt earnings of investments income and other tax-exempt	(3 933)	(8 353)
Tax increases due to non-deductible expenses, additional business tax and similar elements	4 688	10 426
Net impact of non-valued fiscal losses for the year	-	1 283
Tax income not atributable to the reporting period	(5 074)	88
Other effects		655
Total	**53 322**	**56 798**

in ths. EUR	2013	2014
Current tax expense / income	(35 080)	(61 333)
current period	(35 080)	(61 333)
Deferred tax expense / income	(18 870)	4 535
current period	(18 870)	4 535
Total	**(53 950)**	**(56 798)**

13) Cash and cash balances

in ths. EUR	2013	2014
Cash on hand	290 305	320 727
Cash balances at central banks	39 673	87 392
Cash and cash balances	**329 978**	**408 119**

For the year-end period the required average balance was €92.6 million and the actual average balance amounted to €92.8 million (100.24 %). In 2013, the required average balance was €87.2 million and the actual average balance amounted to €88.4 million (101.44 %).

14) Derivatives – held for trading

in ths. EUR	As of 31 December 2013			As of 31 December 2014		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book						
Interest rate	1 270 421	24 866	25 645	1 312 100	26 699	29 601
Equity	63 169	211	211	70 032	765	765
Foreign exchange	889 576	24 404	24 411	1 107 952	65 556	64 624
Credit	50 000	-	595	50 000	-	142
Commodity	251 071	1 227	1 129	484 244	8 527	8 307
Total	**2 524 237**	**50 708**	**51 991**	**3 024 328**	**101 547**	**103 439**

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most cases requires margin deposits.

15) Financial assets - at fair value through profit or loss

in ths. EUR	2013	2014
Equity instruments	12 593	13 526
Debt securities	18 578	6 677
General governments	10 799	-
Other financial corporations	6 587	6 677
Non-financial corporations	1 192	-
Financial assets - at fair value through profit or loss	**31 171**	**20 203**

The amounts represent the maximum exposure to credit risk.

Financial assets are designated at fair value portfolio based on the intention to manage these on the fair value basis.

16) Financial assets - available for sale

in ths. EUR	2013	2014
Equity instruments	17 964	21 558
Debt securities	841 437	1 197 594
General governments	619 045	998 457
Credit institutions	99 187	76 719
Non-financial corporations	123 205	122 418
Financial assets - available for sale	**859 401**	**1 219 152**

The maximum exposure to credit risk is represented by the carrying amounts. Total amount of €678 thousands (2013: €681 thousands) relates to Financial assets - available for sale measured at cost.

17) Financial assets – held to maturity

in ths. EUR	Gross carrying amount		Collective allowances		Net carrying amount	
	2013	2014	2013	2014	2013	2014
General governments	2 703 270	2 541 352	(247)	(239)	2 703 023	2 541 113
Credit institutions	37 697	38 626	(15)	(23)	37 682	38 603
Non-financial corporations	24 186	101	(4)	-	24 182	101
Total	**2 765 153**	**2 580 079**	**(266)**	**(262)**	**2 764 887**	**2 579 817**

The amounts represent the maximum exposure to credit risk.

18) Loans and receivables to credit institutions

in ths. EUR	Gross carrying amount	Collective allowances	Net carrying amount
As of 31 December 2014			
Loans and advances	179 109	(53)	179 056
Credit institutions	179 109	(53)	179 056
Total	**179 109**	**(53)**	**179 056**
As of 31 December 2013			
Loans and advances	80 132	(10)	80 122
Credit institutions	80 132	(10)	80 122
Total	**80 132**	**(10)**	**80 122**

At the end of 2014 and end of 2013 there were no reverse repurchase agreements.

The recorded amounts represent the maximum exposure to credit risk.

Allowances for loans and receivables to credit institutions were as follow:

in ths. EUR	As of 2013	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of 2014	Amounts written off	Recoveries of amounts previously written off
Collective allowances									
Loans and advances	(10)	(161)	-	140	-	(22)	(53)	-	-
Credit institutions	(10)	(161)	-	140	-	(22)	(53)	-	-
Total	**(10)**	**(161)**	**-**	**140**	**-**	**(22)**	**(53)**	**-**	**-**
	2012						**2013**		
Collective allowances									
Loans and advances	-	(10)	-	-	-	-	(10)	-	-
Credit institutions	-	(10)	-	-	-	-	(10)	-	-
Total	**-**	**(10)**	**-**	**-**	**-**	**-**	**(10)**	**-**	**-**

19) Loans and receivables to customers

in ths. EUR	Gross carrying amount		Specific allowances		Collective allowances		Net carrying amount	
	2013	2014	2013	2014	2013	2014	2013	2014
Loans and advances to customers								
General governments	213 719	216 779	-	-	(387)	(454)	213 332	216 325
Other financial corporations	86 866	84 169	(23)	(516)	(145)	(395)	86 698	83 258
Non-financial corporations	1 878 781	1 920 990	(104 372)	(115 747)	(18 151)	(17 368)	1 756 258	1 787 875
Households	5 333 381	6 211 626	(157 890)	(148 245)	(70 582)	(65 269)	5 104 909	5 998 112
Total	**7 512 747**	**8 433 564**	**(262 285)**	**(264 508)**	**(89 265)**	**(83 486)**	**7 161 197**	**8 085 570**

Allowances for loans and receivables to customers were as follows:

in EUR million	As of 2013	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of 2014	Recoveries of amounts previously written off	Amounts written off
Specific allowances									
Loans and advances to customers	(262 285)	(170 525)	48 198	106 054	7 520	6 033	(264 508)	3 865	(2 974)
Other financial corporations	(23)	(101)	14	9	1	(410)	(516)	-	-
Non-financial corporations	(104 372)	(85 429)	18 132	57 644	2 334	5 904	(115 747)	219	(816)
Households	(157 891)	(84 996)	30 052	48 400	5 184	539	(148 245)	3 646	(2 158)
Collective allowances									
Loans and advances to customers	(89 265)	(150 439)	-	162 685	-	(5 970)	(83 486)	-	-
General governments	(387)	(473)	-	511	-	(103)	(454)	-	-
Other financial corporations	(145)	(172)	-	198	-	(276)	(395)	-	-
Non-financial corporations	(18 151)	(21 917)	-	26 046	-	(2 853)	(17 368)	-	-
Households	(70 582)	(127 877)	-	135 930	-	(2 738)	(65 269)	-	-
Total	**(351 550)**	**(320 964)**	**48 198**	**268 739**	**7 520**	**63**	**(347 994)**	**3 865**	**(2 974)**

in EUR million	As of 2012	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of 2013	Recoveries of amounts previously written off	Amounts written off
Specific allowances									
Loans and advances to customers	(293 752)	(96 583)	58 880	37 027	6 189	25 953	(262 285)	485	(3 235)
General governments	-	-	-	12	-	(12)	-	-	-
Other financial corporations	-	(1)	-	130	-	(152)	(23)	-	-
Non-financial corporations	(125 193)	(47 903)	21 122	36 281	2 596	8 726	(104 372)	-	-
Households	(168 559)	(48 679)	37 759	603	3 593	17 391	(157 891)	485	(3 235)
Collective allowances									
Loans and advances to customers	(84 760)	(27)	-	15 286	-	(19 764)	(89 265)	-	-
General governments	-	(17)	-	-	-	(370)	(387)	-	-
Other financial corporations	-	(10)	-	-	-	(135)	(145)	-	-
Non-financial corporations	(19 087)	-	-	5 253	-	(4 317)	(18 151)	-	-
Households	(65 673)	-	-	10 033	-	(14 942)	(70 582)	-	-
Total	**(378 512)**	**(96 610)**	**58 880**	**52 313**	**6 189**	**6 190**	**(351 550)**	**485**	**(3 235)**

Other changes represent mainly reclassifications between categories of allowances.

As at 31 December 2014, the 15 largest customers accounted for 7.7% of the gross loan portfolio in the amount of €649.8 million (2013: 9.3%, €702 million).

Mandate loans

During the year 2014, the Group cooperated with 8 external outsourcing companies. Under mandate contracts the management and administration of certain non-performing receivables is outsourced. The Group maintains the risks and rewards associated with the underlying exposures and shares part of recoveries with the external service providers. Total outsourced gross loans amounted to €94.8 million as of 31 December 2014 (2013: €132.7 million).

Write off and sale of receivables

In 2014, the Group sold a total of €65 million of loan receivables (2013: €46 million) for a consideration of €14.5 million (2013: €10.7 million), and used corresponding provisions of €50.8 million (2013: €39.9 million).

The Group has also written off loans with a carrying amount of €10.2 million, related provisions were created in the amount €9.5 million (2013: written off loans in the amount of €34.4 million, provisions were created in the amount €25.2 million).

Finance Leases

Loans and advances to customers also include net investments in finance leases. The principal assets held under lease arrangements include cars and other technical equipment. Accumulated allowance for uncollectible minimum lease payments receivable is €7.8 million (2013: €7.8 million).

in ths. EUR	2013	2014
Gross investment in finance leases	**16 565**	**13 831**
Thereof:		
Less than 1 year	10 115	5 286
From 1 year to 5 years	4 680	8 371
Over 5 years	1 771	174
Unearned income	**3 290**	**3 290**
Net investment in finance leases	**14 887**	**13 349**
Thereof:		
Less than 1 year	9 728	5 027
From 1 year to 5 years	3 956	8 154
Over 5 years	1 203	168

20) Derivatives – hedge accounting

in ths. EUR	Notional value 2013	Positive fair value 2013	Negative fair value 2013	Notional value 2014	Positive fair value 2014	Negative fair value 2014
Fair value hedges						
Interest rate	107 821	5 119	18 159	347 821	8 322	49 077
Total	**107 821**	**5 119**	**18 159**	**347 795**	**8 322**	**49 077**

Fair value hedge

The Group had in its portfolio as at 31 December 2014 fixed rate EUR denominated bonds with face value of €331 million (2013: €91 million). As the purchases of the bonds increased the exposure to interest rate risk in the period from five to fifteen years, the Group entered into an interest rate swaps in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates. Notional and fair value of the aforementioned hedging derivative is reported in note 37.

During the period, hedges were effective in hedging the fair value exposure to interest rate movements. For the year ended 31 December 2014, the Group recognised a net loss of €29.28 million (2013: gain of €5.97 million), representing the loss on the hedging instruments. The total gain on the hedged item attributable to the hedged risk amounted to €27.90 million (2013: loss of €5.84 million).

21) Investment in joint ventures and associates

The consolidated financial statements include subsidiaries and associates disclosed in this note.

Investment in subsidiaries

in ths. EUR / Country of Incorporation	Realitná spoločnosť Slovenskej sporiteľne, a. s. 2013	Realitná spoločnosť Slovenskej sporiteľne, a. s. 2014	Leasing Slovenskej sporiteľne, a. s. 2013	Leasing Slovenskej sporiteľne, a. s. 2014	Factoring Slovenskej sporiteľne, a. s. 2013	Factoring Slovenskej sporiteľne, a. s. 2014
Place of business	Tomášikova 48 832 10 Bratislava Slovak Republic		Tomášikova 48 832 69 Bratislava Slovak Republic		Tomášikova 48 832 37 Bratislava Slovak Republic	
Main business activity	Real estate agency		Financial and operating leasing		Factoring	
Ownership% held	100%		100%		100%	
Voting rights held%	100%		100%		100%	

in ths. EUR / Country of Incorporation	Derop B.V. 2013	Derop B.V. 2014	Erste Group IT SK, spol. s r. o. 2013	Erste Group IT SK, spol. s r. o. 2014	Procurement Services SK, s.r. o. 2013	Procurement Services SK, s.r. o. 2014
Place of business	Naritaweg 165 1043 BW Amsterdam The Netherlands		Tomášikova 48 831 04 Bratislava Slovak Republic		Tomášikova 48 832 75 Bratislava Slovak Republic	
Main business activity	Incorporation, management and financing of companies		IT services and IT systems maintenance		Procurement	
Ownership% held	85%		51%		51%	
Voting rights held%	85%		51%		51%	

Investment in associates

in ths. EUR	Prvá stavebná sporiteľňa 2013	2014	Slovak Banking Credit Bureau, s. r. o. 2013	2014	s IT Solutions SK, spol. s r. o. 2013	2014
Place of business	Bajkalská 30 829 48 Bratislava Slovak Republic		Malý trh 2/A 811 08 Bratislava Slovak Republic		Tomášikova 48 831 04 Bratislava Slovak Republic	
Main business activity	Banking		Retail credit register		Software company	
Ownership% held	9.98%		33.33%		23.50%	
Voting rights held%	35.00%		33.33%		23.50%	
IFRS Classification (JV/A)	Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO	
Dividend income received	2 900	2 539	-	-	-	-
Impairment loss recognized (cumulative basis)	-	-	-	-	(2 409)	(2 409)
Impairment loss recognized (for the reporting year)	-	-	-	-	-	-
Loan commitments, financial guarantees and other commitments given	-	-	-	-	-	-

Investee's key financial information for the reporting year (as at reporting-year-end)

Cash and cash balances	634	230	118	119	-	-
Other current assets	2 278 376	2 491 630	-	9	-	-
Non-current assets	76 303	80 246	-	21	-	-
Current liabilities	2 082 470	2 306 429	2	9	-	-
Non-current liabilities	25 095	24 519	1	2	-	-
Operating Income	(42 492)	(43 559)	(13)	14	-	-
Post-tax result from continuing operations	26 942	20 654	(14)	3	-	-
Other comprehensive income	2 634	2 916	-	-	-	-
Total comprehensive income	(29 576)	(23 570)	-	-	-	-
Depreciation and amortization	(2 663)	(3 114)	-	(10)	-	-
Interest income	110 577	109 213	-	-	-	-
Interest expense	(49 452)	(53 269)	-	-	-	-
Tax expense/income	(8 971)	(6 879)	-	-	-	-
Total equity	247 748	241 157	115	138	507	505
Carrying amount	24 747	25 514	38	43	-	-

The Bank held a 9.98% shareholding in Prvá stavebná sporiteľňa, a.s. (PSS) at 31 December 2014 and 31 December 2013. The Bank, based on the contract with Erste Group Bank, represents shareholder interests of the parent company in PSS (25.02%). In 2004, following NBS approval, the Bank's representative replaced a representative of Erste Group Bank in the Supervisory board of PSS. As a result, the Bank established significant influence over PSS from 2004.

The company s IT Solutions SK, spol. s r.o. does not provide any economic activity and therefore no value of assets and liabilities is recognised.

22) Property, equipment and other assets

A) AT COST

in ths. EUR	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 01. 01. 2013	**306 740**	**72 554**	**64 705**	**7 325**	**451 324**	**5 834**
Additions in current year (+)	4 698	2 400	3 731	958	11 787	-
Disposals (-)	(9 216)	(3 736)	(10 395)	(823)	(24 170)	(14)
Reclassification (+/-)	(259)	-	-	-	(259)	259
Balance as of 31. 12. 2013	**301 963**	**71 218**	**58 041**	**7 460**	**438 682**	**6 079**
Additions (+)	4 574	3 861	2 028	875	11 338	-
Disposals (-)	(8 415)	(3 059)	(8 994)	(1 208)	(21 676)	(381)
Reclassification (+/-)	(2 182)	-	-	-	(2 182)	2 182
Balance as of 31. 12. 2014	**295 940**	**72 020**	**51 075**	**7 127**	**426 162**	**7 880**

B) ACCUMULATED DEPRECIATION

in ths. EUR	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 01. 01. 2013	**(104 523)**	**(60 376)**	**(52 970)**	**(2 082)**	**(219 951)**	**(3 026)**
Amortisation and depreciation (-)	(16 846)	(4 392)	(4 804)	(1 229)	(27 271)	(197)
Disposals (+)	4 051	3 683	10 390	572	18 696	11
Impairment (-)	(164)	-	-	-	(164)	1
Reversal of impairment (+)	-	-	-	186	186	-
Reclassification (+/-)	63	-	-	-	63	(63)
Balance as of 31. 12. 2013	**(117 419)**	**(61 085)**	**(47 384)**	**(2 553)**	**(228 441)**	**(3 274)**
Amortisation and depreciation (-)	(14 060)	(4 130)	(4 118)	(1 179)	(23 487)	(246)
Disposals (+)	4 294	3 035	8 892	737	16 958	211
Impairment (-)	(5 793)	-	-	-	(5 793)	(79)
Reversal of impairment (+)	1 938	-	-	203	2 141	-
Reclassification (+/-)	1 186	-	-	-	1 186	(1 186)
Balance as of 31. 12. 2014	**(129 854)**	**(62 180)**	**(42 610)**	**(2 792)**	**(237 436)**	**(4 574)**

C) CARRYING AMOUNTS

in ths. EUR	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as of 31. 12. 2013	**184 544**	**10 133**	**10 657**	**4 907**	**210 241**	**2 805**
Balance as of 31. 12. 2014	**166 086**	**9 840**	**8 465**	**4 335**	**188 726**	**3 306**

The amount of property and equipment that is fully depreciated but still used by the Group as of 31 December 2014 amounts to €87.1 million (2013: €83.9 million).

Tangible and intangible assets are covered by insurance contract that covers standard risks (theft, robbery, natural hazards, vandalism, and other damages).

Operating leases

The following table summarises future minimum lease payments under non-cancellable operating leases where the Group acts as lessee:

in ths. EUR	2013	2014
< 1 year	1 517	1 428
1-5 years	16 846	13 833
> 5 years	5 060	3 042
Total	**23 423**	**18 303**

The Group does not act as a lessor in any non-cancellable operating lease transaction.

Investment property

Total rental income earned by the Group amounted to €387 thousand (2013: €330 thousand) and is separately presented in the Income Statement, line 'Rental income from investment properties & other operating leases'.
The depreciation for investment property is presented under 'Depreciation' in amount €246.0 thousand (2013: €196.6 thousand).

23) Intangible assets

A) AT COST

in ths. EUR	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 01. 01. 2013	**298 854**	**-**	**2 878**	**301 732**
Additions in current year (+)	14 471	-	473	14 944
Disposals (-)	(83 210)	-	(247)	(83 457)
Reclassification (+/-)	(18 416)	18 416	-	-
Balance as of 31. 12. 2013	**211 699**	**18 416**	**3 104**	**233 219**
Additions (+)	4 454	11 191	51	15 696
Disposals (-)	(1 187)	-	-	(1 187)
Reclassification (+/-)	9	-	(9)	
Balance as of 31. 12. 2014	**214 975**	**29 607**	**3 146**	**247 728**

B) ACCUMULATED DEPRECIATION

in ths. EUR	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 01. 01. 2013	**(195 791)**	**-**	**(2 394)**	**(198 185)**
Amortisation and depreciation (-)	(20 858)	-	(200)	(21 056)
Disposals (+)	83 009	-	247	83 256
Balance as of 31. 12. 2013	**(133 640)**	**-**	**(2 347)**	**(135 985)**
Amortisation and depreciation (-)	(20 325)	(2 302)	(316)	(22 943)
Disposals (+)	1 187	-	(21)	1 164
Reclassification (+/-)	448	(448)	-	-
Balance as of 31. 12. 2014	**(152 330)**	**(2 750)**	**(2 684)**	**(157 764)**

C) CARRYING AMOUNTS

in ths. EUR	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31. 12. 2013	**78 059**	**18 416**	**757**	**97 234**
Balance as of 31. 12. 2014	**62 645**	**26 857**	**462**	**89 964**

The amount of fully amortized intangible assets that are still used by the Group amounts to €74.3 million (2013: €71 million). In 2013 Group disposed the old core banking system in the amount of €83.2 million.

Assets not yet put in use as at 31 December 2014 amounted to €3.2 million (2013: €1.6 million).

During the year 2014 the Group put in use upgrade of the new core banking system in the total amount of €11.1 million (2013: €10.9 million).

24) Tax assets and liabilities

The structure of the tax position as at 31 December 2014 and 31 December 2013 was as follows:

in EUR million	Tax assets		Tax liabilities		Net variance 2014		
	2013	2014	2013	2014	Total	Through profit or loss	Through other compre-hensive income
Assets							
Financial assets available for sale	243	243	(9 778)	(16 524)	(6 746)	354	(7 100)
Loans and receivables	40 297	44 863	-	-	4 566	4 566	-
Tangible assets			(3 992)	(5 972)	(1 980)	(1 980)	-
Tax loss carried forward	684	340	-	-	(344)	(344)	-
Liabilities							
Provisions	3 268	4 246	-	-	978	978	-
Pensions and other post employment defined benefit obligations	837	888	-	-	51	51	-
Other liabilities	4 681	5 596	-	-	915	915	-
Gross deferred taxes	**50 010**	**56 176**	**(13 770)**	**(22 496)**	**(2 560)**	**4 540**	**(7 100)**
Net deferred taxes	36 582	34 249	(342)	(569)	-	-	-
Total current taxes	5	296	(2 612)	(22 958)	-	-	-
Total taxes	**36 587**	**34 545**	**(2 954)**	**(23 527)**	**-**	**-**	**-**

Deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy.

The Group applies a conservative approach for the recognition of deferred tax assets and liabilities. All deferred tax liabilities are recognised in the full amount, while only those deferred tax assets are recognised for which the Group expects to realise tax benefits in the future.

25) Other assets

in ths. EUR	2013	2014
Net deferred taxes	4 523	5 132
Total current taxes	38 048	19 196
Total taxes	**44 811**	**26 010**

26) Financial liabilities measured at amortised costs

Deposits from banks

in ths. EUR	2013	2014
Overnight deposits	162 863	94 434
Term deposits	234 252	574 723
Repurchase agreements	27 284	71 528
Deposits from banks	**424 399**	**740 685**

Deposits from customers

in ths. EUR	2013	2014
Overnight deposits	**3 903 507**	**4 544 340**
Non-savings deposits	3 903 507	4 544 340
General governments	41 706	138 692
Other financial corporations	114 346	154 244
Non-financial corporations	802 170	933 189
Households	2 945 285	3 318 215
Term deposits - Deposits with agreed maturity	**3 845 952**	**3 474 516**
Non-savings deposits	3 845 952	3 474 516
General governments	206 393	377 656
Other financial corporations	141 639	122 739
Non-financial corporations	404 966	299 611
Households	3 092 954	2 674 510
Deposits redeemable at notice	**1 341 101**	**1 647 429**
Households	1 341 101	1 647 429
Deposits from customers	**9 090 560**	**9 666 285**
General governments	**248 099**	**516 348**
Other financial corporations	**255 985**	**276 983**
Non-financial corporations	**1 207 136**	**1 232 800**
Households	**7 379 340**	**7 640 154**

As at 31 December 2014 deposits from banks included subordinated debt from the parent bank in amount €100 million (2013: €100 million). This debt ranks behind other liabilities in the case of financial difficulties of the Group.

As at 31 December 2014, no deposits from customers were collateralised by securities.

As at 31 December 2014, no embedded derivatives (2013: €1.3 million) were included in deposits from customers.

27) Debt securities issued

in ths. EUR	2013	2014
Subordinated liabilities	73 000	75 102
Subordinated issues and deposits	73 000	75 102
Other debt securities issued	624 234	854 738
Bonds	31 122	137 407
Mortgage covered bonds	593 112	717 331
Debt securities issued	**697 234**	**929 840**

SUBORDINATED DEBT

in ths. EUR	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2013	2014
Other bonds	June 2010	June 2015	3.80%	500	10 000	EUR	5 099	5 099
Other bonds	June 2011	June 2018	5.00%/4.25%	700	10 000	EUR	6 706	6 712
Other bonds	June 2011	June 2018	4.90%	132	50 000	EUR	6 611	6 611
Other bonds*	October 2011	October 2018	4.70%	543	10 000	EUR	5 013	5 074
Other bonds*	December 2011	December 2018	4.82%	407	10 000	EUR	3 818	3 795
Other bonds*	August 2010	August 2020	4.30%	10 000	1 000	EUR	11 096	11 532
Other bonds*	August 2011	August 2021	4.30%	10 000	1 000	EUR	10 610	11 036
Other bonds*	June 2012	June 2022	5.50%	11 000	1 000	EUR	11 074	11 683
Other bonds*	November 2012	November 2022	4.23%	9 000	1 000	EUR	8 674	9 070
Other bonds*	November 2011	November 2023	4.43%	4 250	1 000	EUR	4 299	4 490
Total subordinated liabilities							**73 000**	**75 102**

Interest rate represents actual interest expense as recorded by the Group.

** The bonds include embedded derivatives which were separated and disclosed under Financial liabilities at fair value through profit or loss. As at 31 December 2014 fair value of these derivatives was €2.07 million (2013: €1.98 million).*

BONDS

in ths. EUR	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2013	2014
Mortgage bonds	January 2010	January 2014	3.50%	-	-	EUR	5 939	-
Mortgage bonds	February 2012	February 2014	3.28%	-	-	EUR	20 589	-
Mortgage bonds	March 2010	March 2014	3.30%	-	-	EUR	10 621	-
Mortgage bonds	May 2010	May 2014	2.80%	-	-	EUR	7 587	-
Mortgage bonds	August 2012	August 2014	1.25%	-	-	EUR	40 190	-
Mortgage bonds	September 2010	September 2014	2.80%	-	-	EUR	9 768	-
Mortgage bonds	March 2011	September 2014	3.00%	-	-	EUR	14 554	-
Mortgage bonds	March 2011	September 2014	3.00%	-	-	EUR	8 257	-
Mortgage bonds	October 2010	October 2014	2.35%	-	-	EUR	9 902	-
Mortgage bonds	February 2010	February 2015	3.62%	2 095	1 000	EUR	2 162	2 162
Mortgage bonds	February 2012	February 2015	3.30%/3.65%	339	10 000	EUR	3 446	3 436
Mortgage bonds	March 2010	March 2015	6mE + 0.95%	400	50 000	EUR	20 081	20 072
Mortgage bonds	September 2012	March 2015	1.40%	400	50 000	EUR	20 085	20 085
Mortgage bonds	April 2010	April 2015	3.50%	9 580	1 000	EUR	9 654	9 646
Mortgage bonds	June 2011	June 2015	3.20%	7 669	1 000	EUR	7 694	7 689
Mortgage bonds	July 2010	July 2015	3.10%	299	50 000	EUR	15 147	15 147
Mortgage bonds	July 2010	July 2015	6mE + 1.00%	199	50 000	EUR	10 007	10 006
Mortgage bonds	February 2011	August 2015	2.95%	9 685	1 000	EUR	9 932	9 800
Mortgage bonds	August 2010	August 2015	3.09%	340	50 000	EUR	17 185	17 184
Mortgage bonds	November 2010	November 2015	2.65%	9 808	1 000	EUR	9 874	9 844
Mortgage bonds	June 2013	December 2015	0.90%	200	50 000	EUR	9 970	9 987
Mortgage bonds	June 2011	January 2016	3.20%	2 493	1 000	EUR	2 530	2 530
Mortgage bonds	February 2014	February 2016	0.63%	600	50 000	EUR	-	30 121
Mortgage bonds	February 2012	February 2016	3.70%	8 815	1 000	EUR	8 986	8 930
Mortgage bonds	August 2011	February 2016	3.20%	5 333	1 000	EUR	5 402	5 392
Mortgage bonds	March 2011	March 2016	3.10%	14 717	1 000	EUR	14 890	14 866
Mortgage bonds	March 2006	March 2016	6mE + 0.09%	500	33 194	EUR	16 615	16 609
Mortgage bonds	January 2012	July 2016	3.70%	6 163	1 000	EUR	6 262	6 261
Mortgage bonds	February 2013	August 2016	1.15%	240	50 000	EUR	12 058	12 058
Mortgage bonds	August 2014	August 2016	6mE + 0.15%	200	50 000	EUR	-	10 017
Mortgage bonds	December 2011	December 2016	3.50%	6 318	1 000	EUR	6 350	6 333
Mortgage bonds	June 2012	December 2016	2.85%	2 787	1 000	EUR	2 792	2 791
Mortgage bonds	July 2012	January 2017	2.88%	8 004	1 000	EUR	8 124	8 109
Mortgage bonds	April 2014	April 2017	0.85%	300	50 000	EUR	-	15 055
Mortgage bonds	May 2012	May 2017	3.30%	700	50 000	EUR	35 767	35 767
Mortgage bonds	June 2012	June 2017	2.92%	400	50 000	EUR	20 323	20 323
Mortgage bonds	July 2014	July 2017	6mE + 0.18%	1 120	50 000	EUR	-	56 134
Mortgage bonds	February 2011	August 2017	3.55%	51	50 000	EUR	2 586	2 586
Mortgage bonds	October 2012	October 2017	1.95%	300	50 000	EUR	15 050	15 050
Mortgage bonds	February 2013	February 2018	1.75%	460	50 000	EUR	23 354	23 354
Mortgage bonds	March 2014	March 2018	1.22%	400	50 000	EUR	-	20 197
Mortgage bonds	August 2014	August 2018	0.50%	900	50 000	EUR	-	44 945
Mortgage bonds	September 2012	September 2018	2.85%	9 989	1 000	EUR	10 071	10 063
Mortgage bonds	December 2013	December 2018	6mE + 0.45%	600	50 000	EUR	30 010	30 008
Mortgage bonds	February 2013	February 2019	2.30%	4 977	1 000	EUR	5 042	5 019
Mortgage bonds	March 2013	March 2019	2.30%	4 980	1 000	EUR	5 034	5 014
Mortgage bonds	April 2013	April 2019	2.30%	4 958	1 000	EUR	5 025	4 982
Mortgage bonds	August 2013	August 2019	2.00%	2 574	1 000	EUR	2 595	2 595

in ths. EUR	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Currency	2013	2014
Mortgage bonds	August 2013	August 2019	2.00%	4 306	1 000	EUR	4 340	4 337
Mortgage bonds	September 2013	September 2019	2.00%	6 440	1 000	EUR	6 530	6 475
Mortgage bonds	October 2013	October 2019	2.00%	5 920	1 000	EUR	5 954	5 943
Mortgage bonds	November 2013	November 2019	2.00%	6 671	1 000	EUR	6 713	6 686
Mortgage bonds	December 2013	December 2019	2.05%	70	50 000	EUR	3 504	3 504
Mortgage bonds	December 2012	December 2019	2.50%	66	50 000	EUR	3 304	3 304
Mortgage bonds	December 2013	December 2019	2.00%	4 186	1 000	EUR	4 189	4 189
Mortgage bonds	December 2013	December 2019	2.00%	9 682	1 000	EUR	9 711	9 688
Mortgage bonds	July 2013	January 2020	2.00%	2 235	1 000	EUR	2 256	2 256
Mortgage bonds	February 2014	August 2020	2.00%	9 974	1 000	EUR	-	10 053
Mortgage bonds	November 2014	November 2020	0.88%	150	100 000	EUR	-	15 015
Mortgage bonds	March 2014	March 2021	2.00%	8 532	1 000	EUR	-	8 579
Mortgage bonds	April 2008	April 2021	5.00%	250	66 388	EUR	17 126	17 183
Mortgage bonds	May 2014	May 2021	1.90%	5 000	1 000	EUR	-	5 013
Mortgage bonds	June 2014	June 2021	1.75%	9 578	1 000	EUR	-	9 588
Mortgage bonds	July 2014	July 2021	1.55%	3 558	1 000	EUR	-	3 579
Mortgage bonds	March 2014	March 2022	2.00%	220	50 000	EUR	-	11 072
Mortgage bonds	January 2013	January 2025	3.10%	87	50 000	EUR	4 412	4 412
Mortgage bonds	July 2007	July 2027	4.95%	250	66 388	EUR	16 950	24 772
Mortgage bonds	June 2013	June 2028	3.00%	132	50 000	EUR	6 615	6 615
Mortgage bonds	February 2014	February 2029	2.80%	97	50 000	EUR	-	4 899
Other bonds	November 2009	November 2014	3.20%	-	-	EUR	4 679	-
Other bonds	December 2010	December 2015	4.00%/12mE + 0.50%	2 795	1 000	EUR	2 883	2 822
Other bonds	December 2013	December 2016	3.00%	1 181	5 000	PLN	1 423	1 383
Other bonds	March 2011	March 2017	3.65%	49	50 000	EUR	2 523	2 473
Other bonds	May 2014	May 2017	3.00%	942	5 000	PLN	-	1 122
Other bonds	July 2014	July 2017	2.00%	25 196	100	EUR	-	2 523
Other bonds	December 2012	December 2018	2.00%	2 085	1 000	EUR	2 121	2 088
Other bonds	September 2014	September 2019	1.07%	1 000	100 000	EUR	-	100 295
Other bonds	September 2014	September 2019	1.50%	15 592	1 000	EUR	-	15 651
Other bonds	December 2013	December 2019	1.50%	677	1 000	EUR	658	673
Investment certificates	February 2013	February 2014	5.50%	-	-	EUR	4 429	-
Investment certificates	February 2013	February 2014	5.50%	-	-	EUR	2 640	-
Investment certificates	February 2013	February 2014	5.50%	-	-	EUR	4 749	-
Investment certificates	July 2013	July 2014	5.50%	-	-	EUR	1 158	-
Investment certificates	augusta 2013	August 2014	5.50%	-	-	EUR	1 331	-
Investment certificates	October 2013	October 2014	5.50%	-	-	EUR	636	-
Investment certificates	June 2012	June 2015	2.30%	494	500	EUR		-
Investment certificates	October 2014	October 2015	8.00%	2 000	1 000	EUR	-	2 196
Investment certificates	November 2014	November 2015	8.50%	1 620	1 000	EUR	-	1 789
Investment certificates	December 2014	December 2015	7.25%	1 041	5 000	NOK	-	640
Investment certificates	December 2014	December 2015	8.25%	300	1 000	EUR	-	332
Investment certificates	March 2014	March 2016	4.50%	40	1 000	EUR	-	42
Investment certificates	May 2013	May 2016	1.50%	1 547	500	EUR	-	-
Investment certificates	August 2013	August 2016	4.50%	441	1 000	EUR	579	475
Investment certificates	October 2013	October 2016	4.50%	525	1 000	EUR	587	567
Investment certificates	May 2014	May 2017	0.67%	1 375	500	EUR	-	-
Investment certificates	December 2013	December 2018	5.00%	612	1 000	EUR	724	702
Investment certificates	March 2014	March 2019	5.25%	574	5 000	PLN	-	737
Investment certificates	March 2014	March 2019	4.00%	784	1 000	EUR	-	897
Total debt securities issued							**624 234**	**854 737**

Transferability of securities is not limited. There are no pre-emptive rights, exchange rights or early redemption rights related to securities. All securities are unsecured.

All securities are issued in book-entry form as bearer or registered securities with annual or semi-annual coupon payments.

All mortgage bonds and selected bonds are traded on the Bratislava Stock Exchange.

As at 31 December 2014, debt securities issued include embedded derivatives in the amount of €726 thousand (2013: €3.93 million) which were separated and are disclosed under 'Financial assets - held for trading' and 'Financial liabilities – held for trading'.

In July 2007 the Group issued fixed rate mortgage bonds in the amount of €16.6 million, which were hedged by interest rate swap in order to protect against interest rate risk. The notional and fair value of the aforementioned hedging derivative is reported in note 37.

During the period, the hedge was effective in the hedging of fair value exposure to interest rate movements. For the year ended 31 December 2014, the Group recognised a net gain of €3.2 million (2013: loss of €1.6 million), representing the loss on the hedging instruments. The total loss on hedged items attributable to hedged risk amounted to €3.1 million (2013: gain of €1.5 million).

28) Provisions

in ths. EUR	2013	2014
Long-term employee benefits provisions	3 977	4 110
Pending legal issues and tax litigation	6 738	7 001
Commitments and guarantees given	12 861	18 891
Provisions for guarantees - off balance sheet (defaulted customers)	6 664	10 470
Provisions for guarantees - off balance sheet (non-defaulted customers)	6 197	8 421
Other provisions	298	298
Provisions	**23 874**	**30 300**

LONG – TERM EMPLOYEE BENEFITS PROVISIONS

The Parent has a defined benefit program, under which employees are entitled to a lump-sum payment upon taking retirement or a working jubilee. As at 31 December 2014 there were 3 861 employees at the Parent covered by this program (2013: 3 796 employees).

During the year ending 31 December 2014, the actuarial calculation based on the projected unit credit method was performed.

PROVISION FOR LEGAL CASES

Provision for legal cases represents provision for Group legal proceedings outstanding as at 31 December 2014 which are from normal banking activities.

PROVISION FOR OFF-BALANCE SHEET AND OTHER RISKS

The provisions for credit risk of off-balance sheet items have been created to cover estimated losses present in the balances of unused loan commitments, guarantees, and letters of credits recorded in the off-balance sheet. Effect of discount is reflected in the calculation using actual market interest rates.

The amounts relating to long-term employee benefits provisions recognised in the Balance Sheet and Income Statement for the years 2014 and 2013 were as follows:

in ths. EUR	Pension obligations	Jubilee provisions	Total
Long-term employee benefits provisions, 31 Dec 2012	**1 668**	**1 833**	**3 501**
Service cost	179	213	392
Interest cost	41	47	88
Payments	(49)	(148)	(197)
Actuarial gains/losses arising from changes from experience assumptions	236	(43)	193
Long-term employee benefits provisions as of 31 Dec 2013	**2 075**	**1 902**	**3 977**
Service cost	154	200	354
Interest cost	55	52	107
Payments	(64)	(90)	(154)
Components recognised in other comprehensive income (Remeasurements)			
Actuarial gains/losses arising from changes in demographic assumptions	3	1	4
Actuarial gains/losses arising from changes in financial assumptions	118	57	175
Actuarial gains/losses arising from changes from experience assumptions	(180)	(172)	(353)
Long-term employee provisions as of 31 Dec 2014	**2 161**	**1 949**	**4 110**

The provision for long-term employee benefits was calculated in accordance with the currently valid mortality tables issued by the Statistical Office of the Slovak Republic.

The actuarial calculation of pension obligations is based on the following assumptions:

Assumptions for the actuarial calculation of pension obligations	2013	2014
Annual real discount rate	2.72%	2.25%
Annual real rate of salary increase in future	0.00%	0.00%
Annual employee turnover	0.00% - 24.44%	2.07% - 15.15%
Retirement age	62 years	62 years

The actuarial calculation of jubilee provisions is based on the following assumptions:

Assumptions for the actuarial calculation of jubilee provisions	2013	2014
Annual real discount rate	2.72%	2.25%
Annual real rate of salary increase in future	0.00%	0.00%
Annual employee turnover	0.00% – 24.44%	2.07% – 15.15%
Retirement age	62 years	62 years

SUNDRY PROVISIONS

in ths. EUR	2013	Additions, includ. increases in exist. provisions	Amounts used	Unused amounts reversed during the period	2014
Pending legal issues and tax litigation	6 738	456	(185)	(8)	7 001
Provisions for contingent credit risk liabilities	12 861	68 177	-	(62 146)	18 891
Other provisions	298	-	-	-	298
Total	**19 897**	**68 633**	**(185)**	**(62 155)**	**26 190**

in ths. EUR	2012	Additions, includ. increases in exist. provisions	Amounts used	Unused amounts reversed during the period	2013
Pending legal issues and tax litigation	10 387	691	(3 301)	(1 039)	6 738
Provisions for contingent credit risk liabilities	10 682	15 424	-	(13 244)	12 862
Other provisions	298	-	-	-	298
Total	**21 367**	**16 115**	**(3 301)**	**(14 283)**	**19 898**

29) Other liabilities

in ths. EUR	2013	2014
Client settlement	50 755	45 024
Suppliers (including accruals)	12 481	32 708
Personnel balances and reserves, Social fund	23 453	27 414
State budget, social and health insurance, taxes	5 145	6 478
Other	6 868	3 092
Total	**98 702**	**114 716**

Development of the social fund liability included in Other liabilities is as follows:

in ths. EUR	2013	2014
As at 1 January	403	216
Additions	1 639	2 341
Drawings	(1 825)	-1 761
As at 31 December	**217**	**796**

30) Equity

Share capital

Authorised, called-up, and fully paid share capital consists of the following:

Nominal value	Number of shares	2013 ths. EUR	Number of shares	2014 ths. EUR
EUR 1.000 each	212 000	212 000	212 000	212 000
Total		**212 000**		**212 000**

The proposed distribution of profit of the parent is shown in the following table:

Dividends per share	Attributable from the profit for the year	
	2013	2014*
Profit of the year	188 259	181 477
Transfer to retained earnings	-	38 281
Dividends paid to shareholder from profit for the year	188 259	143 196
Number of shares EUR 1 000 each	212 000	212 000
Amount of dividends per EUR 1 000 share (EUR)	**867**	**675**

** Based on the proposed profit distribution.*

Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The Group is obliged to contribute an amount to the fund each year which is not less than 10% of its annual net profit (calculated in accordance with Slovak accounting regulations) until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The level of the legal reserve fund was higher then 20% of the issued share capital in both years. The legal reserve Fund is not available for distribution to shareholders.

Other funds

Other funds as at 31 December 2014 included only the Statutory fund amounting to €39.3 million (2013: €39.3 million).

The Statutory fund was created from distributable profits to strengthen the Bank's capital base. The Statutory fund may be terminated and transferred back to distributable profits if the Bank's share capital or legal reserve fund is increased. Such termination and transfer requires the approval of the Supervisory Board and the General Assembly.

Revaluation reserves

Revaluation reserves represent the unrealised revaluation of Securities available for sale. Revaluation reserves are disclosed net of deferred tax effect.

Other funds and revaluation reserves are not available for distribution to shareholders.

31) Segment reporting

The segment reporting of the Group 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 the Group the function of the chief operating decision maker is exercised by the management board. In addition, the the Group segment report follows Erste Group standards for the purpose of presentation, measurement and steering of the group.

Structural change

Following a strategic review, the segment structure as well as the methodology for capital allocation was changed. SLSP, as part of Erste Group, therefore introduced a new segment reporting, starting from 1 January 2014. It is based on the matrix organization (business information) and provides comprehensive information to assess the performance of the business.

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

For the purpose of transparent presentation of the Groups structure, reflecting internal steering and measurement, the segment reporting has been harmonized with the segment structure of Erste Group and is divided into the following business segments:

- Retail,
- SME,
- Assets and Liabilities management (ALM) and Local corporate centre,
- Large Corporates,
- Commercial Real Estate,
- Group Markets,
- Group corporate centre (Free capital).

For the definition of segments/business lines in the Group, the Group applies account manager principle, which means that each client has assigned an account manager, who is assigned to a particular business line/segment. In other words, profit/loss is allocated to an account manager and a customer can only be allocated to one account manager.

Within the segment report the local fully consolidated subsidiaries as well as other participations are allocated to the respective business segment (please see the definitions below).

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. Retail products and services including current and savings accounts, mortgage and consumer loans, investment products, credit cards and cross selling products such as, insurance and building society products are offered via various distribution channels (branch networks and digital banking). The Retail stream is divided into 8 regions, then to 76 areas and then 292 branches (status as of 31 December 2014). In addition the Retail segment also includes at the equity results of building society (PSS, a.s.).

SME

The SME segment primarily comprises small, medium and local corporate enterprises with turnover from EUR 1 million up to EUR 75 million, Public sector (e.g. municipalities). Factoring Slovenskej sporiteľne, a.s. was merged with the Group at 1 November 2014Group and factoring business is presented as single product within SME sector.

Assets and Liabilities Management (ALM) and Local corporate centre

The segment includes activities in connection with balance sheet management, investment securities management, and new issues of debt securities as well as responsibility for setting of internal transfer rates. Consequently, the transformation margin as a result of the mismatch in balance sheet from a time and currency point of view is reported in this segment.
In addition, the segment contains the non-client business of the Group, mainly positions and items which cannot be directly allocated to specific segment or activities which are managed centrally and reconciliation items.

Large Corporates

The Large Corporates segment comprises the business with large corporate customers whose annual turnover exceeds a defined threshold that starts in case of SLSP from EUR 75 million.

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.

Group Markets

The Group markets segment (GM) in terms of SLSP comprises divisionalized business units such as Treasury Trading and Treasury Sales (Retail, Corporate and Institutional Sales) and includes the treasury activities of the Group. The focus is on client-oriented business with institutional clients.

Group corporate centre (Free capital)

The Group Corporate Center segment covers mainly centrally managed activities and items that are not directly allocated to other segments. In terms of SLSP it comprises only free capital which is defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments.

Measurement

The profit and loss statement of the segment report is based on the measures reported to the management board for the purpose of allocating resources to the segments and assessing their performance.
Management reporting as well as the segment report for SLSP 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 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 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, SLSP 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).

in EUR million	Retail		SME		ALM & LCC		Large Corporates		Commercial Real Estate	
	1-12 13	1-12 14	1-12 13	1-12 14	1-12 13	1-12 14	1-12 13	1-12 14	1-12 13	1-12 14
Net interest income	304.9	332.7	36.8	35.6	63.2	57.8	12.2	12.6	8.9	8.0
Net fee and commission income	109.6	109.7	9.5	11.0	-13.7	-11.1	7.2	7.9	0.6	1.4
Dividend income	0.0	0.0	0.0	0.0	0.4	0.7	0.0	0.0	0.0	0.0
Net trading and fair value result	2.6	3.0	1.0	0.3	0.0	0.1	0.2	0.0	0.1	0.1
Net result from equity method investments	2.8	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rental income from investment properties & other operating leases	0.0	0.0	0.0	1.5	1.8	0.4	0.0	0.0	0.0	0.0
General administrative expenses	-198.3	-214.3	-19.6	-21.9	-21.5	-19.4	-3.7	-4.9	-1.8	-1.7
thereof depreciation and amortization	-40.9	-39.0	-2.7	-3.4	-3.8	-2.3	-0.7	-0.9	-0.2	-0.1
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.0	0.0	0.0	0.0	2.0	1.3	0.0	-0.1	0.0	0.0
Net impairment loss on financial assets not measured at fair value through profit or loss	-32.0	-31.9	-4.8	-5.9	2.9	-3.2	-9.9	3.3	-2.7	-17.1
Other operating result	-28.9	-23.1	-2.2	-1.0	-12.9	-7.8	-0.9	-6.5	-0.2	-0.3
Levies on banking activities	-28.9	-22.8	-1.8	-1.4	-6.8	-3.9	-0.9	-1.2	-0.2	-0.2
Pre-tax result from continuing operations	**160.8**	**178.3**	**20.7**	**19.6**	**22.2**	**19.0**	**5.1**	**12.3**	**4.9**	**-9.6**
Taxes on income	-36.6	-38.8	-5.1	-4.2	-5.7	-8.8	-1.2	-2.7	-1.2	2.1
Net result for the period	124.2	139.5	15.6	15.3	16.5	10.2	3.9	9.6	3.7	-7.5
Net result attributable to owners of the parent	**124.2**	**139.5**	**15.6**	**15.3**	**16.0**	**9.6**	**3.9**	**9.6**	**3.7**	**-7.5**
Operating income	419.9	447.6	47.3	48.3	51.7	48.0	19.6	20.5	9.6	9.5
Operating expenses	-198.3	-214.3	-19.6	-21.9	-21.5	-19.4	-3.7	-4.9	-1.8	-1.7
Operating result	**221.7**	**233.2**	**27.8**	**26.4**	**30.2**	**28.6**	**15.9**	**15.6**	**7.8**	**7.8**
Risk-weighted assets (credit risk, eop)	1 899.3	2 228.8	1 040.7	1 004.9	266.6	552.8	411.4	490.3	348.8	160.1
Average allocated capital	207.7	194.9	86.4	80.9	136.5	172.6	39.9	34.1	31.2	22.5
Cost/income ratio	47.2%	47.9%	41.4%	45.3%	41.6%	40.4%	19.0%	23.7%	18.9%	17.5%
Return on allocated capital	59.8%	71.6%	18.1%	19.0%	12.1%	5.9%	9.7%	28.3%	11.9%	-33.3%
Total assets (eop)	5 127	6 044	1 318	1 230	4 215	4 562	571	658	388	356
Total liabilities excluding equity (eop)	7 533	7 936	587	461	1 196	1 773	334	289	49	67
Impairments and risk provisions	**-32.0**	**-32.2**	**-4.8**	**-6.3**	**0.7**	**-3.1**	**-9.9**	**-2.1**	**-2.7**	**-17.3**
Net impairment loss on loans and receivables from credit institutions and customers	-32.0	-31.9	-4.8	-5.9	2.5	0.3	-9.9	3.2	-2.7	-17.1
Net impairment loss on other financial assets not measured at fair value through profit and loss	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Allocation/release of provisions for contingent credit risk liabilities	0.0	-0.3	0.0	-0.4	-2.2	0.1	0.0	-5.3	0.0	-0.1
Net impairment loss on other non financial assets	0.0	0.0	0.0	0.0	0.7	-3.5	0.0	0.0	0.0	0.0

in EUR million	Group Markets		Group Corporate Center		Total group	
	1-12 13	1-12 14	1-12 13	1-12 14	1-12 13	1-12 14
Net interest income	5.2	5.5	16.8	11.7	448.0	463.9
Net fee and commission income	4.2	4.5	0.0	0.0	117.4	123.4
Dividend income	0.0	0.0	0.0	0.0	0.4	0.7
Net trading and fair value result	7.7	6.0	0.0	0.0	11.6	9.6
Net result from equity method investments	0.0	0.0	0.0	0.0	2.8	2.1
Rental income from investment properties & other operating leases	0.0	0.0	0.0	0.0	1.8	1.8
General administrative expenses	-5.7	-5.6	0.0	0.0	-250.5	-267.8
thereof depreciation and amortization	-0.3	-0.8	0.0	0.0	-48.5	-46.7
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.0	0.0	0.0	0.0	2.0	1.3
Net impairment loss on financial assets not measured at fair value through profit or loss	0.0	0.0	0.0	0.0	-46.5	-54.8
Other operating result	-2.5	-2.1	0.0	0.0	-47.7	-40.8
Levies on banking activities	-2.5	-2.1	0.0	0.0	-41.2	-31.5
Pre-tax result from continuing operations	**8.9**	**8.3**	**16.8**	**11.7**	**239.3**	**239.5**
Taxes on income	-2.0	-1.8	-2.2	-2.6	-54.0	-56.8
Net result for the period	6.8	6.5	14.6	9.1	185.4	182.7
Net result attributable to owners of the parent	**6.8**	**6.5**	**14.6**	**9.1**	**184.9**	**182.1**
Operating income	17.1	16.1	16.8	11.7	582.0	601.6
Operating expenses	-5.7	-5.6	0.0	0.0	-250.5	-267.8
Operating result	**11.4**	**10.4**	**16.8**	**11.7**	**331.5**	**333.8**
Risk-weighted assets (credit risk, eop)	29.4	63.5	0.0	0.0	3 996.2	4 500.4
Average allocated capital	4.1	7.3	717.3	712.1	1 223.1	1 224.4
Cost/income ratio	33.1%	35.1%	0.0%	0.0%	43.0%	44.5%
Return on allocated capital	>100%	88.0%	2.0%	1.3%	15.2%	14.9%
Total assets (eop)	80	120	0	0	11 699	12 969
Total liabilities excluding equity (eop)	536	957	173	175	10 408	11 658
Impairments and risk provisions	**0.0**	**0.0**	**0.0**	**0.0**	**-48.7**	**-60.8**
Net impairment loss on loans and receivables from credit institutions and customers	0.0	0.0	0.0	0.0	-46.9	-51.4
Net impairment loss on other financial assets not measured at fair value through profit and loss	0.0	0.0	0.0	0.0	-0.3	0.0
Allocation/release of provisions for contingent credit risk liabilities	0.0	0.0	0.0	0.0	-2.2	-6.0
Net impairment loss on other non financial assets	0.0	0.0	0.0	0.0	0.7	-3.5

32) Related-party transactions

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by EGB Ceps Holding GmbH, which directly holds 100% of the voting rights of the Parent bank's total shares. Related parties represent other members of Erste Group.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits.

Assets and liabilities include accounting balances with the related parties, as follows:

in ths. EUR	2013			2014		
	Erste Group Bank	Companies under the control of Erste Group Bank	Associates	Erste Group Bank	Companies under the control of Erste Group Bank	Associates
Assets						
Derivatives	5 517	703	-	6 671	670	-
Loans and advances with banks	15 643	14 622	-	12 972	40 108	-
Loans and advances with customers	-	43 586	-	-	50 891	-
Other assets - other	5 135	1 232	-	4 000	901	-
Total	**26 295**	**60 143**	**-**	**23 643**	**92 570**	**-**
Liabilities						
Derivatives held for trading	36 192	15 691	-	70 378	16 835	-
Deposits from banks	77 482	2 738	31 163	371 593	516	57 724
Deposits from customers	-	6 049	-	-	14 773	-
Debt securities issued	100 041	-		100 295	-	-
Derivatives – Hedge accounting	-	-	-	49 077	-	-
Other liabilities other	637	999	-	3 275	2 656	-
Total	**214 352**	**25 477**	**31 163**	**594 617**	**34 781**	**57 724**

Income and expenses include transactions with the related parties, as follows:

in ths. EUR	2013			2014		
	Erste Group Bank	Companies under the control of Erste Group Bank	Associates	Erste Group Bank	Companies under the control of Erste Group Bank	Associates
Interest income	610	1 849	-	(4 529)	1 548	-
Interest expense	(2 149)	(242)	(21)	(2 108)	(22)	(27)
Dividend income				-	200	-
Net fee and commisssion income	108	3 427	-	460	5 520	116
Gains / losses on financial assets and liabilities held for trading, net	4 492	14 071	-	(65 784)	(1 901)	-
General administrative expenses	(628)	(7 660)	-	(3 934)	(7 956)	-
Other operating result	285	1 476	-	407	2 036	-
Total	**2 718**	**12 921**	**(21)**	**(75 488)**	**(575)**	**89**

Recognised losses towards Erste Group Bank on lines 'Interest income' and 'Gains / losses on financial assets and liabilities held for trading other, net' represent results from derivative instruments that are used to close positions with the clients.

The Group received a guarantee issued by its sister bank (Ceska sporitelna a.s.) with a maximum value of €100 million (2013: €100 million) covering the Group's exposures towards Slovenske elektrarne a.s. Under the agreement, the sister bank (Ceska sporitelna a.s.) pledged securities issued by the Slovak Republic with a face value amounting to €100 million (2013: €100 million). Another guarantee issued by Ceska sporitelna, a. s. with a maximum value of €17.6 million covers exposures towards s_Autoleasing SK, s.r.o. (2013: €17.6 million).

Exposures towards corporate clients covered by the parent's bank guarantees (excluding exposures towards ERSTE Group entities) are in the amount of €0 (2013: €62 million).

The Group received a bank guarantee provided by its parent bank in the amount of €23.24 million covering exposures towards subsidiaries and other group members (2013: €38.5 million).

The Group entered into a loan contract with its parent company Erste Group Bank representing subordinated debt in the amount of €100 million (2013: €100 million).

As at 31 December 2014 the Group owned a share in real estate fund "Sporo realitny fond SPF Y" of Asset Management Slovenskej sporiteľne in the amount of €12.3 million (2013: €11.1 million).

The Group received dividends from its associates in the amount of EUR 2.6 million (2013: EUR 2.9 million) see note 21.

Transactions with key management personnel

Remuneration of members of the Board of Directors and Supervisory Board paid during 2014 amounts to €2.0 million (2013: €1.8 million) which represents short-term employee benefits. Remuneration policy of the members of Board of Directors is in compliance with the CRD as adopted in the national legislation.

33) Collaterals

The Group holds collateral against loans and advances to customers in the form of real estates, securities, bank guaranties and other credit enhancements. Estimates of fair value are based on the value of collateral assessed at the time of borrowing that is regularly updated. Collateral is not generally held over loans and advances to banks, except when securities are held as a part of reverse repurchase activities (see note 18).

Estimated fair values of collaterals and other credit enhancements held against loans, advances to customers, financial guarantees granted and undrawn loan commitments is shown below:

in ths. EUR	2013	2014
Real estates	5 494 486	6 428 925
Securities	204 817	207 120
Bank guaranties	131 092	77 978
Other	236 958	418 095
Total	**6 067 353**	**7 132 118**

34) Off-balance Sheet items

In the normal course of business, the Group is a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

(a) Loan commitments, Guarantees and Letters of Credit

Bank guarantees and letters of credit cover liabilities to clients (payment and non-payment liabilities) against beneficiaries (third parties). Bank guarantees represents an irrevocable liability of the Group to pay a certain amount as stated in the bank guarantee in the case that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Group performed according to the instruction of the buyer to pay a specified amount to the seller against the documents that meet the letter of credit requirements. The Group deals with letters of credit subject to 'Unified Rules and Customs for Documentary Letter-of-credit', in the version published by the International Chamber of Commerce.

The primary purpose of these instruments is to ensure that funds are available as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees, or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The following table contains off-balance sheet credit exposures and also treasury commitments:

in ths. EUR	2013	2014
Guarantees provided	334 666	311 776
Guarantees from letter of credit	2 559	1 737
Loan commitments and undrawn loans	845 635	981 691
Total	**1 182 860**	**1 295 204**

(b) Assets pledged as collateral

Following table shows assets pledged as collateral for the Group's liabilities. Assets are recognised in the statement of financial position.

2014 in ths. EUR	Carrying amount of transferred assets			Carrying amount of associated liabilities		
	Total	Repurchase agreements	Assets pledged for derivatives	Total	Repurchase agreements	Assets pledged for derivatives
Available-for-sale financial assets	49 483	-	49 483	56 637	-	56 637
Held-to-maturity investments	79 214	69 354	9 861	82 814	71 528	11 286
Total	**128 697**	**69 354**	**59 344**	**139 451**	**71 528**	**67 923**

2013 in ths. EUR	Carrying amount of transferred assets			Carrying amount of associated liabilities		
	Total	Repurchase agreements	Assets pledged for derivatives	Total	Repurchase agreements	Assets pledged for derivatives
Held-to-maturity investments	26 687	26 687	-	27 283	27 284	-
Total	**26 687**	**26 687**	**-**	**27 283**	**27 284**	**-**

35) Financial assets and liabilities subject to offsetting and potential offsetting agreements

2014 in ths. EUR	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Assets							
Derivatives	109 870	-	109 870	-	-	-	109 870
Reverse repurchase agreements	-	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-	-
Total assets	**109 870**	**-**	**109 870**	**-**	**-**	**-**	**109 870**
Liabilities							
Derivatives	152 515	-	152 515	-	4 490	59 344	88 682
Repurchase agreements	71 528	-	71 528	-	-	71 528	-
Other financial instruments	-	-	-	-	-	-	-
Total liabilities	**224 043**	**-**	**224 043**	**-**	**4 490**	**130 872**	**88 682**

2013 in ths. EUR	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Assets							
Derivatives	50 708	-	50 708	-	-	-	50 708
Reverse repurchase agreements	-	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-	-
Total	**50 708**	**-**	**50 708**	**-**	**-**	**-**	**50 708**
Liabilities							
Derivatives	51 991	-	51 991	-	-	-	51 991
Repurchase agreements	27 284	-	27 284	-	-	26 768	516
Other financial instruments	-	-	-	-	-	-	-
Total	**79 275**	**-**	**79 275**	**-**	**-**	**26 768**	**52 507**

36) Risk management

Risk policy and strategy

SLSP takes a prudent and responsible approach to risk and risk-adjusted approach to revenues. Risk appetite of the Group (that is the maximum level of risk that the Group is willing to undertake) is clearly defined, measurable, and widely understood. The Group offsets its risk appetite with sufficient amount of internal capital to cover unexpected losses.

The Group prefers sustainability to short-term high-risk returns. The risk/return profile and the balance of risks follow this principle in order to generate sustainable and adequate return on capital.

Risk functions are independent from the commercial business lines. Risk management is centralized and the Group strives for an integrated risk management framework where all relevant risks are managed comprehensively and where dependencies between different risk types are accounted for.

The Group shall make sure that risk management is properly supported in terms of human, IT, and other resources needed for comprehensive coverage of all major drivers of risk.

Group's primary risk management objective is to achieve a position where it will be able to identify all significant risks it faces, assess their potential impact and have policies in place to manage them effectively. These policies must be periodically reviewed in order to ensure their appropriateness in terms of their performance and in terms of changing circumstances of Group's operating environment.

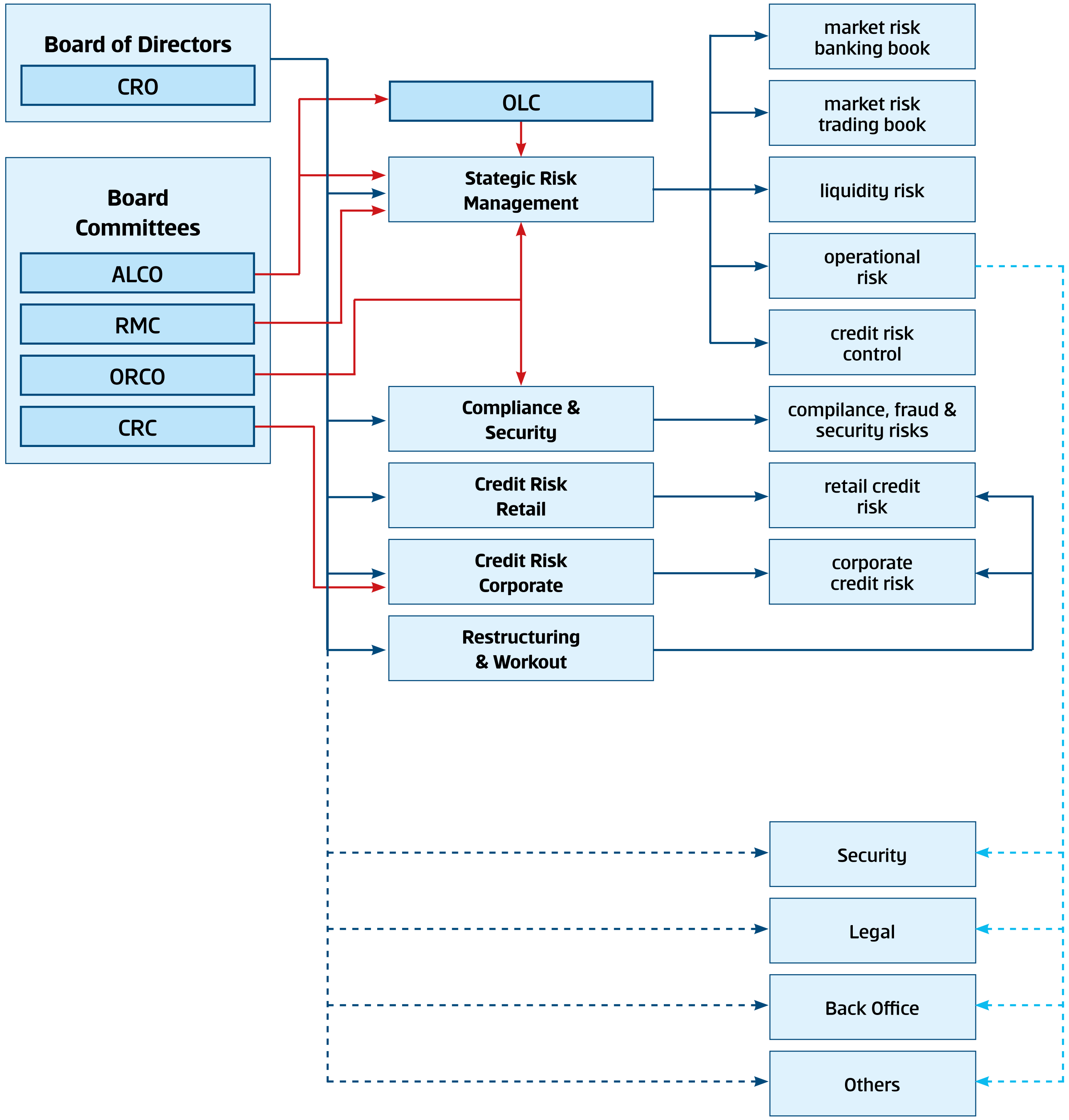
Risk taking is an inseparable part of Group's operations and bank business operations inevitably carry a certain degree of risk. Proper risk management should allow for better exploitation of business opportunities. Therefore, risk management strategy must be clearly linked to the business strategies.

Ultimately, risks should be quantified to the greatest possible extent (considering reasonable effort), and performance measurement of the Group should be risk weighted. Therefore, the model for calculation and allocation of economic capital is continuously being improved and the Group has established a sound internal capital management process (ICAAP).

The Group is also committed to follow the risk management provisions defined by both the local and international law and regulators.

Risk management organization

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. The following chart presents the overview of organizational structure of risk in SLSP:



Overview of risk management structure

The ultimate risk management body is the Board of Directors. It may, however, delegate some of its authority for particular risk management areas to the respective committees (ALCO, ORCO, and CRC). The board also designates one of its members to serve as Chief Risk Officer (CRO).

Asset & Liability Committee (ALCO) has the ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

As for corporate credit risk, the ultimate decision making body is the Credit Committee.

Operational Risk and Compliance Committee (ORCO) is the authorized body to make decisions on operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for operational risk, compliance, financial crime, security, and anti-money laundering issues.

ALCO, ORCO, and CRC are composed of members of the board and senior managers. Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee (OLC) governs the execution of liquidity management. OLC reports directly to ALCO. It analyses the liquidity situation of the bank on a regular basis and proposes measures to be taken. OLC consists of members of Treasury, BSM, and Strategic Risk Management.
Risk Management Committee (RMC) will be a new committee consisting of selected board members and senior managers. It will be responsible for the development and maintenance of effective system of risk management, approval and monitoring of risk management strategy and procedures, ICAAP and risk appetite, and comprehensive stress testing.

Bottom (executive) level of risk management organization consists of five crucial units:

- Corporate Credit Risk Management Division - carries out all activities concerning operative credit risk of corporate clients
- Retail Credit Risk Management Division - is responsible for management of credit risk for retail lending, specifically credit policy, organization of lending process, early collection process, and portfolio management of the retail segment
- Strategic Risk Management - responsible for integrated risk management (ICAAP), operational risk, liquidity risk, market risk (overall as well as particular trading and banking books), and credit risk control, provisioning, and credit risk statistical and rating models. Within operational risk, SRM coordinates activities of global scope of other relevant departments (blue/dashed lines in the chart).
- Compliance & Security – responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence, and recovery of financial fraud) and security (information and strategic security, business continuity management)
- Restructuring & Work out – responsible for effective debt recovery and write-off management. It is also responsible for monitoring, restructuring of receivables over-due, and for specific provisions and collateral management.

Black lines show the assignment of different risk types to respective units. Solid black lines show the areas directly subordinated to Chief Risk Officer.

Strategic Risk Management, Corporate Credit Risk Management may also report directly to their respective committees. Reporting lines to committees are shown in red/dotted.

Risk management is not limited to risk management units only. Rather, all organizational units have to be risk-aware and should contribute to risk management.

All responsibilities regarding risk management are in detail described in Group's risk management strategy.

Comprehensive risk and capital management

Overview
Internal Capital Adequacy Assessment Process (ICAAP) is a process in which all significant risks that the Group faces must be covered by internal capital (coverage potential). This means that all material risks are determined, quantified, aggregated, and compared to the coverage potential. Limits and lower trigger levels are defined and regularly monitored, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

Objectives of ICAAP are to integrate risk management for different risk types into a single high-level process, which then enables to continuously monitor and adjust capital levels to changing risk profiles. It is a comprehensive process that within the Group consists of the following steps:

- Risk materiality assessment
  - identification of the most important risk types which are to be the major focus and which will be included into economic capital calculation
- Risk-bearing capacity calculation
  - calculation of the risk exposure for each particular material risk
  - aggregation of the individual risks into a single economic capital figure
  - calculation of internal capital (coverage potential)
  - relating economic to internal capital
- Stress testing
  - verification of economic capital figures via severe, yet plausible stress scenarios
- Capital management
  - management of consistency between economic and internal capital including forecasting

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the whole process serves to support the Group's management in pursuing its strategy.

Risk materiality assessment
The risk materiality assessment serves the purpose of identification of the most important risk types which are to be the major focus and which will be included in the economic capital calculation. It is an annual process based on both quantitative and qualitative factors, which is conducted for each identified risk type the Group faces.

The output of the risk materiality assessment is the set of material risks, which have to be quantified and covered by capital. It also includes other risk management practices to control and mitigate the identified risks (material or non-material).

Risk-bearing capacity calculation
The risk-bearing capacity calculation (RCC) is ultimately the tool to define the capital adequacy required by the ICAAP. Within the RCC, risk exposure for each particular material risk is quantified. The figures are aggregated into a capital requirement and compared to the coverage potential and the Group´s own funds. The integral forecast, risk appetite limit as well as a traffic light system support management in its discussions and decision processes.

The Board of Directors is briefed regularly, at least on a quarterly basis, in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential, the degree of the risk limit's utilization and the overall status of capital adequacy. It also contains a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks), in the context of Pillar 2, interest rate risks in the banking book, business and strategic risk, and credit risk for sovereign counterparties are explicitly considered within the required economic capital via internal models. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.9% confidence level. During 2014 the utilization of the economic capital was between 47%-49%.

Other risks, namely liquidity risk, credit concentration risk, residual credit risk and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and/or are covered by capital buffer. The capital buffer is proposed by Strategic risk management typically during the risk materiality assessment process and is approved by the Board of Directors.

The coverage potential required to cover risks and unexpected losses is based on regulatory own funds combined profit of the current year and considers subordinated liabilities and regulatory deductibles as well. The coverage potential must be sufficient to absorb unexpected losses resulting from the Group's operations.

Stress testing
Risk exposure calculation models carry inherent statistical error since they must work at extreme confidence interval and time horizon. 99.9% confidence on one year horizon means an extreme loss that occurs once in 1000 years. At this levels the model is impossible to back test, therefore it must be stress tested.

Stress testing is also used to analyse risks which are not covered by capital, mainly concentration, macroeconomic, and liquidity risks, as well as to identify potential vulnerabilities of covered risks which may not be properly covered by the calculation model used. Further, stress testing should also provide management with steering impulses and should yield to corrective actions, if deemed necessary.

Stress testing focuses on impact of severe, yet plausible scenarios on the Group's positions, thus providing further assurance of internal capital adequacy. Should stress testing results show potentially higher losses than calculated risk exposures, the ICAAP profile has to be adjusted either via add-ons to risk exposures or via capital cushion.

The Group was reviewed within Comprehensive Assessment conducted by the European Central Bank (ECB).

The Group passed the first stage of this assessment - Asset Quality Review (AQR). The AQR adjusted CET1 (Core Tier I) ratio reached 19.49% and thus exceeded the required threshold of 8% by a large margin.

The second stage of the assessment comprised Stress tests which are supposed to estimate capital shortfall for various economy scenarios. The adjusted CET1 ratio after baseline scenario over a 3-year period reached 19.91% which also considerably exceeds the threshold required by ECB (8% for baseline scenario). In case of the adverse scenario, the Group reached 19.51% which also comfortably exceeds the regulatory requirement (5.5% for adverse scenario) As a result; the bank will not need any additional capital in accordance with ECB rules.

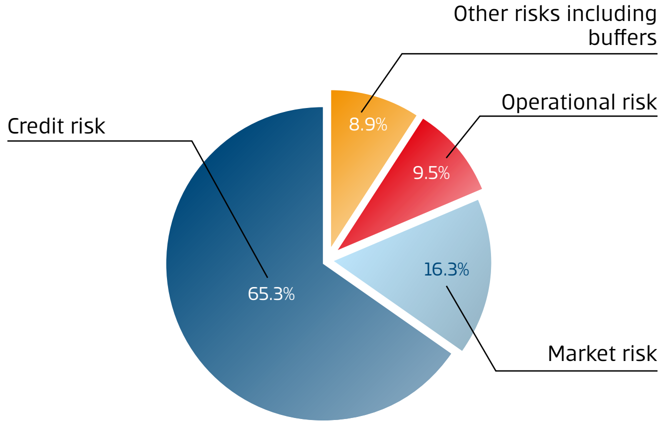
Capital Management
Within capital management, the volume of internal capital (coverage potential) is compared against the calculated risk exposures and should any discrepancies arise, measures must be taken in order to correct the situation. This is carried out quarterly, but the frequency may be increased should the situation require so, and is also forward-looking in that it considers forecasted figures.

Capital management is also part of the Group's business strategy (worked out through budget) which determines risk appetite and capital coverage levels. Comprehensive limit framework is established for each major risk type in order to ensure the day-to-day adherence to the approved risk profile and capital levels.

Risk planning and forecasting
The responsibility for risk management includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the overall planning process. The risk planning and forecasting process includes both a forward- and backward-looking component, focusing on both portfolio and economic environment changes.

Capital allocation
An important task integral to the risk planning process is the allocation of capital to business lines. Each particular risk (both Pillar I and Pillar II) is allocated to business lines based on their risk consumption. The process is done with close cooperation between Risk Management and Controlling.

SLSP's aggregate capital requirement by risk type
The following diagram presents the composition of the economic capital requirement as of 30 September 2014 according to type of risk in %.



Credit risk

Definition and overview
Credit risk, in broad terms, is the risk that a loss will be incurred if the Group's counterparty to a transaction does not fulfil its financial obligations in a timely manner. More precisely, credit risk is the risk of financial loss arising out of entering into a particular contract or portfolio investment.

Credit risk is the largest single risk in the Group. It results from traditional lending activities where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk includes also sovereign, country, concentration, settlement, counterparty, and dilution risk.

The Group shall follow the policy of long-term risk-adjusted profitability and the principle of adequate pricing (higher credit risk leads to higher risk premium).

The Group shall annually review its credit risk tolerance, and shall set priorities, i.e. quantitative and qualitative measures, for the next term with respect to the credit risk point of view.
Three fundamental layers of documents regulate the credit activity of the Group. Credit strategy, defined by the top management, introduces the overall orientation, areas of activity and strategic objectives of the Group. The credit policy sets out the principles, identifies operating procedures, and specifies framework responsibilities related to credit activities. Subordinated internal provisions take the form of detailed manuals or department-specific instructions or guidelines, describing precisely responsibilities to the lowest levels, any applicable deadlines, reports and other relevant contingencies of credit process and credit risk management.

The organization of the Group's credit activity is governed by the following principles:
- clear segregation of credit risk management function from business activities or delegation of these activities to business function with clearly defined split of responsibilities
- centralization of operative credit risk management – independent credit risk management divisions for both corporate and retail segments
- flexibility and accuracy of credit process and quality of credit decisions
- personally assigned and clearly specified competences
- general application of four-eye principle in all critical lending processes (with justified exceptions)
- diversification of credit portfolio in order to keep the exposures within defined limits
- independent credit risk control function – Strategic Risk Management.

Strategic Risk Management
Strategic Risk Management, more specifically its Credit Risk Control department, is the independent risk control unit in line with Basel Capital Accord. SRM is not involved in the operative credit decision-making. However it is responsible for the design of rating systems, testing and monitoring of accuracy and selectivity of internal rating grades, production and analysis of summary reports from the Group's rating systems. SRM is also responsible for the design and implementation of models for calculation of risk parameters (PD, LGD, CCF, etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for calculation of risk-weighted assets according to CRR/CRD and model for economic capital. In addition to this, SRM has two other specific roles:
- credit exposures to banks, sovereigns, and countries, which are governed centrally by Erste Holding (credit analysis, limit setting), are locally approved and monitored by SRM
- credit lines of Treasury clients (approved by Credit Risk Corporate) are determined and monitored by SRM.

Retail Credit Risk Management Division
Retail Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for retail clients and designs and oversees processes in retail lending activity. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). It furthermore monitors the development of credit portfolio of retail clients. It also designs, sets, and monitors limits, maintains deal and limits documentation, and performs early collection.

Corporate Credit Risk Management Division
Corporate Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). It furthermore monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets, and monitors limits and maintains deal and limit documentation for corporate clients.

Restructuring & Workout
Restructuring & Workout is responsible for strategy and effective debt recovery (work-out and late collection) and write-off management. It is also responsible for monitoring, restructuring of receivables overdue, and for specific provisions and collateral management.

Internal rating system
Overview
The Group, as the first bank in Slovakia, reports capital adequacy using the "internal-ratings based" (IRB) approach to credit risk since July 2008. The approval by the Financial Market Authority of Austria and National Bank of Slovakia indicated that the Group's credit risk measurement and control systems are sound and implemented properly into risk management, credit process and capital adequacy estimation as well as into internal controls and reporting and that they play the essential role.

All material aspects of the rating and estimation processes shall be approved by BOD. Senior management and BOD shall possess a general understanding of the internal rating system and detailed comprehension of associated management reports.

Senior management, with main responsibility on head of Strategic Risk Management, shall ensure on an ongoing basis that the rating systems are operating properly. Senior management shall be regularly informed by the credit risk control unit about the performance of the rating process, areas needing improvement, and the status of efforts to improve previously identified deficiencies.

The rating system of the Group comprises all methods, processes, control mechanisms, data collection and IT systems supporting credit risk measurement, assigning exposures to risk grades and risk pools and quantification of risk parameters. The rating system consists of several rating methods and rating tools depending on obligor asset class and other obligor characteristics.

Internal rating is a cornerstone of a complex credit risk management system of the Group. It is a fundamental indicator of the probability of default of a client. The result of a rating assessment is the allocation of an obligor into a particular rating grade.

The internal rating is composed of hard and soft facts about the client and possibly also includes transformed selected external investment rating(s). The Group shall use comprehensive rating systems for evaluation of both retail and corporate clients. Obligors in a given asset class and rating method, which have similar probability of default should have the same rating grade. Rating scale should have sufficient discriminatory power to properly distinguish between various levels of credit risk. Distribution of obligors in a given rating grade should be such that the risk parameters quantification for that grade is sufficiently accurate.

Credit Risk Control department is responsible for development of scoring and rating models. Performance of the models, i.e., accuracy and selectivity of internal rating grades, is regularly monitored and reported. Full scope validation of the models is performed on annual basis.
Assigned ratings shall be reviewed at least annually. Behavioural (batch) rating shall be used for retail exposures, other exposure classes shall be reviewed by Corporate Credit Risk Management Division. If new and important information about the obligor or exposure is available, the rating shall be updated too. It is possible to override a rating only based on information, which is not used by the rating tool, or was not considered during rating approval. All rating overrides shall be recorded and analysed.

The internal rating system shall be properly documented. Detailed principles and processes of the internal rating system shall be specified within internal guidelines.

Risk grades and default definition
The classification of credit assets into risk grades is based on SLPS's internal ratings. SLSP uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of 8 risk grades (for retail) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade. A default is deemed to have occurred with a client when a client is assigned internal rating R, i.e. when whatever of the following events has taken place:

- a client is unlikely to fully repay its credit obligations to the Group without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the Group;
- whatever condition or obligation under contract has been breached by client, on the basis of which the Group is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client whether in full or its part, charge the late payment interests or claim satisfaction of credit exposure from the means securing such credit obligation).

The Group defines 5 default events:

- E1 – unlikely to pay
- E2 – 90 days overdue
- E3 – distressed restructuring on exposure, non-performing forbearance
- E4 – exposure write-off
- E5 – bankruptcy

The Credit Risk Control department participates on the definition of default with Late Collection and Corporate Workout departments. The definition of default fulfils CRR/CRD criteria and influences estimation of LLP, SRC, etc.

Maximum exposure to credit risk
Maximum exposure to the credit risk of financial assets is represented by their net carrying amount (carrying amount in the case of derivatives measured at fair value).

Maximum exposure to credit risk for off balance sheet commitments (e.g. undrawn loan limits, financial guarantees granted) is represented by the maximum amount the Group has to pay if the commitment is called on.

Information regarding exposure to credit risk arising from financial assets other than loans and off balance sheet commitments is detailed in individual notes

Exposure to credit risk from loans, advances to customers, financial guarantees granted and undrawn loan commitments

The following table presents the maximum exposure to credit risk of loans, advances to customers, financial guarantees granted and undrawn loan commitments:

in ths. EUR	2013	2014
Gross amount	**8 695 607**	**9 728 769**
On-balance sheet total (Note 19)	7 512 747	8 433 565
Off-balance sheet total (Note 34)	1 182 860	1 295 204
Gross amount	**8 695 607**	**9 728 769**
Retail (incl. micros)	5 686 946	6 613 377
Corporate and other classes	3 008 661	3 115 393
Allowance for impairment	**(364 411)**	**(366 886)**
Retail (incl. micros)	(243 198)	(231 599)
Corporate and other classes	(121 214)	(135 287)
Net amount	**8 331 196**	**9 361 884**
Retail (incl. micros)	5 443 748	6 381 778
Corporate and other classes	2 887 448	2 980 106

Provisions for impairment are structured as follows:

in ths. EUR	2013	2014
Provisions for losses on loans and advances (Note 19)	351 550	347 994
Provissions for off-balance sheet items (Note 28)	12 861	18 892
Allowance for impairment	**364 411**	**366 886**

Information on the credit quality of loans, advances to customers, financial guarantees granted and undrawn loan commitments, classified as retail asset class by the Group are as follows:

Retail asset class

in ths. EUR	2013	2014
Total exposure		
Investment grade (1-5)	4 973 322	5 935 606
Subinvestment grade (6)	176 922	160 832
Subinvestment grade (7)	93 835	87 260
Subinvestment grade (8)	199 930	87 708
Non-performing exposures (NPE)**	242 937	341 970
Gross amount	**5 686 946**	**6 613 377**
Allowance for impairment	(243 198)	(231 599)
Net amount	**5 443 748**	**6 381 778**
Collective assessment comprises	-	-
0 days	5 210 623	6 083 204
1-30 days	182 545	159 249
31-60 days	29 135	18 225
61-90 days	21 595	10 611
90 days+ *	111	117

** Overdue amount is non material, i.e. less than €50 per client (materiality limit introduced in Q4/09).*
*** Non-performing Exposure (NPE) definition update - alignment with the EBA definition (methodology change). This definition update has no impact to profitability of the bank or to quality of loan portfolio and no additional provision have been needed in respect of this update.*

NPE loans and irrevocable commitments
NPE loans and irrevocable commitments are those for which the Group determines that it is probable it will be unable to collect all principal and interest due according to the contractual terms of these financial instruments.

Past due but not NPE loans
'Past due but not NPE loans' are the loans where contractual interest or principal payments are past due but the Group believes that NPE is not applicable.

Neither past due nor NPE loans
Loans where contractual interest or principal payments are not past due and the Group does not expect impairment

Corporate and other asset classes

Information regarding the credit quality of loans advances to customers, financial guarantees granted and undrawn loan commitments (classified as corporate, institutional or sovereign asset class) are as follows:

in ths. EUR	2013	2014
Total exposure	-	-
Investment grade (1-5)	2 582 470	2 696 015
Subinvestment grade (6)	118 369	109 291
Subinvestment grade (7)	48 188	26 567
Subinvestment grade (8)	44 686	22 050
Non-performing exposures (NPE)**	214 950	261 470
Gross amount	**3 008 661**	**3 115 393**
Allowance for impairment	(121 214)	(135 287)
Net amount	**2 887 448**	**2 980 106**
Individually impaired	-	-
Gross amount	**214 950**	**261 470**
Allowance for impairment	(98 935)	(113 794)
Net amount	**116 014**	**147 676**
Past due but not impairment	-	-
Investment grade (1-5)	34 214	84 903
Subinvestment grade (6)	9 970	4 365
Subinvestment grade (7)	1 729	2 417
Subinvestment grade (8)	29 465	2 747
Non-performing exposures (NPE)**	-	-
Gross amount	**75 378**	**94 432**
Allowance for impairment	(3 291)	(1 152)
Net amount	**72 086**	**93 280**
Past due but not impaired comprises:		
1-30 days	49 123	90 316
31-60 days	12 642	4 042
61-90 days	13 606	22
90 days+ *	6	52
Neither past due nor impaired		
Investment grade (1-5)	2 548 256	2 611 112
Subinvestment grade (6)	108 399	104 926
Subinvestment grade (7)	46 459	24 151
Subinvestment grade (8)	15 221	19 303
Non-performing exposures (NPE)**	-	-
Gross amount	**2 718 334**	**2 759 491**
Allowance for impairment	(18 987)	(20 341)
Net amount	**2 699 347**	**2 739 151**

Note: The increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Group considers financial position and performance of counterparty, qualitative factors as well as general economic trends in particular industry and country.
Exposures rated as 1 – 8 according to the Group's internal rating are not considered to be individually impaired.

** Overdue amount is non material, i.e. less than €250 per client.*
*** Non-performing Exposure (NPE) definition update – alignment with the EBA definition (methodology change). This definition update has no impact to profitability of the bank or to quality of loan portfolio and no additional provision have been needed in respect of this update.*

Renegotiated loans
In September 2014 the SLSP has implemented forbearance definition based on EBA definition. Forborne exposure can be identified both in the performing and in the non performing portfolios.

- Performing forbearance – renegotiated loans for customers without financial difficulties.
- Non performing forbearance – restructured loans for customers, which defaulted after restructuring.
- Defaulted forbearance – restructured loans for customers in default.

Renegotiated loans are exposures with performing forbearance status. The carrying amount of renegotiated exposures during 2014 and 2013:

in ths. EUR	2013	2014
Renegotiated loans	22 832	76 315

In September 2014 the SLSP has implemented forbearance definition based on EBA definition.

Concentration risk
A summary of concentrations of financial assets (including derivatives), loan commitments and guarantees as of 31 December 2014 and 2013 based on the debtors' industry are presented below:

2014	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
in ths. EUR	Gross	Net	Gross	Net	Gross	Net
Natural Resources & Commodities	387 915	378 427	-	-	-	-
Utilities & Renewable Energy	470 291	469 029	-	-	-	-
Construction and building materials	418 921	372 681	-	-	-	-
Automotive	87 774	85 242	-	-	-	-
Cyclical Consumer Products	143 840	133 242	-	-	-	-
Non-Cyclical Consumer Products	190 359	177 562	-	-	13 108	13 108
Machinery	126 416	120 275	-	-	6 646	6 646
Transportation	335 148	328 042	-	-	-	-
Telecommunications, Media, Technology and Paper & Packaging	54 961	54 004	-	-	-	-
Healthcare & Services	101 949	98 177	-	-	-	-
Hotels, Gaming & Leisure Industry	80 469	65 712	-	-	-	-
Real Estate	803 278	758 450	-	-	13 526	13 526
Public Sector	221 201	220 740	-	-	3 506 530	3 506 267
Financial Institutions	131 064	130 240	179 109	179 056	382 257	381 172
Private Households	6 175 144	5 970 024	-	-	-	-
Other	40	37	-	-	-	-
Total	**9 728 769**	**9 361 884**	**179 109**	**179 056**	**3 922 067**	**3 920 719**

2013 in ths. EUR	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
	Gross	Net	Gross	Net	Gross	Net
Natural Resources & Commodities	495 330	477 170	-	-	-	-
Utilities & Renewable Energy	458 384	457 592	-	-	-	-
Construction and building materials	323 889	280 098	-	-	608	608
Automotive	78 780	75 548	-	-	-	-
Cyclical Consumer Products	151 666	135 853	-	-	-	-
Non-Cyclical Consumer Products	192 543	181 190	-	-	19 560	19 560
Machinery	101 990	94 719	-	-	6 601	6 601
Transportation	298 466	291 193	-	-	26 269	26 269
Telecommunications, Media, Technology and Paper & Packaging	145 576	144 101	-	-	-	-
Healthcare & Services	105 819	100 769	-	-	-	-
Hotels, Gaming & Leisure Industry	82 805	73 038	-	-	-	-
Real Estate	721 648	684 406	-	-	12 593	12 593
Public Sector	219 663	219 262	-	-	3 420 002	3 419 736
Financial Institutions	24 176	23 941	80 132	80 122	220 800	220 800
Private Households	5 294 848	5 092 291	-	-	-	-
Other	26	25	-	-	-	-
Total	**8 695 607**	**8 331 196**	**80 132**	**80 122**	**3 706 433**	**3 706 167**

A summary of the concentrations of loans and advances to customers, loan commitments, and guarantees classified by asset classes (as of 31 December 2014 and 2013) is presented below:

in ths. EUR	2013		2014	
	Gross	Net	Gross	Net
Retail	5 686 946	5 443 748	6 613 377	6 381 778
Corporate	2 783 293	2 662 480	2 861 897	2 727 095
Institution	225 368	224 967	252 695	252 229
Sovereigns	0	0	800	782
Carrying amount	**8 695 607**	**8 331 196**	**9 728 769**	**9 361 884**

The following table presents a summary of the Group's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government, and similar exposures:

in ths. EUR	2013		2014	
	Amount	Portion of total assets %	Amount	Portion of total assets %
Cash and balances at the central bank	39 673	0.34%	87 392	0.68%
Loans and advances to customers	566 306	4.85%	536 330	4.14%
Securities portfolios	3 247 034	27.84%	3 418 612	26.41%
Deferred income tax asset	36 287	0.31%	33 923	0.26%
Total	**3 889 300**	**33.34%**	**4 076 257**	**31.5%**

The Group holds a large volume of State debt securities. A breakdown of State debt securities is shown below per portfolio and type of security:

in ths. EUR	2013	2014
Financial assets at fair value through profit or loss	**6 565**	**-**
State bonds denominated in EUR	6 565	-
Securities available for sale	**586 334**	**922 281**
Treasury bills	-	-
Slovak government Eurobonds	583 643	922 281
Companies controlled by the Slovak government	2 691	-
Securities held to maturity	**2 654 135**	**2 496 331**
State bonds denominated in EUR	2 605 021	2 467 393
State bonds denominated in USD	25 539	28 938
Companies controlled by the Slovak government	23 575	-
Total	**3 247 034**	**3 418 612**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Standard & Poor's is A with positive outlook (rating since January 13th 2012, outlook updated on August 1st 2014).

Market risk

Definition and overview
Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of the four key elements:

- risk identification - identify all risks inherent in the trading operations and in new products (new products check), and ensure these are subject to adequate procedures and controls before being introduced or undertaken
- risk measurement – calculation of risk exposure using sensitivities and value-at-risk.
- limits management - comprehensive limit system and limit allocation in order to restrict the maximum risk exposure
- risk monitoring and reporting

The entire market risk management is independent from the business lines and is carried out by Strategic Risk Management (SRM). Trading and investment operations are subject to strict rules defined by SRM and approved by ALCO committee.

Methods and instruments employed
All positions of the Group, both in banking and trading books, that are subject to market risk are re-valued daily (including positions held-to-maturity), either to market or to model, and respective Profit or Loss is calculated.

The main tool to measure market risk exposure in the Group is sensitivity analysis and value-at-risk (VAR) which is complemented by back testing and stress testing programme.

VaR for trading book and investment portfolios of banking book estimates the maximum potential loss over 1-day holding period with 99% confidence interval and is based on historical simulation (2-year history window, equally weighted) while all positions are treated via full valuation in the calculation (i.e. no simplification of positions for the purpose of VaR). VaR is measured consistently across all portfolios (both banking and trading book) and relevant market factors. The Group's VaR model was approved by the regulator to be used for the regulatory capital charge calculation.

In addition to that, a stressed value-at-risk measure is calculated whereby the above described model is repeatedly applied to a 2-year rolling window of historical rates within longer time span to come up with the most severe VAR measure over a current position.

VAR for the overall banking book uses 99% confidence interval, 10-day holding period, 6-year rolling window for the historical simulation and a decay factor of 0.99.

In order to validate the value-at-risk model, daily back testing routines are applied. In the procedure the real value of closing position of the previous trading day is computed first using relevant market rates of that day. The same closing position is then revalued using the closing market rates of the current day. The difference between the two values is the so-called hypothetical profit and loss, i.e. profit and loss that would have been obtained if the position remained unchanged during the last trading day. If this P/L figure exceeds the value-at-risk figure, an exception is recorded and documented. Back testing is conducted not only for the whole trading book, but also for each trading desk, and additionally for each applicable risk factor (interest rate, FX rate, stock price, volatility, etc.).

VaR is subject to some model assumptions (e.g. historical simulation), hence stress testing is established in order to partially tackle these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

Furthermore, the application of the 'extreme value theory' allows describing the influence of events with extreme low probability on the P/L of the trading portfolio, and thus well supports other stress testing measures and the model itself. The Group uses

EVT based on approximation of empirical market data (two year history) by Pareto probability distribution function. From this function, it is possible to obtain maximum loss (i.e. the EVT loss) with confidence level of 99.95% (compared to 99% VaR). It is measured on daily basis.

Overall market risk of the entire balance sheet is also measured using market value of equity measure – all positions of the Group are re-valued using an extreme (200bp) up and down parallel shift of the yield curve and the resulting sensitivity is related to available capital.

Risk mitigation and reporting
In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VaR, sensitivity, and stop-loss limits. Limits are structured according to individual sub-portfolios (separate limits are defined for derivative trades). Monitoring is performed daily by SRM.

Risk reporting is done daily for relevant management and monthly for ALCO.

Market risk measures
The following tables summarize the risk measures as of 31 December 2014 and 31 December 2013. VaR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

Value at Risk of banking book and trading book 2014

in ths. EUR	Total
Trading book VaR	27.06
Banking book VaR - ALM portfolio	6 782.54
Banking book VaR - Corporate portfolio	915.38
Overall Banking book VaR (November 2014)	49 248.85
Overall Banking book sensitivity (200bp shock) (November 2014)	188 722.03

Value at Risk of banking book and trading book 2013

in ths. EUR	Total
Trading book VaR	9.58
Banking book ALM portfolio VaR	11 157.98
Banking book Corporate portfolio VaR	1 353.82
Overall Banking book VaR	102 297.62
Overall Banking book sensitivity (200bp shock)	179 445.85

Liquidity risk

Definition and overview
The liquidity risk is defined in SLSP as the inability to meet Group's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of Group.

Liquidity risk is within the authority of ALCO. The L-OLC (Local Operating Liquidity Committee) is responsible for operational managing and analysing of the liquidity situation of the Group.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

Liquidity strategy
The primary goal of the Funding Strategy in 2014 was to cover the planned funding gap coming from the core business by increased issuance of own bonds and local & intragroup money market funding, and thus to reach an optimal liquidity status in terms of structure and costs versus risk tolerance. This goal has been successfully reached when the notional value of the own issues portfolio have increased from EUR 690 to 914 million, and the rest of the gap was financed via treasury operations mainly by intragroup deals with Erste Holding.

SLSP has maintained sufficient liquidity reserve throughout 2014 created mainly by government bond portfolio. Total liquidity reserve was €4.1bn as end of December 2014. Volume of an available liquidity reserve used for Survival Period Analysis calculation was €3.8bn on average during year 2014. This fact together with a very high share of stable customer deposits indicates a strong liquidity position.

Methods and instruments employed
Short-term insolvency risk is monitored by calculating the survival period (SPA – survival period analysis) on weekly basis. This analysis determines the maximum period during which the bank can survive different crisis scenarios (severe market, idiosyncratic, or combined crisis) while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow.

Liquidity ratios defined by the regulator (LCR, NSFR, and local LCR) are periodically monitored and are all at very satisfactory levels. All limits defined by the regulator are observed with large buffer.

Additionally, the static liquidity gap is monitored regularly on weekly basis and reported monthly to ALCO. Funding concentration risk is continuously analysed in respect to counterparties and is also reported to ALCO monthly.

Newly introduced in 2014 was reverse stress testing of liquidity where several assumptions (withdrawal, rollover, reserve haircuts) are modelled in order for the Group to survive exactly one month. This is done on a monthly basis and is reported to ALCO.

Methods and instruments of risk mitigation
General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by L-OLC and ALCO.

The short-term liquidity risk is managed by limits resulting from the survival period analysis where horizon limits are defined for each scenario as follows:

- ordinary course of business – over 3 months
- severe name crisis – over 2 months
- severe market crisis – over 2 months
- combined name and market crisis – over 1 month

The minimum volume of the liquidity buffer (counter-balancing capacity) is limited by EUR 1.5 billion. SLSP daily monitors its counter-balancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets. These assets can be mobilized in the short term to offset potential cash outflows in a crisis situation.

Further, short-term risk is managed by regulatory and internal (more severe) limits on LCR, NFSR, and local LCR ratios.

Funding Concentrations management - no client may account for more than 30% of the total whole-sale funding. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess. Sum of top 10 biggest clients may not account for more than 50% of the total wholesale funding. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess.

Based on analysis and measurement, and based on liquidity strategy, medium and long-term (structural) management of liquidity is carried out by BSM while major decisions have to be approved by ALCO. Strategic Risk Management must ensure that the execution is in line with the approved Liquidity Strategy and that the approved limits are being followed. ALCO must be informed on the status of structural liquidity within the regular ALCO liquidity reports.

The Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk
Regulatory Ratios
All regulatory ratios were well above the defined regulatory limits throughout 2014. At end of 2014, LCR was over 200%, locally defined LCR was at 169%, the liquid assets ratio was 1.29 (limit >1.0).

Internal Analysis
Counter-balancing capacity - minimum amount of highly-liquid ECB eligible securities to cover unexpected cash outflow was EUR 4.1bn at the end of 2014 and was well above the limit during the entire year 2014. The term structure of the Group's counterbalancing capacity as of year-end 2014 and year-end 2013 are shown in the tables below:

Term structure of counterbalancing capacity 2014

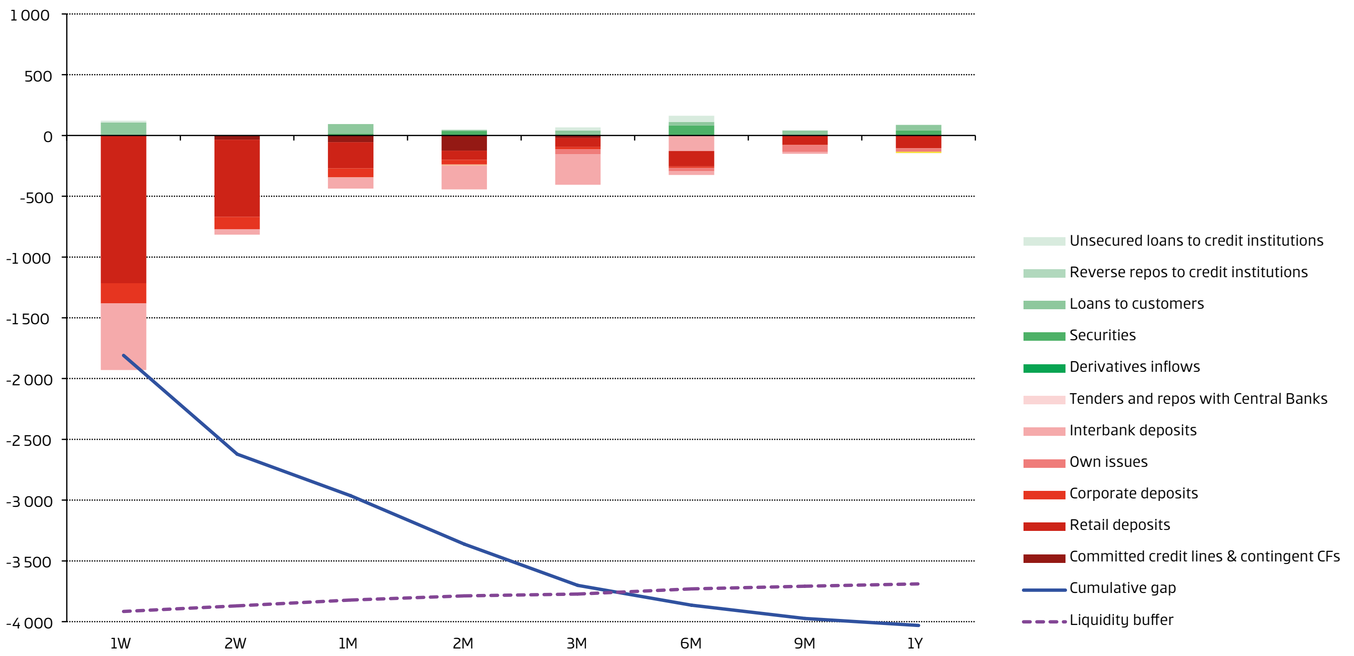
in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	261	-	-	-	-
Liquid assets	3 827	-	-16	-14	-
Counterbalancing capacity	**4 088**	**-**	**-16**	**-14**	**-**

Term structure of counterbalancing capacity 2013

in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	246	-	-	-	-
Liquid assets	3 465	-	-8	-57	-40
Counterbalancing capacity	**3 712**	**-**	**-8**	**-57**	**-40**

Survival Period Horizon - during 2014 all SPA limits were fulfilled. The most severe scenario (combined crisis) had a minimum value of 48 days but has increased toward year end to three months. The results for the combined crisis are depicted below:

Combined Crisis



Funding concentrations - during 2014 both concentrations limits were fulfilled at all times.

Operational risk

Main objectives of effective system of operational risk management are:

- to set up a bank-wide framework for operational risk management and to translate this framework into specific policies, procedures or processes that can be implemented and verified within different business units
- to properly identify major drivers of operational risk
- to develop model for quantification of risk exposure profile and for calculation of both economic and regulatory capital
- to prevent or minimize losses due to operational risk by adaptation of suitable processes, preventive measures or by selecting suitable insurance
- to continuously improve the operational risk management process (described in subsequent chapters on risk identification, measurement and management)
- to provide quality reporting and documentation

Risk Identification
Comprehensive risk identification is imperative for each subsequent stages of the operational risk management life cycle. Its primary objective is to provide information needed for correct decision making within operational risk management. Prompt risk identification may lead to quick detection and correction of deficiencies in policies or processes, and may substantially reduce the potential frequency and/or severity of loss events.

Risk identification should be generally forward-looking. While it is inevitable to use historical loss data, they should be supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors should be translatable into quantitative measures.

The most significant sources of operational risk in the Group are:

- theft and fraud (both external and internal)
- legal risks
- human processing error
- data, infrastructure, and system related risks
- improper practices (including incomplete or ambiguous internal guidelines)
- natural disaster and wilful damage

These sources of risk must be consistently assessed and re-evaluated using a variety of risk identification techniques, described in the following sub-sections. The results of the risk identification are regularly reported to high-level decision bodies (ORCO, Board of Directors).

Internal Data Collection
The Group shall maintain a central database of operational risk events and losses. This should be as comprehensive as possible in that it captures all material activities throughout the Group. Data collection is conducted via a web-based application EMUS.

Operational risk event is defined as an event due to inadequate or failed processes, human factors or systems, or external events, which lead (or have the potential to lead) to losses, or have other negative impact on the Group. All organizational units and their employees are obligated to report operational risk events, encountered or potential loss (both direct and indirect) of which is higher than defined threshold, or is not quantifiable yet relevant. Reporting is done via EMUS, where every employee of the Group has an access right. Information on loss amounts, recoveries, date of event, and other relevant descriptive information must be provided.

Events have two-stage acceptance procedure. Depending on the type of event, first stage is conducted by either IT Security, Physical Security, Financial Crime & Compliance, Card Services, Internal Services or Strategic Risk Management. Second stage is a data consistency check and is performed by Strategic Risk Management. Events should be categorized according to business lines. Special attention must be paid to events that span more than one business line, or events that arise in centralized function that cannot be directly mapped to a business line. Internal data collection process shall be covered by Strategic Risk Management in an associated guideline. This guideline covers definitions, principles for event and loss classification, minimum loss threshold, event acceptance procedure, required data for each event, etc..

External Data
As severe operational risk events are scarce, and may not have been captured in internal data collection, the Group shall also include adequate external event data in its risk identification system. These should cover infrequent severe events with relevance to the Group or financial industry. The Group should systematically incorporate external data into its risk measurement methodology. External data collection shall be coordinated with Erste Group efforts on this matter and will be conducted by Strategic Risk Management.

Scenario Analysis
Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The Group shall include such analysis in order to evaluate its exposure to high-severity events and to derive reasonable estimates of potential severe losses. The results will in turn serve as input factors to the risk measurement process. Scenarios must be periodically reassessed for meaningfulness and should consider breakdown of assumed correlation patterns (i.e. the possibility of two or more severe events happening simultaneously). Scenario analysis is conducted by Strategic Risk Management.

Risk Mapping and Key Risk Indicators
The objective of this risk identification technique is to map the level of different operational risks across the Group and to set up a measurable framework (known as key risk indicators) that tracks the most important drivers of operational risk and that could subsequently be used in risk measurement. Risk mapping is a top-down approach. Strategic Risk Management, with the help of respective senior or 3rd level manager, will conduct an analysis and grading of operational risks inherent in each unit's activities, in order to come with overall risk map of the Group. The resulting map will have three dimensions, namely:

- risk category
- business line/product
- functional process level – where applicable, this provides depth for the business line/product dimension (e.g. stages of particular process or lifecycle phases of product)

The outcome of risk mapping will provide the basis for defining the KRI, which will in turn be periodically monitored. It will serve as input for risk measurement and operational risk management decision making. Reporting on KRI is the responsibility of business units.

KRI should have the following properties:

- it should be easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate

- it should be effective, i.e. apply to high risk points, reflect objective measurement rather than subjective judgment, and provide useful management information.

Risk Measurement

The Group measures its operational risk exposure using the loss distribution approach. In this, the probability distribution of both frequency of loss and amount of loss is modelled, and is recombined (typically using Monte Carlo simulation) into a compound distribution of yearly losses. Out of this distribution, both expected and unexpected losses could be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9% and the holding period should be one year.

In modelling the distribution, all outcomes of risk identification process should be used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems should be used. In calculating the exposure, mitigation techniques (specifically insurance) may be included. This is done via decreasing of the gross loss for individual loss events by probable insurance coverage.

The Group should be able, given both adequate data and sound models are available, to arrive at sufficiently granular profile of the risk exposures, i.e. to calculate the exposures for all major drivers of operational risk (along business lines and risk types). Over time, the model should be validated through comparison to actual experience and appropriate corrections should be made. Design of the risk measurement model is within the responsibility of Erste Holding (for more details see the group AMA documentation). Modelling inputs are provided by Strategic Risk Management.

Managing Operational Risk

Management of operational risk is primarily the responsibility of each individual business unit in its daily course of operations. In addition, Strategic Risk Management has a harmonization role and performs activities of global scope.

In general, operational risk can be managed via any (or a combination) of the following:

- risk mitigation, including insurance and internal control system
- risk acceptance
- decrease of the extent or disposal of the risk activity

Selection of the approach is by definition the responsibility of senior managers or of the Board of Directors for the activities and risks of global scope. For risks identified as significant, senior managers are required to present the selected risk management tactics to a high-level decision body (ORCO, Board of Directors) for approval.

The following sub-sections give an overview of the main activities regarding operational risk management within the Group.

Operational Risk and Compliance Committee (ORCO)

ORCO is the ultimate decision-making body for operational risk issues. It is defined as a high-level management committee that deals with operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for, or risk acceptance of operational risk, compliance, financial crime, IT security and operations, anti-money laundering, etc.

SRM or any other unit may present results of risk identification and risk measurement processes or other operational risk issues to ORCO for a risk acceptance/disapproval decision. It will typically happen in case high risk was identified during risk mapping or larger loss event was recorded or any substantial activity carrying possible high operational risk is planned. In case ORCO does not accept the identified risk, it assigns tasks to senior management to come up with mitigation measures. ORCO consists of selected board members, senior managers, and other representatives.

System of Internal Controls

Each unit manager shall implement a system of internal controls within his area of competence, with the objective of identification and mitigation of operational risks. Within the system, a set of operative controls is created, in order to systematically check selected product, service, process, etc. Each unit manager is responsible for effectiveness and quality of the system. It is also his responsibility to identify problematic or risky areas that should be covered by operative controls.

Internal control system shall consist of:

- risk assessment – in order to determine what are the most important processes and what controls are needed
- written policies and procedures – all important operations must be covered by operation manuals
- control activities – control procedures itself
- review – in order to assess the appropriateness of controls
- accounting, information, and communication systems – a proper combination of such systems in order to provide detailed, accurate, and timely information

Principles to be followed when implementing ICS include, but are not limited to:

- four-eye principle
- thorough task assignment and monitoring
- substitutability of staff
- required vacation or absence from duties (for relevant units only)
- segregation of duties
- avoidance of conflict of interest

Internal Audit shall regularly conduct an audit of the Group's ICS in order to determine whether the Group is following enacted policies and procedures. Strategic Risk Management shall issue associated Internal Control System Policy giving detailed information on the system. However, SRM does not assume any coordination role in the implementation and execution of ICS by individual managers.

Insurance

In order to mitigate operational risk, the Group shall engage in a comprehensive insurance program. This should cover direct or indirect losses due to all major sources of operational risk, i.e. improper use or failure of internal processes, human factor failures, system failures or external factors, and that in both the bank and its daughter companies. The primary objective of the insurance program is to safeguard the Group against catastrophic events. Insurance does not serve for protection against common, expected losses. Responsibility for the insurance program is given to Strategic Risk Management. It shall design suitable and cost-effective insurance program with the objective of minimizing losses due to operational risk. Overall insurance program is designed on Erste Holding level. The program is to be documented in an associated guideline which should, inter alia, cover procedures in case of insurance incident.

Outsourcing

Outsourcing is defined as long-term delegation of internal operation to external entity that specializes in that operation. In context of operational risk management, the primary focus is on outsourcing of banking operations.

Outsourcing should be governed by the following high-level principles:

- outsourcing of any banking operation must be approved by the board of directors by outsourcing an activity,
- the Group neither relinquishes the responsibility for, nor does it get disposed of the risks brought along by such activity
- special attention is to be paid to legal and regulatory issues.

General outsourcing policy is defined on Erste Holding level. Strategic Risk Management is responsible for local implementation of this policy, giving detailed definition of principles and procedures for outsourcing. These shall be documented in associated internal policy. All outsourced activities must strictly follow this policy.

Each outsourcing must have an outsourcing sponsor and an outsourcing manager (both coming from the Group) who are responsible for governance, correct functioning, operational risk, and other issues related to the outsourced activity.

Operational risk management related to outsourcing is within the responsibility of respective outsourcing sponsor and outsourcing manager. Strategic Risk Management shall periodically conduct overall risk assessment of outsourcing.

Outsourcing shall be periodically checked by Internal audit.

37) Fair values of financial assets and liabilities

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 both external (similar securities or issuers) and internal (risk parameters such as rating, PD, or LGD) sources are used.

Financial instruments measured at fair value in the balance sheet

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

The measurement of fair value at the 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

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

Securities

For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including also methods described for OTC-derivatives. All securities are valued using the bid/ask levels (depending whether asset or liability, i.e. more conservative then the mid level).

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

The Group values derivatives at mid-market levels.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group`s credit quality. The Group has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling 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. The Group's probability of default has been derived from the buy-back levels of the 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. Both the methodology and the calculation itself are carried out by Erste Holding.

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 €3.87 million (2013: €1.35 million) and the total DVA-adjustment amounts to €1.73 million (2013: €1.12 million).

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

A level 3 position involves one or more significant inputs that are not directly observable on the market. Additional price verification 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 carried out by risk management unit which is independent from all trading, sales, or investment units.

Fair value hierarchy

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

in ths. EUR	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	
	2013	2014	2013	2014	2013	2014	2013	2014
ASSETS								
Financial assets held for trading	-	-	50 708	99 467	-	2 081	50 708	101 548
Derivatives held for trading	-	-	50 708	99 467	-	2 081	50 708	101 548
Financial assets designated at FV through profit or loss	10 791	-	6 629	6 646	13 752	13 557	31 172	20 203
Financial assets - available for sale	619 046	1 001 348	187 947	187 637	34 444	29 489	841 437	1 218 474
Derivatives - Hedge accounting	-	-	5 119	8 322	-	-	5 119	8 322
Total Assets	**629 837**	**1 001 348**	**250 403**	**302 072**	**48 196**	**45 127**	**928 436**	**1 348 547**
LIABILITIES								
Financial liabilities held for trading	-	-	51 991	103 439	-	-	51 991	103 439
Derivatives held for trading	-	-	51 991	103 439	-	-	51 991	103 439
Derivatives - Hedge accounting	-	-	18 159	49 077	-	-	18 159	49 077
Total Liabilities	**-**	**-**	**70 150**	**152 516**	**-**	**-**	**70 150**	**152 516**

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

There were no significant transfers between Level 1 and Level 2 of financial instruments measured at fair value in the balance sheet.

Movements in Level 3 of financial instruments measured at fair value

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

in ths. EUR	2013	Gains / Losses in profit or loss	Gains / Losses in other comprehensive income	Purchase	Sales/ Settlements	Transfer into Level 3	2014
ASSETS							
Financial assets held for trading	-	-	-	-	-	2 081	2 081
Derivatives held for trading	-	-	-	-	-	2 081	2 081
Financial assets designated at fair value through Profit & Loss	13 752	976	-	-	(1 198)	28	13 557
Financial assets available for sale	34 444	962	338	2 000	(8 255)	-	29 489
Total assets	**48 196**	**1 938**	**338**	**2 000**	**(9 453)**	**2 109**	**45 127**

in ths. EUR	2012	Gains / Losses in profit or loss	Gains / Losses in other comprehensive income	Purchase	Sales/ Settlements	Transfer into Level 3	2013
ASSETS							
Financial assets designated at fair value through Profit & Loss	13 085	(1 070)	-	1 800	(63)	-	13 752
Financial assets available for sale	34 011	964	436	-	(967)	-	34 444
Total Assets	**47 096**	**(106)**	**436**	**1 800**	**(1 030)**	**-**	**48 196**

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

in ths. EUR	2013	2014
ASSETS		
Financial assets designated at fair value through Profit & Loss	-	2 124
Financial assets available for sale	-	2 124
Total Assets	1 070	912
Total	**1 070**	**3 036**

The volume of Level 3 financial assets consists solely of a few positions in illiquid securities.

Financial instruments whose fair value is disclosed in the notes

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

in ths. EUR	Carrying amount	Fair value	Quoted market prices in active marktes Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	408 119	408 119	-	-	-
Financial assets - held to maturity	2 579 817	3 061 949	2 995 616	66 231	102
Loans and receivables to credit institutions	179 056	163 124	-	-	163 124
Loans and receivables to customers	8 085 570	8 096 877	-	-	8 096 877
LIABILITIES					
Financial liabilities measured at amortised costs	11 336 810	10 903 537	-	936 200	9 967 337
Deposits from banks	740 685	732 923	-	-	732 923
Deposits from customers	9 666 285	9 459 321	-	-	9 459 321
Debt securities issued	929 840	936 200	-	936 200	-

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2013.

in ths. EUR	Carrying amount	Fair value	Quoted market prices in active marktes Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	329 978	329 978	-	-	-
Financial assets - held to maturity	2 764 887	3 031 121	1 722 587	1 308 534	-
Loans and receivables to credit institutions	80 122	80 247			80 247
Loans and receivables to customers	7 161 197	6 940 426			6 940 426
LIABILITIES					
Financial liabilities measured at amortised costs					
Deposits from banks	424 399	326 308			722 547
Deposits from customers	9 090 560	8 975 002			8 975 002
Debt securities issued	697 234	723 676		723 676	

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available, otherwise it is estimated by taking into consideration the actual interest rate environment and in this case they are allocated to Level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads, and these are allocated to Level 3.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated market value and the notional amount of the hypothetical loan equivalents represents the fair value of these contingent liabilities.

Fair values of non-financial assets

The fair values of non-financial assets are determined by experts with recognised and relevant professional qualification.

Property, equipment and other assets

Property, equipment and other assets are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell.

Fair values of non-financial assets owned by the Group are based on valuation reports relying essentially on observable market inputs (such as selling price per square meter charged in recent market observable transactions for similar assets). Such measurements are disclosed as Level 2 of the fair value hierarchy. If fair values of non-financial assets result from valuation models using expected future rental income method they are presented in Level 3 of the fair value hierarchy.

For non-financial assets owned by the Group the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

Investment property

Investment property is measured at fair value on recurring basis.

The estimated fair value of investment property as at 31 December 2014 was €3.2 million (2013: €2.4 million). The Group uses its own model for determining the fair value of investment property, which is based on discounting future rental income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location. Such measurements are presented in Level 2 of the fair value hierarchy.

38) Current and non-current assets and liabilities

The following table shows the distribution of assets and liabilities and equity to current (due within one year) and non-current (due over one year) based on their remaining contractual maturity.

in ths. EUR	2013		2014	
	< 1 year	> 1 year	< 1 year	> 1 year
Assets				
Cash and cash balances	329 978	-	408 119	-
Financial assets - held for trading	10 901	39 807	23 923	77 624
Derivatives	10 901	39 807	23 923	77 624
Financial assets - at fair value through profit or loss	5 641	25 530	4	20 199
Financial assets - available for sale	58 424	800 977	54 627	1 164 525
Financial assets - held to maturity	134 128	2 630 759	80 896	2 498 921
Loans and receivables to credit institutions	67 651	12 471	179 056	-
Loans and receivables to customers	1 227 763	5 933 434	1 316 462	6 769 108
Derivatives - hedge accounting	-	5 119	-	8 322
Property and equipment	-	210 241	-	188 726
Investment properties	-	2 805	-	3 306
Intangible assets	-	97 234	-	89 964
Investments in subsidiaries and associates	-	24 785	-	24 313
Current tax assets	5	-	296	
Deferred tax assets	-	36 582	36	34 213
Other assets	23 553	21 258	26 010	-
TOTAL ASSETS	**1 858 044**	**9 841 002**	**2 089 427**	**10 879 223**
Liabilities				
Financial liabilities - held for trading	10 727	41 264	29 411	74 028
Derivatives	10 727	41 264	29 411	74 028
Financial liabilities measured at amortised cost	9 176 866	1 035 327	10 031 349	1 305 461
Deposits from banks	244 880	179 519	499 595	241 090
Deposits from customers	8 780 387	310 173	9 378 803	287 482
Debt securities issued	151 599	545 635	152 952	776 888
Derivatives - hedge accounting	-	18 159	-	49 077
Provisions	688	23 186	-	30 300
Current tax liabilities	2 612	-	22 958	-
Deferred tax liabilities	-	342		569
Other liabilities	93 892	4 810	114 357	359
TOTAL LIABILITIES	**9 284 785**	**1 123 088**	**10 198 434**	**1 459 435**

The following table shows the Bank´s remaining contractual maturity for its non-derivative financial liabilities. The table have been drawn up based on undiscounted cash flows of financial liabilities.

in ths. EUR	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total 2014
Financial liabilities measured at amortised cost						
Deposits from banks	403 615	82 068	14 093	181 279	64 563	745 618
Deposits from customers	6 932 558	1 031 685	1 419 849	290 859	-	9 674 952
Debt securities issued	539	47 856	105 918	642 916	204 938	1 002 167
Total	**7 336 711**	**1 161 610**	**1 539 860**	**1 115 055**	**269 502**	**11 422 737**

in ths. EUR	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total 2013
Financial liabilities measured at amortised cost						
Deposits from banks	170 566	65 835	8 520	165 673	14 488	425 082
Deposits from customers	6 318 312	770 702	1 699 905	315 905	-	9 104 824
Debt securities issued	6 326	44 868	101 762	421 302	187 017	761 275
Total	**6 495 204**	**881 405**	**1 810 187**	**902 880**	**201 505**	**10 291 181**

39) Own funds and capital requirements

The Group's lead regulator, ECB together with NBS as local regulator, sets and monitors capital requirements.

Regulatory capital

Supervising authorities for the Group are European Central Bank together with National Bank of Slovakia and Austrian Financial Market Authority. Based on their common decision the Group shall at all times satisfy, on an individual basis, an overall capital ratio equal to 6.85% in terms of CET1 Ratio as defined in the Regulation (EU) No. 575/2013 of the European Parliament and of the Council and an own funds requirement of 11.69%. As of 31 December 2014, 2013 and 2012, the Group has fulfilled the minimum level of capital adequacy. The capital adequacy is defined as a ratio of total capital to 12.5 multiple of the capital requirements defined by the Slovak Banking Act and other related legislation.

The Group calculates requirements for credit risk using the Basel II IRB approach, for market risk in its trading portfolios using internal VaR models and AMA approach for operational risk.

The Group's regulatory capital is analysed in two tiers:
Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve after deduction for goodwill, intangible assets, AFS reserve (negative revaluation only) and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
Tier 2 capital, which includes qualifying subordinated liabilities and the element of fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base. The amount of qualifying *tier 2* capital cannot exceed *tier 1* capital and qualifying term subordinated loan capital may not exceed 50% of *Tier 1* capital. Other deductions from capital include the carrying amounts of investments qualifying as financial institutions exceeding 10% participation on their share capital.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain the future development of the business. The Group's policies in respect of capital management and allocation are reviewed

The Group's regulatory capital position at 31 December 2014 and 2013 was as follow:

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

in ths. EUR	2013 Basel II	2013 Basel III	2014 Basel III
Tier 1 capital			
Ordinary share capital	212 000	212 000	212 000
Share premium	-	-	-
Perpetual bonds	-	-	-
Capital reserves	118 899	118 899	118 899
Retained earnings	739 122	739 122	712 147
Non Controlling Interest	3 215	3 215	3 794
Less intangible assets	(97 233)	(97 233)	(89 964)
Other regulatory adjustments	(1 741)	(8 827)	(27 135)
Total	**974 262**	**967 176**	**929 741**
Tier 2 capital			
Fair value reserve for available-for-sale equity securities	34 796	-	-
Collective allowances for impairment			
IRB Surplus	10 308	10 308	12 909
Qualifying subordinated liabilities	163 730	125 447	100 914
Total	**208 834**	**135 755**	**113 823**
Deductions from Tier I and Tier II capital	(678)	-	-
Total regulatory capital	**1 182 418**	**1 102 931**	**1 043 564**

40) Assets under Administration

The Group provides custody, trustee, investment management, and advisory services to third parties, which involves the Group making allocation and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Bank is holding assets for collective investments undertakings in amount of €1 007.5 million as at 31 December 2014 (2013: €719.5 million).

The Bank is also holding assets for customers other than collective investments undertakings in amount of €4 463 million as at 31 December 2014 (2013: €4 425.6 million).

41) Post-balance Sheet Events

From 31 December 2014 up to the date of issue of these financial statements there were no other events identified that would require adjustments to or disclosure in these financial statements, then stated below:

Planned change of the sole shareholder of the Bank is expected during February 2015. New sole shareholder of the Group will be Erste Group Bank AG, that obtain the shares by transfer based on § 18 legal code No. 566/2001 Z.z. o cenných papieroch a investičných službách v znení neskorších predpisov (about shares and investment services).

This change will have no impact to the composition of the Board of Directors or Supervisory Board of the Bank and has no impact to consolidated IFRS statements of Erste Group Bank or capital adequacy requirements of Erste Group Bank.

New shareholder will obtain shares of the Group on its own account and will have no obligation to execute owner rights on behalf of the third party and does not act in contradiction of other shareholders of the Group, because the Group has any other shareholders.

Slovenská sporiteľňa, a. s.

Separate Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the Year Ended 31 December 2014

and Independent Auditors' Report

Independent Auditors' Report to the Shareholder of Slovenská sporiteľňa, a. s.

Building a better working world

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Independent Auditors' Report

To the Shareholder of Slovenská sporiteľňa, a.s.:

We have audited the accompanying separate financial statements of Slovenská sporiteľňa, a.s. ('SLSP'), which comprise the balance sheet as at 31 December 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of SLSP as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

11 February 2015
Bratislava, Slovak Republic

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Mgr. Ján Džuppa
UDVA Licence No. 1032

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

I. Separate Income Statement

For the Year Ended 31 December 2014

in ths. EUR	Notes	2013	2014
Net interest income	1	447 006	462 711
Net fee and commission income	2	117 643	123 641
Dividend income	3	3 301	3 274
Net trading and fair value result	4	11 588	9 537
Rental income from investment properties & other operating leases	5	358	391
Personnel expenses	6	(105 232)	(111 381)
Other administrative expenses	7	(101 113)	(114 424)
Depreciation and amortisation	8	(42 853)	(41 143)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	9	2 049	1 266
Net impairment loss on financial assets not measured at fair value through profit or loss	10	(47 117)	(50 937)
Other operating result	11	(44 049)	(45 372)
Pre-tax result from continuing operations		**241 581**	**237 563**
Taxes on income	12	(53 322)	(56 086)
Net result for the period		**188 259**	**181 477**
Net result attributable to owners of the parent		**188 259**	**181 477**

The notes on pages 151 to 229 are an integral part of these financial statements. Comparative amounts for 2013 have been reclassified due to change of the structure of Income statement; see Note 4 in part B.

These financial statements were approved and authorised for issue by the Board of Directors of the Bank on 11 February 2015.

Ing. Štefan Máj

Chairman of the Board of Directors and
Chief Executive Officer

Ing. Petr Brávek

Member of the Board
Deputy of Chief Executive Officer

II. Separate Statement of Comprehensive Income

For the Year Ended 31 December 2014

in ths. EUR	2013	2014
Net result for the period	188 259	181 477
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Remeasurement of net liability of defined pension plans	(236)	60
Deferred taxes relating to items that may not be reclassified	-	-
Total	(236)	60
Items that may be reclassified to profit or loss		
Available for sale reserve (including currency translation)	16 287	32 243
Gain/loss during the period	16 277	32 345
Reclassification adjustments	10	(102)
Deferred taxes relating to items that may be reclassified	(3 317)	(7 094)
Gain/loss during the period	(3 315)	(7 116)
Reclassification adjustments	(2)	22
Total	12 969	25 150
Total other comprehensive income	**12 733**	**25 210**
Total comprehensive income	**200 992**	**206 686**

The notes on pages 151 to 229 are an integral part of these financial statements.

III. Earnings per share

For the Year Ended 31 December 2014

		2013	2014
Net result attributable to owners of the parent	in ths. EUR	188 259	181 477
Number of outstanding shares		212 000	212 000
Earnings per share	**in EUR**	**888**	**856**

IV. Separate Balance Sheet

As at 31 December 2014

in ths. EUR	Notes	2013	2014
Assets			
Cash and cash balances	13	329 977	408 119
Financial assets - held for trading	14	50 826	101 574
Derivatives	14	50 826	101 574
Financial assets - at fair value through profit or loss	15	31 171	20 203
Financial assets - available for sale	16	859 402	1 219 152
Financial assets - held to maturity	17	2 764 888	2 579 817
Loans and receivables to credit institutions	18	80 036	179 005
Loans and receivables to customers	19	7 221 256	8 142 383
Derivatives - hedge accounting	20	5 119	8 322
Property and equipment	22	130 499	113 801
Investment properties	22	2 805	3 306
Intangible assets	23	97 231	89 963
Investments in subsidiaries and associates	21	16 787	19 493
Deferred tax assets	24	36 287	33 923
Other assets	25	38 231	23 525
Total assets		**11 664 515**	**12 942 586**
Liabilities and equity			
Financial liabilities - held for trading	14	51 991	103 439
Derivatives	14	51 991	103 439
Financial liabilities measured at amortised cost	26	10 223 044	11 354 415
Deposits from banks	26	424 377	740 686
Deposits from customers	26	9 101 433	9 683 889
Debt securities issued	27	697 234	929 840
Derivatives - hedge accounting	20	18 159	49 077
Provisions	28	23 151	30 260
Current tax liabilities	24	2 042	22 765
Other liabilities	29	91 690	109 332
Total equity		**1 254 438**	**1 273 298**
Equity attributable to owners of the parent		1 254 438	1 273 298
Total liabilities and equity		**11 664 515**	**12 942 586**

The notes on pages 151 to 229 are an integral part of these financial statements. Comparative amounts for 2013 have been reclassified due to change of the structure of Balance sheet; see Note 4 in part B.

V. Separate Statement of Changes in Equity

For the Year Ended 31 December 2014

in ths. EUR	Subscribed capital	Legal reserve fund	Other funds	Retained earnings	Available for sale reserve	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Total equity
As of 31 December 2012	**212 000**	**79 795**	**39 326**	**813 613**	**26 583**	**(157)**	**(6 114)**	**1 165 046**	**1 165 046**
Dividends paid	-	-	-	(111 600)	-	-	-	(111 600)	(111 600)
Total comprehensive income	-	-	-	188 259	16 287	(236)	(3 317)	200 992	200 992
Net result for the period	-	-	-	188 259	-	-	-	188 259	188 259
Other comprehensive income	-	-	-	-	16 287	(236)	(3 317)	12 733	12 733
As of 31 December 2013	**212 000**	**79 795**	**39 326**	**890 272**	**42 870**	**(393)**	**(9 431)**	**1 254 438**	**1 254 438**
Dividends paid	-	-	-	(188 259)	-	-	-	(188 259)	(188 259)
Merger of subsidiary (Factoring SLSP)	-	-	-	433	-	-	-	433	433
Total comprehensive income	-	-	-	181 477	32 243	60	(7 094)	206 686	206 686
Net result for the period	-	-	-	181 477	-	-	-	181 477	181 477
Other comprehensive income	-	-	-	-	32 243	60	(7 094)	25 210	25 210
As of 31 December 2014	**212 000**	**79 795**	**39 326**	**883 923**	**75 113**	**(333)**	**(16 525)**	**1 273 298**	**1 273 298**

The notes on pages 151 to 229 are an integral part of these financial statements. Further details are disclosed in note 30.

VI. Separate Statement of Cash Flows

For the Year Ended 31 December 2014

in ths. EUR	2013	2014
Profit before income taxes	**241 581**	**237 563**
Adjustments for:		
Provisions for losses on loans, advances, off-balance sheet write-offs and unwinding	38 177	48 263
Provisions for liabilities and other liabilities	24 643	11 538
Impairment of tangible and intangible assets net	163	3 933
Depreciation and amortization	42 657	41 143
Profit/(loss) on disposal of fixed assets	1 150	2 040
Transfer of interest for financing activity	19 869	18 759
Net gains/(losses) from investing activities	(110 761)	(111 619)
Impairment of investments in subsidiaries and associates	(3 925)	(2 706)
Cash flows from operations before changes in operating assets and liabilities	**253 554**	**248 913**
(Increase)/decrease in operating assets:		
Minimum reserve deposits with the central bank	(21 232)	(47 719)
Loans and advances to financial institutions	198 919	(94 880)
Loans and advances to customers	(472 714)	(969 391)
Financial assets at fair value through profit or loss and securities available for sale	516 584	(316 538)
Other assets	10 663	14 707
Increase/(decrease) in operating liabilities:		
Amounts owed to financial institutions	(823 944)	316 309
Amounts owed to customers	673 925	582 456
Increase/(decrease) in derivative financial instruments (net)	(2 092)	28 414
Provision for liabilities and other provisions	(3 303)	(185)
Other liabilities	(34 802)	13 891
Net cash flows provided by/(used in) operating activities before income tax	**295 558**	**(224 024)**
Income taxes paid	(19 499)	(40 092)
Net cash flows provided by/(used in) operating activities	**276 059**	**(264 116)**
Cash flows from investing activities		
Purchase of securities held to maturity	(471 196)	(267 567)
Proceeds form securities held to maturity	147 336	458 339
Interest received from the securities held to maturity	108 498	103 166
Dividends received from subsidiaries, associates and other investments	3 139	3 274
Purchase of share in subsidiaries and associates	(514)	-
Purchase of intangible assets, property and equipment	(25 683)	(26 121)
Proceeds from sale of intangible assets, property and equipment	4 445	2 470
Net cash flows provided by/(used in) investing activities	**(233 975)**	**273 561**
Cash flows from financing activities		
Dividends paid	(111 600)	(188 259)
Repayment of subordinated debt	(80 000)	-
Interest paid on subordinated debt	(3 403)	(2 146)
Issue of the bonds	164 444	370 491
Repayment of the bonds	(43 482)	(147 029)
Interest paid to the holders of the bonds	(48 150)	(7 468)
Net cash flows provided by/(used in) financing activities	**(122 191)**	**25 589**
Effect of foreign exchange rate changes on cash and cash equivalents	926	(522)
Net increase/(decrease) in cash and cash equivalents	**(79 181)**	**34 512**
Cash and cash equivalents at beginning of period	**377 292**	**298 111**
Cash and cash equivalents at end of period	**298 111**	**332 623**
Operational cash flows from interest and dividends		
Interest paid	(88 427)	(56 779)
Interest received	425 894	421 217

The notes on pages 151 to 229 are an integral part of these financial statements.

Cash and cash equivalents are disclosed in note 13 and include accounts with other credit institutions repayable on demand in amount €11.9 million as at 31 December 2014 (2013: €7.8 million) which are part of Loans and receivables to credit institutions disclosed in note 18. Cash and cash equivalents for the purpose of Cash flow statement exclude minimum mandatory reserves in amount of €87.4 million as at 31 December 2014 (2013: €39.7 million) which are disclosed in note 13.

VII. Notes to the Separate Financial Statements

A. GENERAL INFORMATION

Slovenská sporiteľňa, a. s. (hereafter 'the Bank') has its registered office at Tomášikova 48, Bratislava, the Slovak Republic. The Bank was incorporated on 15 March 1994 and registered in the Commercial Register on 1 April 1994. The identification number of the Bank is 00 151 653 and its tax identification number is 2020411536. The Bank is a universal bank offering a wide range of banking and financial services to commercial, financial, and private customers, principally in the Slovak Republic.

As of 31 December 2014 the sole shareholder of the Bank was EGB Ceps Holding GmbH, with registered office at Graben 21, 1010 Vienna, Austria. Financial statements of Erste Group Bank AG (ultimate parent) will be available after their completion at Firmenbuchgericht Wien, Marxergasse 1a, 1030 Vienna, Austria Court.

The Board of Directors has at 31 December 2014 5 members:
Ing. Jozef Síkela (Chairman), Ing. Štefan Máj (Deputy Chairman), Ing. Peter Krutil (Member), Ing. Petr Brávek (Member) and Ing. Tomáš Salomon (Member) from July 1, 2013.

Changes in the Board of Directors after 31 December 2014:
As at 31 December 2014 Ing. Jozef Síkela (Chairman) has abdicate due to his new position as a member of the Board of Directors in the Erste Group Bank AG.

The Supervisory Board of Slovenská sporiteľňa, a.s. has named Ing. Štefan Máj (previous Deputy Chairman) as a new Chairman of the Board of Directors and also the Chief Executive Officer (CEO) of the Bank starting with 1 January 2015.

As at 31 December 2014 Ing. Tomáš Salomon (member) has abdicate due to his new position as a member of the Board of Directors in the Česká spořitelna, a.s..

As at 31 March 2015 Ing. Petr Brávek (Member) will abdicate due to his new position as a member of the Board of Directors in the Erste Group Bank AG.

To replace the leaving members, the shareholder of the Bank has nominated Bernhard Spalt (currently member of the Board of the sister company Erste Bank Hungary) and Richard Chomist (currently as a Procurator of the subsidiary EGIT SK, spol. s r.o.) as a new members of the Board of Directors of the Bank. These personal changes are in proceeding and are subject to approval of the regulator of the Bank.

The Chairman of the Board of Directors is also the Chief Executive Officer (CEO) of the Bank. The Deputy Chairman of the Board of Directors is the First Deputy of the Chief Executive Officer. Other members of the Board of Directors are simultaneously the Deputies of the Chief Executive Officer.

Supervisory Board has 6 members. As of 31 December 2014, the members of the Supervisory Board were as follows: Gernot Mittendorfer M.B.A (Chairman), Mag. Jan Homan (Member), JUDr. Beatrica Melichárová (Member) and Ing. Štefan Šipoš (Member).

Two members of the Supervisory Board - Mag. Dr. Franz Hochstrasser (Deputy Chairman) resigned from this function as of December 22, 2014 and Mr. Herbert Juranek (Member) resigned from function as of December 18, 2014.

The Bank is subject to the regulatory requirements of the National Bank of Slovakia and other regulatory bodies defined by Slovak legislation.

Starting from 4 November 2014 the Bank come under direct supervision of European Central Bank under Single Supervision Mechanism.

B. SIGNIFICANT ACCOUNTING POLICIES

1) Statement of compliance

Pursuant to Article 17a of Act no. 431/2002 Coll. on Accounting, effective from 1 January 2006 banks are required to prepare their separate and consolidated financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS). As a result, separate financial statements prepared in accordance with IFRS have effectively replaced financial statements prepared under Slovak Accounting Standards.

The financial statements of the Bank for the previous period (31 December 2013) were signed and authorised for issue on 18 February 2014.

The separate financial statements of the Bank for the financial year ending on 31 December 2014 and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union (the "EU") on the basis of IAS Regulation (EC) No. 1606/2002.

Except for certain standards issued but not yet effective and certain hedge accounting requirements under IAS 39 which have not been endorsed by the EU, IFRS as adopted by the EU does not currently differ from IFRS and its effective standards and interpretations as issued by the International Accounting Standards Board (IASB). The Bank has determined that the standards not endorsed by the EU would not impact the separate financial statements had such standards been endorsed by the EU at the balance sheet date.

2) Basis of preparation

The Bank is required to prepare Separate Financial Statements. These Separate Financial Statements do not include consolidation of assets, liabilities, or operational results of subsidiaries. The Bank is also preparing Consolidated Financial Statements for the year ended 31 December 2014. Consolidated Financial statements for the year ended 31 December 2013 were signed and authorised for issue on 18 February 2014.

In accordance with the applicable measurement models prescribed or permitted under IFRS, the Separate financial statements have been prepared on a cost (or amortized cost) basis, except for financial assets-available for sale, financial assets and liabilities held for trading (including derivatives), instruments subject to hedge accounting, as well as financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value.

These Separate Financial Statements were prepared using the going concern assumption that the Bank will continue in operation for the foreseeable future.

The unit of measurement is thousands of EUR (EUR thousand, EUR ths.), unless stated otherwise. The amounts in parentheses represent negative values. The tables in this report may contain rounding differences.

3) Subsidiaries and associates

The separate financial statements present the accounts and results of the Bank only.

Subsidiaries

The Bank holds controlling interests in subsidiaries as described in Note 21. The subsidiaries are accounted for at cost in these Separate Financial Statements less any impairment losses.

Subsidiaries are recognized on the balance sheet from the date when control is obtained until the date when control is lost. Control is achieved when the Bank is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

Investments in associates and joint ventures

Investments in associates are accounted for at cost in these Separate Financial Statements less any impairment losses.

Associates are entities over which the Bank exercises significant influence ('associates'). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%.

Joint ventures are joint arrangements over which the Bank exercises control jointly with one or more other venturers, with the venturers having rights to the net assets of the arrangement, rather than to the assets and liabilities relating to the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Bank is not involved in joint operations.

Acquisitions and disposals made during 2014

No acquisitions or disposals of subsidiaries or associates occurred during the year 2014.

Merger in 2014

Effective from 1 November 2014 Factoring Slovenskej sporiteľne, a.s. (former subsidiary) was merged with the Bank. The effect of the merge is disclosed in note 21.

4) Accounting and measurement methods

Change of the structure of balance sheet, income statement and explanatory notes

Effective from 1 January 2014 the Bank, based on decision of Erste group, changed the structure of its balance sheet, income statement and some explanatory notes, in order to provide more reliable and relevant information about its financial position and performance.

The new structure has also been introduced in order to generate synergies in addressing the new IFRS-based Financial Reporting regulatory requirements ("FINREP"). FINREP was introduced in 2014 by the European Banking Authority ("EBA") and it represents a mandatory regulatory reporting framework applicable to EU based banking institutions.

Application of changed structure has no impact to already published results or Financial statements of the Bank in the past. Comparative information in Financial statements of the Bank for year ended 31 December 2014 has been changed based on new structure.

Summary of changes in the structure in Income statement:

- Dividend income and Rental income from investment properties and other operating leases are disclosed each on separate line in Income statement.
- Contribution to Deposit insurance fund is now part of Other administrative expenses (in the past part of Other operating result).
- Separate line for "Net impairment loss on financial assets and liabilities not measured at fair value through profit or loss" that includes also allocation and reversals of provision for loans to customers and to credit institutions as well as impairment loss for other types of financial asses is disclosed at the fact of Income statement.
- Allocation and release of provision for OFF Balance sheet items is disclosed in Other operating result.
- General administrative expenses are broken down to separate lines.

	OLD 2013	Interest income /expense	dividend income	Rental income	Loan loss provisions/OFF BS reserves	Fair value result	General administrative expenses	Result from AFS/HTM	Rounding		NEW 2013
Interest income	532 690	(532 367)	(162)	(161)							
Interest expense	(85 361)	85 361									
Income from investments in subsidiaries, associates and other	3 139		(3 139)								
Net interest and investment income	**450 468**	447 006								Net interest income	447 006
Provisions for losses on loans, advances and off-balance sheet credit risks	(49 297)				49 297						
Net interest and investment income after provisions	**401 171**										
Fee and commission income	141 200										
Fee and commission expense	(23 557)										
Net fee and commission income	**117 643**									Net fee and commission income	117 643
			3 301							Dividend income	3 301
Net trading result	13 241					(1 653)				Net trading and fair value result	11 588
				358						Rental income from investment properties & other operating leases	358
General administrative expenses	(249 002)						249 002				
							(105 232)			Personnel expenses	(105 232)
							(101 113)			Other administrative expenses	(101 113)
				(197)			(42 656)			Depreciation and amortisation	(42 853)
								2 049		Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	2 049
					(47 116)				(1)	Net impairment loss on financial assets not measured at fair value through profit or loss	(47 117)
Other operating result	(41 472)				(2 181)	1 653		(2 049)		Other operating result	(44 049)
Profit for the year before income taxes	**241 581**						**1**		**(1)**	**Pre-tax result from continuing operations**	**241 581**
Income tax expense	(53 322)									Taxes on income	(53 322)
Net profit for the year after income taxes	**188 259**									**Net result for the period**	**188 259**

All comparative figures in these financial statements are reclassified based on the change of the structure as described above.

Summary of changes in the structure in Balance sheet - Assets:

- The structure of balance sheet is harmonized based on measurement principles as are defined in IAS 39.
- "Loans to customers" and "Loans to credit institutions" are presented in net and the Bank does not disclose separate position for Provisions for losses on financial assets in the face of balance sheet.
- Derivatives and derivatives – hedge accounting are presented on separate lines.

	OLD 2013	Loans and receivables	Securities and derivatives	Subsidiaries and associates	Intangible assets	Hedge accounting	Rounding		NEW 2013
Assets								**Assets**	
Cash and balances at the central bank	329 977							Cash and cash balances	329 977
Loans and advances to financial institutions	80 036	(80 036)							
Loans and advances to customers	7 559 403	(7 559 403)							
Provisions for losses on loans and advances	(338 147)	338 147							
								Financial assets - held for trading	50 826
Financial assets at fair value through profit or loss	81 997		(81 997)						
			50 826					Derivatives	50 826
			31 171					Financial assets - at fair value through profit or loss	31 171
Securities available for sale	859 401						1	Financial assets - available for sale	859 402
Securities held to maturity	2 764 887						1	Financial assets - held to maturity	2 764 888
		80 036						Loans and receivables to credit institutions	80 036
		7 221 256						Loans and receivables to customers	7 221 256
						5 119		Derivatives - hedge accoun-ting	5 119
Investments in subsidiaries and associates	16 787			(16 787)					
Intangible assets	97 231				(97 231)				
Property and equipment	130 499							Property and equipment	130 499
Investment property	2 805							Investment properties	2 805
					97 231			Intangible assets	97 231
				16 787				Investments in subsidiaries and associates	16 787
Deferred income tax asset	36 287							Deferred tax assets	36 287
Other assets	43 352					(5 119)	(2)	Other assets	38 231
Total assets	**11 664 515**							**Total assets**	**11 664 515**

All comparative figures in these financial statements are reclassified based on the change of the structure as described above.

Summary of changes in the structure in Balance sheet - Liabilities:

- The structure of balance sheet is harmonized based on measurement principles as are defined in IAS 39.
- Subordinated liabilities are disclosed in respective line based measurement principles as defined in IAS 39 without separate position on the face of balance sheet.
- Derivatives and derivatives – hedge accounting are presented on separate lines.

	OLD 2013	Derivatives	Deposits	Debt securities issued	Provisions	Hedge accounting	Tax liabilities		NEW 2013
Liabilities								**Liabilities**	
									51 991
		51 991							51 991
Amounts owed to financial institutions	324 335		(324 335)					Amounts owed to financial institutions	
Amounts owed to customers	9 101 434		(9 101 434)					Amounts owed to customers	
Debt securities in issue	624 234			(624 234)				Debt securities in issue	
Provisions for liabilities and other provisions	23 151				(23 151)			Provisions for liabilities and other provisions	
Financial liabilities at fair value through profit or loss	51 991	(51 991)						Financial liabilities at fair value through profit or loss	
									10 223 044
			424 377						424 377
			9 101 433						9 101 433
				697 234					697 234
						18 159			18 159
					23 151				23 151
							2 042		2 042
Other liabilities	109 849					(18 159)		Other liabilities	91 690
Current income tax liability	2 042						(2 042)	Current income tax liability	
Subordinated capital	173 041		(100 041)	(73 000)				Subordinated capital	
Total liabilities	**10 410 077**							**Total liabilities**	**10 410 077**

All comparative figures in these financial statements are reclassified based on the change of the structure as described above.

Transactions and balances in foreign currency

The separate financial statements are presented in euro, which is the functional currency of the Bank. The functional currency is the currency of the primary business environment in which an entity operates.

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.

For foreign currency translation, exchange rates quoted by the European Central Bank are used.

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 in the balance sheet and measured in accordance with their assigned categories.

The Bank 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 relevant for measurement are not necessarily the line items presented in the balance sheet. Specific 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 the Bank 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 that an asset is delivered. Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. 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 balances with central banks

Balances with central banks include only claims (deposits) against central banks which are repayable on demand. Repayable on demand means that it 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 position.

(iv) Derivative financial instruments

Derivatives used by the Bank 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).

The Bank 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.

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'.

The Bank uses the fair value option in case of some hybrid financial liabilities, if:

- 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. The Bank does not have any specific plan to dispose of 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 the Bank 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 the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank, upon initial recognition, designates as available for sale; or
- those for which the Bank 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
	Measurement principle	At amortised cost	Other	
Assets				
Cash and cash balances		x	Nominal value	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
Loans and receivables to customers		x		Loans and receivables
Derivatives - hedge accountingFinance lease	x		IAS 17	n/a
Derivatives - hedge accounting	x			n/a
Liabilities and equity				
Financial liabilities - held for trading	x			
DerivativesFinancial liabilities - held for trading	x			Financial liabilities - at fair value through profit or loss
Other trading liabilitiesDerivatives	x			Financial liabilities - at fair value through profit or loss/Financial liabilities - at fair value through profit or loss
Financial liabilities - at fair value through profit or lossOther trading liabilities	x			Financial liabilities - at fair value through profit or loss/Financial liabilities - at fair value through profit or loss
Financial liabilities measured at amortised costFinancial liabilities - at fair value through profit or loss	x	x		Financial liabilities measured at amortised cost/Financial liabilities - at fair value through profit or loss
Derivatives - hedge accountingFinancial liabilities measured at amortised cost	x	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

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

Reclassifications of financial assets

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

Derecognition of financial assets and financial liabilities

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

- the contractual rights to receive cash flows from the asset have expired; or
- the Bank 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 the Bank retains substantially all the risks and rewards of ownership because the securities are repurchased when the repo transaction ends. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Bank 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 the Bank. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' and is accrued over the life of the agreement. Financial assets transferred out by the Bank under repurchase agreements remain on the Bank'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 the Bank. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item 'Net interest income'.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Bank as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Bank 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

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

The Bank uses the Basel II definition of default as a primary indicator of loss events. A default, as a loss event, is deemed to have occurred when a client is assigned internal rating R, i.e. when whatever of the following events has taken place:

- a client is unlikely to fully repay its credit obligations to the bank without realizing collaterals;
- a retail/corporate client is past due more than 90 days on any material credit obligation to the Bank;
- whatever condition or obligation under contract has been breached by client, on the basis of which the bank is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client whether in full or its part, charge the late payment interests or claim satisfaction of credit exposure from the means securing such credit obligation).

For assessment at portfolio level, indications of impairment are observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

(i) Financial assets carried at amortised cost

The Bank first assesses individually for significant loans and held-to-maturity securities whether objective evidence of impairment exists. If no objective evidence of impairment exists for an individually assessed financial asset, the Bank 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 the Bank.

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 allowance account.

(ii) Available-for-sale financial assets

In cases of debt instruments classified as available for sale, the Bank 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 the Bank, '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

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

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 37 Fair value of assets and liabilities.

Leasing

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

(i) The Bank 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'.

(ii) The Bank as a lessee

As a lessee, the Bank 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.

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:

Type of property and equipment	Useful life in years 2014 and 2013
Own buildings and structures	30 years
Rented premises	10 years
Office furniture and equipment	4 – 6 years
Computer hardware	4 years
Passenger cars	4 years
Fixture and fittings	6 – 12 years

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'.

Intangible assets

The Bank`s intangible assets include mostly computer software. 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.

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:

Type of intangible assets	Useful life in years 2014 and 2013
Core banking system and related applications	8 years
Computer software	4 - 8 years

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.

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 for non-financial assets excluding goodwill 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 classification 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.

Financial guarantees

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

If the Bank 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.

The Bank 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 the Bank are for pensions and jubilee benefits. From IAS 19 categorisation perspective pension benefits qualify as post-employment defined benefits plans whereas jubilee benefits are other long-term employee benefits.

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.

See note 28 for key assumptions used in actuarial valuations.

The employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date, measured as the present value of the estimated future cash outflows discounted by the interest yield on investment grade fixed income securities, which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses from the jubilee benefit obligation are charged to the Income Statement in the current year. Actuarial gains and losses from post-employment defined benefit plans are recognised directly in equity in the period in which they occur.

Provisions

Provisions are recognised when the Bank 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

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

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

Fiduciary assets

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

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank'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 net interest income also interest on derivative financial instruments held in the banking book is included. In addition, net interest cost on pension and jubilee obligations is presented here.

(ii) Net fee and commission income

The Bank 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) 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.

(vi) Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for pension and jubilee obligations and remeasurements of jubilee obligations.

(vii) 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.

(viii) Depreciation and amortisation

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

(ix) 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.

(x) 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.

(xi) Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Bank'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.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, and other independent sources.

5) Significant accounting judgements, assumptions and estimates

The separate financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 37 Fair value of assets and liabilities.

Impairment of financial assets

The Bank reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.

Disclosures concerning impairment are provided in note 36 'Risk management´ part Credit risk. Development of loan loss provisions is described in note 10, 18, 19).

Individual assessment of impairment
Loans and advances to retail clients with exposures exceeding €200 thousand are generally considered by the Bank as being individually significant and are analysed on an individual basis.

Loans and advances to institutions, sovereigns, corporate classes are generally considered by the Bank as being individually significant and are analysed on an individual basis regardless the materiality limits.

For impairment classification the Bank uses expected loss threshold of €250 per client. Losses under this amount are considered immaterial.

Loans and advances with identified impairment are internally rated as defaulted. The calculation of specific provisions is based on an estimate of expected cash flows reflecting the estimated delinquency in loan repayments, as well as proceeds from collateral. Impairment amount is determined by the difference between the loan's gross carrying amount and the net present value ('NPV') of the estimated cash flows discounted by the loan's original effective interest rate.

Portfolio assessment of impairment
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit rating system.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of non-financial assets

The Bank reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss which should be recorded in the income statement. Judgement and estimates are required to determine the value in use and fair value less costs to sell by estimating the timing and amount of future expected cash flows and the discount rates.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Disclosures concerning deferred taxes are in Note 24 Tax assets and liabilities.

Defined benefit obligation plans

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions, estimates used for the defined benefit obligation calculations as well as related amounts are disclosed in Note 28 Provisions.

Provisions

Recognition of provisions requires judgement with respect to whether the Bank has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Provisions are disclosed in Note 28 Provisions and further details on provisions for contingent credit liabilities in Note 36 Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 28 Provisions.

6) Application of amended and new IAS/IFRS

The Bank applied all Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB applicable for the accounting periods starting 1 January 2014 as adopted by the European Union ('EU') that are relevant to the Bank's operations.

Standards and interpretations relevant to Bank's operations, effective in the current period

The following new standards or amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period.

When the adoption of the standard or interpretation is considered to have an impact on the financial position or performance of the Bank, its impact is described below:

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". Offsetting is not applicable for the Bank, so this amendment has no impact to Financial statements.

Adoption of the following standards, which apply for the first time in 2013, did not have any impact on the accounting policies, financial position or performance of the Bank:
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- IAS 27 Separate Financial Statements (as revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets – amendments
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – amendments
- IFRIC 21 Interpretation Levies
- IAS 19 Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle

Standards and interpretations not yet effective

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

IFRS 9 Financial Instruments

The IFRS 9 was originally issued in November 2009 and is intended to replace IAS 39 Financial Instruments and is effective for annual periods beginning on or after 1 January 2018.

Classification and measurement of financial assets
All financial assets are measured at fair value on initial recognition, adjusted for transaction costs if the instrument is not accounted for at fair value through profit or loss (FVTPL). However, trade receivables without a significant financing component are initially measured at their transaction price as defined in IFRS 15 Revenue from Contracts with Customers. Debt instruments are subsequently measured on the basis of their contractual cash flows and the business model under which the debt instruments are held. If a debt instrument has contractual cash flows that are solely payments of principal and interest on the principal outstanding and is held within a business model with the objective of holding the assets to collect contractual cash flows, it is accounted for at amortised cost. If a debt instrument has contractual cash flows that are solely payments of principle and interest on the principal outstanding and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, it is measured at fair value through other comprehensive income (FVOCI) with subsequent reclassification to profit or loss.

All other debt instruments are subsequently accounted for at FVTPL. Also, there is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in OCI (without subsequent reclassification to profit or loss).

Classification and measurement of financial liabilities
For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment
The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model.
The ECL model applies to: debt instruments accounted for at amortised cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 Leases.

Entities are generally required to recognise either 12-months' or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into).

The measurement of ECL must reflect a probability-weighted outcome, the effect of the time value of money, and based on reasonable and supportable information that is available without undue cost or effort.

Hedge accounting
Hedge effectiveness testing must be prospective and can be qualitative, depending on the complexity of the hedge.

A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable.

The time value of an option, the forward element of a forward contract and any foreign currency basis spread can be excluded from the designation as the hedging instrument and accounted for as costs of hedging.

More designations of groups of items as the hedged item are possible

Transition
An entity may elect to apply earlier versions of IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of IFRS 9 is adopted in its entirety for reporting periods beginning after 24 July 2014. The transition to IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities

designated as at FVTPL without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of IFRS 7 Financial Instruments: Disclosures.

Impact
The application of IFRS 9 will result in significant changes to the Bank's current accounting, systems and processes. The Bank is in a process of quantifying of the impact of the adoption of the standard.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Following listing of standards and interpretations issued are those that the Bank expects not to have any impact on disclosures, financial position or performance when applied at a future date:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) - effective for annual periods beginning on or after 1 January 2016 but not yet endorsed by EU
- IFRS 14 Regulatory Deferral Accounts - effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions - effective for annual periods beginning on or after 1 July 2014
- Annual improvements 2010-2012 Cycle - effective for annual periods beginning on or after 1 July 2014
- Annual improvements 2011-2013 Cycle - effective for annual periods beginning on or after 1 July 2014
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests -effective for annual periods beginning on or after 1 January 2016
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation - effective prospectively for annual periods beginning on or after 1 January 2016
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants - effective for annual periods beginning on or after 1 January 2016
- Amendments to IAS 27: Equity Method in Separate Financial Statements - effective for annual periods beginning on or after 1 January 2016
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 - effective for annual periods beginning on or after 1 January 2016.
- IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 -effective for annual periods beginning on or after 1 January 2016.

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. Based on the Bank's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

C. NOTES TO THE INCOME STATEMENT AND THE BALANCE SHEET

1) Net interest income

in ths. EUR	2013	2014
Interest income		
Financial assets - at fair value through profit or loss	746	527
Financial assets - available for sale	23 389	27 800
Financial assets - held to maturity	106 696	108 867
Loans and receivables	404 543	396 276
Derivatives - hedge accounting, interest rate risk	(3 499)	(5 107)
Other assets	492	160
Total interest income	**532 367**	**528 523**
Interest expenses		
Financial liabilities measured at amortised cost	(86 101)	(66 443)
Derivatives - hedge accounting, interest rate risk	759	760
Other liabilities	(19)	(129)
Total interest expense	**(85 361)**	**(65 812)**
Net interest income	**447 006**	**462 711**

In 2014, interest income includes a total of €7.5 million relating to impaired financial assets (2013: €6.2 million).

2) Net fee and commission income

in ths. EUR	2013	2014
Securities	4 052	5 889
Transfer orders	4 453	6 398
Other	(401)	(509)
Custody	387	219
Payment services	78 495	84 154
Card business	20 670	23 196
Other	57 825	60 958
Customer resources distributed but not managed	9 938	10 522
Collective investment	576	644
Insurance products	9 332	9 850
Other	30	28
Lending business	23 017	21 687
Guarantees given, guarantees received	2 591	3 738
Loan commitments given, loan commitments received	54	89
Other lending business	20 372	17 860
Other	1 754	1 170
Net fee and commission income	**117 643**	**123 641**

3) Dividend income

in ths. EUR	2013	2014
Financial assets designated at fair value through profit or loss	162	437
Available-for-sale financial assets	216	283
Dividend income from equity investments	2 923	2 554
Total	**3 301**	**3 274**

4) Net trading and fair value result

in ths. EUR	2013	2014
Net trading result	13 241	8 979
Securities and derivatives trading	7 541	1 458
Foreign exchange transactions	5 700	7 521
Result from financial assets and liabilities designated at fair value through profit or loss	(1 653)	558
Total	**11 588**	**9 537**

The line 'Securities and derivatives trading' includes gains from Erste Group Bank's market positions distributed according to approved rules based on the financial results of the local banks as described in note 15.

With effect from 4 February 2008, the Bank has adopted a new business model of financial markets trading in cooperation with Erste Group Bank. Erste Group Bank has started to conduct all trading operations on a central trading book in order to better manage market risks from the group trading activities (i.e. transactions with retail, corporate and other institutional clients) with the exception of the equity risk trading and transactions for the Bank's liquidity management purposes.

Trading gains (i.e. from Erste Group Bank's market positions) are distributed according to approved rules based on the financial results back to the Group's local banks and reported in the 'Net trading result'. The basic principle underlying these rules involves Erste Group Bank absorbing potential losses in individual groups of assets in exchange for the risk premium derived from the VaR indicator. Included in the new business model of financial markets trading is a reallocation of the trading costs for individual participating Erste Group Bank subsidiaries based on the Bank's Cost Income Ratio.

5) Rental income from investment properties & other operating leases

in ths. EUR	2013	2014
Investment properties	358	391
Other operating leases	-	-
Total	**358**	**391**

6) Personnel expenses

in ths. EUR	2013	2014
Wages and salaries	(76 211)	(80 135)
Compulsory social security	(25 863)	(27 761)
Long-term employee provisions	(432)	(235)
Other personnel expenses	(2 726)	(3 250)
Total	**(105 232)**	**(111 381)**

The average number of employees in the Bank was 3 820 in 2014 and 3 804 in 2013, thereof five members of the Board of Directors in both years.

As at 31 December 2014 there were 3 861 employees at the Bank (2013: 3 796 employees).

7) Other administrative expenses

in ths. EUR	2013	2014
Deposit insurance contribution	-	(8 854)
IT expenses	(42 569)	(43 690)
Expenses for office space	(28 116)	(27 161)
Office operating expenses	(12 269)	(12 788)
Advertising/marketing	(13 346)	(14 106)
Legal and consulting costs	(2 343)	(2 452)
Sundry administrative expenses	(2 470)	(5 373)
Total	**(101 113)**	**(114 424)**

The Bank is legally obliged to make a contribution to the Deposit Protection Fund of Slovakia ("DPF") calculated based on its customer deposit liabilities. This contribution was reintroduced during 2014.

Composition of cost of audit and other advisory services provided by the audit company that are disclosed in 'Legal and consulting costs' is as follows:

in ths. EUR	2013	2014
Audit fees	(243)	(245)
Other services involving the issuance of a report	(243)	(245)
Other services	(121)	(122)
Total	**(607)**	**(694)**

8) Depreciation and amortisation

in ths. EUR	2013	2014
Software and other intangible assets	(21 055)	(22 941)
Owner occupied real estate	(12 945)	(10 162)
Investment properties	(197)	(246)
Customer relationships	-	-
Office furniture and equipment and sundry property and equipment	(8 657)	(7 794)
Total	**(42 853)**	**(41 143)**

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

in ths. EUR	2013	2014
From sale of financial assets available for sale	1 695	102
From sale of financial assets held to maturity	354	1 060
From sale of loans and receivables	-	97
From repurchase of liabilities measured at amortised cost	-	7
Total	**2 049**	**1 266**

10) Net impairment loss on financial assets not measured at fair value through profit or loss

in ths. EUR	2013	2014
Loans and receivables	(46 851)	(50 940)
Allocation to risk provisions	(96 414)	(320 432)
Release of risk provisions	52 313	268 003
Direct write-offs	(3 235)	(2 158)
Recoveries recorded directly to the income statement	485	3 647
Financial assets - held to maturity	(265)	3
Total	**(47 117)**	**(50 937)**

Increase of balances for allocations / releases of risk provisions relates to the improvement of methodology.

11) Other operating result

in ths. EUR	2013	2014
Loans and receivables	(550)	(5 711)
Allocation to risk provisions	348	(448)
Release of risk provisions	(2 181)	(6 031)
Direct write-offs	(41 234)	(31 530)
Recoveries recorded directly to the income statement	(299)	(251)
Financial assets - held to maturity	(133)	(1 401)
Total	**(44 049)**	**(45 372)**

The line 'Levies on banking activities' consists of banking tax.

12) Taxes on income

The actual tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Slovak Republic as follows:

in ths. EUR	2013	2014
Pre-tax profit/loss	241 581	237 363
Statutory tax rate	23%	22%
Income tax expense for the financial year at the domestic	55 564	52 265
Impact of decrease in tax rates	2 078	-
Impact of tax-exempt earnings of investments income and other tax-exempt	(3 933)	(6 508)
Tax increases due to non-deductible expenses, additional business tax and similar elements	4 688	10 243
Tax income not atributable to the reporting period	(5 074)	87
Total	**53 322**	**56 086**

in ths. EUR	2013	2014
Current tax expense / income	(34 410)	(60 816)
current period	(34 410)	(60 816)
Deferred tax expense / income	(18 912)	4 730
current period	(18 912)	4 730
Total	**(53 322)**	**(56 086)**

13) Cash and cash balances

in ths. EUR	2013	2014
Cash on hand	290 304	320 727
Cash balances at central banks	39 673	87 392
Total	**329 977**	**408 119**

For the year-end period the required average balance was €92.6 million and the actual average balance amounted to €92.8 million (100.24 %). In 2013, the required average balance was €87.2 million and the actual average balance amounted to €88.4 million (101.44 %).

14) Derivatives – held for trading

in ths. EUR	Notional value	Positive fair valu 2013	Negative fair value	Notional value	Positive fair value 2014	Negative fair value
Interest rate	1 272 911	24 982	25 645	1 314 590	26 726	29 601
Equity	63 169	211	211	70 032	765	765
Foreign exchange	889 576	24 406	24 411	1 107 952	65 556	64 624
Credit	50 000	-	595	50 000	-	142
Commodity	251 071	1 227	1 129	484 244	8 527	8 307
Total	**2 526 727**	**50 826**	**51 991**	**3 026 818**	**101 574**	**103 439**

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits vis-à-vis customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Bank in most cases requires margin deposits.

15) Financial assets - at fair value through profit or loss

in ths. EUR	2013	2014
Equity instruments	12 593	13 526
Debt securities	18 578	6 677
General governments	10 799	-
Other financial corporations	6 587	6 677
Non-financial corporations	1 192	-
Total	**31 171**	**20 203**

The amounts represent the maximum exposure to credit risk.

Financial assets are designated at fair value portfolio based on the intention to manage these on the fair value basis.

16) Financial assets - available for sale

in ths. EUR	2013	2014
Equity instruments	17 964	21 558
Debt securities	841 438	1 197 594
General governments	619 045	998 457
Credit institutions	99 187	76 719
Non-financial corporations	123 206	122 418
Total	**859 402**	**1 219 152**

The maximum exposure to credit risk is represented by the carrying amounts. Total amount of €678 thousands (2013: €681 thousands) relates to Financial assets - available for sale measured at cost.

17) Financial assets – held to maturity

in ths. EUR	Gross carrying amount		Collective allowances		Net carrying amount	
	2013	2014	2013	2014	2013	2014
General governments	2 703 270	2 541 352	(247)	(239)	2 703 023	2 541 113
Credit institutions	37 697	38 626	(15)	(23)	37 682	38 603
Non-financial corporations	24 187	101	(4)	-	24 183	101
Total	**2 765 154**	**2 580 079**	**(266)**	**(262)**	**2 764 888**	**2 579 817**

The amounts represent the maximum exposure to credit risk.

18) Loans and receivables to credit institutions

in ths. EUR	Gross carrying amount		Collective allowances		Net carrying amount	
	2013	2014	2013	2014	2013	2014
Loans and advances						
Credit institutions	80 046	179 058	(10)	(53)	80 036	179 005
Total	**80 046**	**179 058**	**(10)**	**(53)**	**80 036**	**179 005**

At the end of 2014 and end of 2013 there were no reverse repurchase agreements.

The recorded amounts represent the maximum exposure to credit risk.

Allowances for loans and receivables to credit institutions were as follow:

in ths. EUR	2013	Allocations	Releases	Exchange-rate and other changes (+/-)	2014
Collective allowances					
Loans and advances					
Credit institutions	(10)	(161)	140	(22)	(53)
Total	**(10)**	**(161)**	**140**	**(22)**	**(53)**

in ths. EUR	2012	Allocations	Releases	Exchange-rate and other changes (+/-)	2013
Collective allowances					
Loans and advances					
Credit institutions	-	(10)	-	-	(10)
Total	**-**	**(10)**	**-**	**-**	**(10)**

19) Loans and receivables to customers

in ths. EUR	Gross carrying amount		Specific allowances		Collective allowances		Net carrying amount	
	2013	2014	2013	2014	2013	2014	2013	2014
Loans and advances to customers								
General governments	213 717	216 779	-	-	(387)	(454)	213 330	216 325
Other financial corporations	86 822	98 440	(23)	(496)	(145)	(395)	86 654	97 549
Non-financial corporations	1 928 887	1 959 343	(104 372)	(111 699)	(18 151)	(17 001)	1 806 365	1 830 643
Households	5 329 977	6 210 366	(144 488)	(147 233)	(70 582)	(65 268)	5 114 907	5 997 866
Total	**7 559 403**	**8 484 928**	**(248 883)**	**(259 428)**	**(89 265)**	**(83 118)**	**7 221 256**	**8 142 383**

Allowances for loans and receivables to customers were as follows:

in ths. EUR	2013	Allocations	Use	Releases	Interest income from impaired loans	Other changes and exchange-rate (+/-)	Mergers (+/-)	2014	Recoveries of amounts previously written off	Amounts written off
Specific allowances										
Loans and advances to customers	(248 883)	(170 163)	43 864	105 440	7 520	6 033	(3 240)	(259 428)	3 646	(2 158)
General governments	-	-	-	-	-	-		-	-	-
Other financial corporations	(23)	(92)	14	1	1	(397)	-	(496)	-	-
Non-financial corporations	(104 372)	(85 077)	14 590	57 045	2 334	6 684	(2 905)	(111 699)	-	-
Households	(144 488)	(84 994)	29 260	48 394	5 184	(254)	(335)	(147 233)	3 646	(2 158)
Collective allowances										
Loans and advances to customers	(89 265)	(150 108)	-	162 423	-	(5 969)	(199)	(83 118)	-	-
General governments	(387)	(473)	-	511	-	(103)	-	(454)	-	-
Other financial corporations	(145)	(172)	-	198	-	(276)	-	(395)	-	-
Non-financial corporations	(18 151)	(21 586)	-	25 787	-	(2 852)	(199)	(17 001)	-	-
Households	(70 582)	(127 876)	-	135 928	-	(2 738)	-	(65 268)	-	-
Total	**(338 148)**	**(320 271)**	**43 864**	**267 863**	**7 520**	**64**	**(3 439)**	**(342 546)**	**3 646**	**(2 158)**

in ths. EUR	2012	Allocations	Use	Releases	Interest income from impaired loans	Other changes and exchange-rate (+/-)	Mergers (+/-)	2013	Recoveries of amounts previously written off	Amounts written off
Specific allowances										
Loans and advances to customers	(254 901)	(96 376)	59 178	37 027	6 189	-	-	(248 883)	485	(3 235)
General governments	(12)	-	-	12	-	-	-	-	-	-
Other financial corporations	(152)	(1)	-	130	-	-	-	(23)	-	-
Non-financial corporations	(116 467)	(47 903)	21 122	36 281	2 596	-	-	(104 372)	-	-
Households	(138 270)	(48 472)	38 057	603	3 593	-	-	(144 488)	485	(3 235)
Collective allowances										
Loans and advances to customers	(104 524)	(27)	-	15 286	-	-	-	(89 265)	-	-
General governments	(370)	(17)	-	-	-	-	-	(387)	-	-
Other financial corporations	(135)	(10)	-	-	-	-	-	(145)	-	-
Non-financial corporations	(23 404)	-	-	5 253	-	-	-	(18 151)	-	-
Households	(80 615)	-	-	10 033	-	-	-	(70 582)	-	-
Total	**(359 425)**	**(96 403)**	**59 178**	**52 313**	**6 189**	**-**	**-**	**(338 147)**	**485**	**(3 235)**

Other changes represent mainly reclassifications between categories of allowances.

As at 31 December 2014, the 15 largest customers accounted for 8% of the gross loan portfolio in the amount of €689.9 million (2013: 9.8%, €737.8 million).

Mandate loans

During the year 2014, the Bank cooperated with 8 external outsourcing companies. Under mandate contracts the management and administration of certain non-performing receivables is outsourced. The Bank maintains the risks and rewards associated with the underlying exposures and shares part of recoveries with the external service providers. Total outsourced gross loans amounted to €94.8 million as of 31 December 2014 (2013: €132.7 million).

Write off and sale of receivables

In 2014, the Bank sold a total of €65 million of loan receivables (2013: €46 million) for a consideration of €14.5 million (2013: €10.6 million), and used corresponding provisions of €48.9 million (2013: EUR 34 million).

The Bank has also written off loans with a carrying amount of €10.2 million, related provisions were created in the amount €9.5 million (2013: written off loans in the amount of €27.7 million, provisions were created in the amount €25.2 million).

20) Derivatives – hedge accounting

in ths. EUR	Notional value	Positive fair value 2013	Negative fair value	Notional value	Positive fair value 2014	Negative fair value
Fair value hedges						
Interest rate	107 821	5 119	18 159	347 821	8 322	49 077
Total	**107 821**	**5 119**	**18 159**	**347 821**	**8 322**	**49 077**

Fair value hedge

The Bank had in its portfolio as at 31 December 2014 fixed rate EUR denominated bonds with face value of €331 million (2013: €91 million). As the purchases of the bonds increased the exposure to interest rate risk in the period from five to fifteen years, the Bank entered into an interest rate swaps in order to hedge the changes of fair value caused by changes of risk-free interest rates, paying fixed and receiving floating rates. Notional and fair value of the aforementioned hedging derivative is reported in note 37.

During the period, hedges were effective in hedging the fair value exposure to interest rate movements. For the year ended 31 December 2014, the Bank recognised a net loss of €29.28 million (2013: gain of €5.97 million), representing the loss on the hedging instruments. The total gain on the hedged item attributable to the hedged risk amounted to €27.90 million (2013: loss of €5.84 million).

21) Investment in subsidiaries and associates

in ths. EUR	2013	2014
Investment in subsidiaries	15 690	18 396
Investment in associate	1 097	1 097
Total	**16 787**	**19 493**

During 2014, the Bank received dividends from participations in the amount of €2.8 million (2013: €3.1 million) see note 3.

Factoring Slovenskej sporiteľne, a.s. (subsidiary) was merged with the Bank at 1 November 2014 which resulted to the increase of Bank's equity by €430 thousands.

The Bank tests its investment in subsidiaries and associates for possible impairment. Impairment losses and reversals of impairment are recognized in 'Other operating result' (note 11) of the Income statement.

in ths. EUR	Cost		Impairment		Net book value	
	2013	2014	2013	2014	2013	2014
Realitná spoločnosť Slovenskej sporiteľne, a.s.	13 678	13 678	(9 303)	(6 597)	4 375	7 081
Leasing Slovenskej sporiteľne, a.s.	36 967	36 967	(36 967)	(36 967)	(0)	(0)
Factoring Slovenskej sporiteľne, a.s.	9 510	-	(9 510)	-	-	-
Derop B.V.	11 308	11 308	-	-	11 308	11 308
Erste Group IT SK, spol. s r.o.	3	3	-	-	3	3
Procurement Services SK, s.r.o.	3	3	-	-	3	3
Subsidiaries	**71 470**	**61 960**	**(55 780)**	**(43 564)**	**15 690**	**18 396**
Prvá stavebná sporiteľňa, a.s.	1 093	1 093	-	-	1 093	1 093
Slovak Banking Credit Bureau, s.r.o.	3	3	-	-	3	3
s IT Solutions SK, spol. s r.o.	2 409	2 409	(2 409)	(2 409)	(0)	(0)
Associates	**3 505**	**3 505**	**(2 409)**	**(2 409)**	**1 097**	**1 097**
Total	**74 975**	**65 465**	**(58 189)**	**(45 973)**	**16 786**	**19 492**

Development of impairment provision for subsidiaries and associates during the year was as follows:

in ths. EUR	Impairment provision on subsidiaries		Impairment provision on associates		Total	
	2013	2014	2013	2014	2013	2014
As at 1 January	(59 705)	(55 780)	(2 409)	(2 409)	(62 114)	(58 189)
Allocations	(450)	-	-	-	(450)	-
Releases	4 375	2 706	-	-	4 375	2 706
Merge	-	9 510	-	-	-	9 510
As at 31 December	**(55 780)**	**(43 564)**	**(2 409)**	**(2 409)**	**(58 189)**	**(45 973)**

Investment in subsidiaries

in ths. EUR	Realitná spoločnosť Slovenskej sporiteľne, a.s.		Leasing Slovenskej sporiteľne, a.s.		Factoring Slovenskej sporiteľne, a.s.	
	2013	2014	2013	2014	2013	2014
Place of business	Tomášikova 48 832 10 Bratislava, Slovak Republic		Tomášikova 48 832 69 Bratislava, Slovak Republic		Tomášikova 48 832 37 Bratislava, Slovak Republic	
Main business activity	Real estate agency		Financial and operating leasing		Factoring	
Ownership held	100%		100%		100% (till 1. 11.2014)	
Voting rights held	100%		100%		100% (till 1. 11.2014)	
IFRS Classification (S)	Subsidiary		Subsidiary		Subsidiary	
Reporting currency	EURO		EURO		EURO	
Dividend income received	-	-	-	-	-	-
Impairment loss recognized (cumulative basis)	(9 303)	(6 597)	(36 967)	(36 967)	(9 510)	-
Impairment loss recognized (for the reporting year)	-	2 706	-	-	-	-
Loan commitments, financial guarantees and other commitments given	-	-	-	-	-	-
Investee's key financial information for the reporting year (as at reporting year-end)						
Cash and cash balances	-	-	-	-	-	-
Other current assets	3 765	7 405	17 264	15 918	23 440	-
Non-current assets	2 473	618	5 522	4 576	2 882	-
Current liabilities	-	-	16 680	14 341	22 001	-
Non-current liabilities	309	236	602	675	4 301	-
Operating Income	221	1 865	399	1 065	(1 464)	-
Post-tax result from continuing operations	216	1 858	(229)	(118)	(740)	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	216	1 858	(229)	(118)	(740)	-
Depreciation and amortization	(4)	(4)	(1 229)	(1 180)	-	-
Interest income	-	1	1 124	776	1 283	-
Interest expense	-	-	(533)	(344)	(337)	-
Tax expense/income	-	(3)	-	(3)	-	-

in ths. EUR	Derop B.V.		Erste Group IT SK, spol. s r.o.		Procurement Services SK, s.r.o.	
	2013	2014	2013	2014	2013	2014
Place of business	Naritaweg 165 1043 BW Amsterdam, The Netherlands		Tomášikova 48 831 04 Bratislava, Slovak Republic		Tomášikova 48 832 75 Bratislava, Slovak Republic	
Main business activity	Incorporation, management and financing of companies		IT services and IT systems maintenance		Procurement	
Ownership held	85%		51%		51%	
Voting rights held	85%		51%		51%	
IFRS Classification (S)	Subsidiary		Subsidiary		Subsidiary	
Reporting currency	EURO		EURO		EURO	
Dividend income received	-	-	-	-	23	15
Impairment loss recognized (cumulative basis)	-	-	-	-	-	-
Impairment loss recognized (for the reporting year)	-	-	-	-	-	-
Loan commitments, financial guarantees and other commitments given	-	-	-	-	-	-
Investee's key financial information for the reporting year (as at reporting year-end)						
Cash and cash balances	-	-	-	-	-	-
Other current assets	74	52	2 892	3 742	307	234
Non-current assets	10 405	10 405	6 386	6 891	109	156
Current liabilities	-	-	-	-	-	-
Non-current liabilities	7	14	7 832	8 345	359	373
Operating Income	(21)	(29)	815	1 099	42	(6)
Post-tax result from continuing operations	(21)	(29)	526	802	26	(11)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	(21)	(29)	526	802	26	(11)
Depreciation and amortization	-	-	(22)	(2)	-	-
Interest income	-	-	2	5	-	-
Interest expense	-	-	-	-	-	-
Tax expense/income	-	-	(266)	(295)	(15)	(5)

Investment in associates

in ths. EUR	Prvá stavebná sporiteľňa, a. s. 2013	2014	Slovak Banking Credit Bureau, s.r.o. 2013	2014	s IT Solutions SK, spol. s r.o. 2013	2014
Place of business	Bajkalská 30 829 48 Bratislava Slovak Republic		Malý trh 2/A 811 08 Bratislava Slovak Republic		Tomášikova 48 831 04 Bratislava Slovak Republic	
Main business activity	Banking		Retail credit register		Software company	
Ownership held	9.98%		33.33%		23.50%	
Voting rights held	35.00%		33.33%		23.50%	
IFRS Classification (JV/A)	Associate		Associate		Associate	
Reporting currency	EURO		EURO		EURO	
Dividend income received	2 900	2 539	-	-	-	-
Impairment loss recognized (cumulative basis)	-	-	-	-	(2 409)	(2 409)
Impairment loss recognized (for the reporting year)	-	-	-	-	-	-
Loan commitments, financial guarantees and other commitments given	-	-	-	-	-	-

Investee's key financial information for the reporting year (as at reporting year-end)

Peniaze a účty	634	230	118	119	-	-
Ostatné krátkodobé aktíva	2 278 376	2 491 630	-	9	-	-
Dlhodobé aktíva	76 303	80 246	-	21	-	-
Krátkodobé záväzky	2 082 470	2 306 429	2	9	-	-
Dlhodobé záväzky	25 095	24 519	1	2	-	-
Prevádzkové výnosy	(42 492)	(43 559)	(13)	14	-	-
Výsledok z bežnej činnosti po zdanení	26 942	20 654	(14)	3	-	-
Ostatné súčasti komplexného výnosu	2 634	2 916	-	-	-	-
Celkový komplexný výnos	29 576	23 570	(14)	3	-	-
Odpisy a amortizácia	(2 663)	(3 114)	-	(10)	-	-
Úrokové výnosy	110 577	109 213	-	-	-	-
Úrokové náklady	(49 452)	(53 269)	-	-	-	-
Daňové náklady/výnosy	(8 971)	(6 879)	-	-	-	-

The Bank held a 9.98% shareholding in Prvá stavebná sporiteľňa, a.s. (PSS) at 31 December 2014 and 31 December 2013. The Bank, based on the contract with Erste Group Bank, represents shareholder interests of the parent company in PSS (25.02%). In 2004, following NBS approval, the Bank's representative replaced a representative of Erste Group Bank in the Supervisory board of PSS. As a result, the Bank established significant influence over PSS from 2004. The investment in PSS is therefore presented as an associate, with the dividend income from this investment reported under Note 3 'Dividend income'.

The company s IT Solutions SK, spol. s r.o. does not provide any economic activity and therefore no value of assets and liabilities is recognised.

22) Property, equipment and other assets

A) AT COST

in ths. EUR	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties
Balance as of 01. 01. 2013	**214 355**	**65 511**	**64 564**	**344 430**	**5 836**
Additions in current year	4 601	2 400	3 731	10 732	-
Disposals	(9 180)	(3 737)	(10 395)	(23 312)	(14)
Reclassification	(259)	-	-	(259)	259
Balance as of 31. 12. 2013	**209 517**	**64 174**	**57 900**	**331 591**	**6 081**
Additions in current year	4 462	3 852	2 028	10 342	-
Disposals	(8 335)	(3 059)	(8 992)	(20 387)	(381)
Reclassification	(2 182)	-	-	(2 182)	2 182
Balance as of 31. 12. 2014	**203 462**	**64 967**	**50 936**	**319 364**	**7 882**

B) ACCUMULATED DEPRECIATION

in ths. EUR	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties
Balance as of 01. 01. 2013	**(90 019)**	**(54 666)**	**(52 830)**	**(197 515)**	**(3 027)**
Amortisation and depreciation	(12 945)	(3 854)	(4 803)	(21 602)	(197)
Disposals	4 051	3 683	10 390	18 124	10
Impairment	(164)	-	-	(164)	1
Reclassification	63	-	-	63	(63)
Balance as of 31. 12. 2013	**(99 014)**	**(54 837)**	**(47 243)**	**(201 094)**	**(3 276)**
Amortisation and depreciation	(10 162)	(3 675)	(4 118)	(17 955)	(246)
Disposals	4 228	3 035	8 889	16 152	211
Impairment	(5 793)	-	-	(5 793)	(79)
Reversal of impairment	1 938	-	-	1 938	-
Reclassification	1 186	-	-	1 186	(1 186)
Balance as of 31. 12. 2014	**(107 617)**	**(55 477)**	**(42 472)**	**(205 566)**	**(4 576)**

C) CARRYING AMOUNTS

in ths. EUR	Land and buildings	Office equipment / other fixed assets	IT assets (hardware)	Property and equipment	Investment properties
Balance as of 31. 12. 2013	**110 503**	**9 337**	**10 657**	**130 497**	**2 805**
Balance as of 31. 12. 2014	**95 845**	**9 490**	**8 464**	**113 798**	**3 306**

The amount of property and equipment that is fully depreciated but still used by the Bank as of 31 December 2014 amounts to €87.1 million (2013: €83.9 million).

Tangible and intangible assets are covered by insurance contract that covers standard risks (theft, robbery, natural hazards, vandalism, and other damages).

Operating leases

The following table summarises future minimum lease payments under non-cancellable operating leases where the Bank acts as lessee:

in ths. EUR	2013	2014
< 1 year	1 517	1 428
1-5 years	50 184	40 152
> 5 years	5 060	3 042
Total	**56 761**	**44 622**

Total amount of €26.3 million (2013: €33.3 million) disclosed in line '1-5 years' represents non-cancellable operating lease for head-office of the Bank leased from its subsidiary Laned, a.s..

The Bank does not act as a lessor in any non-cancellable operating lease transaction.

Investment property

Total rental income earned by the Bank amounted to €391.2 thousand (2013: €358.1 thousand) and is separately presented in the Income Statement, line 'Rental income from investment properties & other operating leases'.
The depreciation for investment property is presented under 'Depreciation' in amount €246.0 thousand (2013: €196.6 thousand).

23) Intangible assets

A) AT COST

in ths. EUR	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 01. 01. 2013	**298 857**	**2 867**	**301 724**
Additions	14 470	473	14 944
Disposals	(83 210)	(247)	(83 457)
Balance as of 31. 12. 2013	**230 117**	**3 093**	**233 211**
Additions	15 645	29	15 674
Disposals	(1 187)	-	(1 187)
Balance as of 31. 12. 2014	**244 575**	**3 122**	**247 698**

B) ACCUMULATED DEPRECIATION

in ths. EUR	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 01. 01. 2013	**(195 796)**	**(2 385)**	**(198 181)**
Amortisation and depreciation	(20 855)	(200)	(21 055)
Disposals	83 009	247	83 256
Balance as of 31. 12. 2013	**(133 642)**	**(2 338)**	**(135 980)**
Amortisation and depreciation	(22 620)	(322)	(22 941)
Disposals	1 187	-	1 187
Balance as of 31. 12. 2014	**(155 075)**	**(2 660)**	**(157 734)**

C) CARRYING AMOUNTS

in ths. EUR	Software acquired	Others (licenses, patents, etc.)	Total
Balance as of 31. 12. 2013	**96 475**	**755**	**97 231**
Balance as of 31. 12. 2014	**89 500**	**462**	**89 964**

The amount of fully amortized intangible assets that are still used by the Bank amounts to €74.3 million (2013: €71 million).

Assets not yet put in use as at 31 December 2014 amounted to €3.2 million (2013: €1.6 million).

In 2013 the Bank disposed the old core banking system in the amount of €83.2 million.

During the year 2014 the Bank put in use upgrade of the new core banking system in the total amount of €11.1 million (2013: €10.9 million).

24) Tax assets and liabilities

The structure of the tax position as at 31 December 2014 and 31 December 2013 was as follows:

in ths. EUR	Tax assets		Tax liabilities		Net variance 2014	Net variance 2014	Net variance 2014
	2013	2014	2013	2014	Total	Through profit or loss	Through other comprehen-sive income
Assets							
Financial assets available for sale	234	234	(9 431)	(16 524)	(7 093)	-	(7 093)
Loans and receivables	40 297	44 863	-	-	4 566	4 566	-
Tangible assets	-	-	(2 773)	(5 207)	(2 434)	(2 434)	-
Tax loss carried forward	-	340	-	-	340	340	-
Liabilities							
Provisions	2 895	4 246	-	-	1 351	1 351	-
Pensions and other post employment defined benefit obligations	837	879	-	-	42	42	-
Other liabilities	4 218	5 083	-	-	865	865	-
Gross deferred taxes	48 481	55 645	(12 204)	(21 731)	(2 363)	4 730	(7 093)
Net deferred taxes	36 277	33 914	-	-	-	-	-
Total current taxes	-	-	(2 042)	(22 765)	-	-	-
Total taxes	36 277	33 914	(2 042)	(22 765)	-	-	-

Deferred tax assets and liabilities have been offset in accordance with the Bank's accounting policy.

The Bank applies a conservative approach for the recognition of deferred tax assets and liabilities. All deferred tax liabilities are recognised in the full amount, while only those deferred tax assets are recognised for which the Bank expects to realise tax benefits in the future.

25) Other assets

in ths. EUR	2013	2014
Prepayments and accrued income	4 386	5 030
Sundry assets	33 845	18 495
Total	**38 231**	**23 525**

26) Financial liabilities measured at amortised costs

Deposits from banks

in ths. EUR	2013	2014
Overnight deposits	162 840	94 434
Term deposits	234 252	574 724
Repurchase agreements	27 284	71 528
Total	**424 376**	**740 686**

Deposits from customers

in ths. EUR	2013	2014
Overnight deposits	**3 914 379**	**4 560 943**
Non-savings deposits	3 914 379	4 560 943
General governments	41 706	138 692
Other financial corporations	115 139	154 905
Non-financial corporations	812 250	949 131
Households	2 945 284	3 318 215
Term deposits - Deposits with agreed maturity	**3 845 953**	**3 475 517**
Non-savings deposits	3 845 953	3 475 517
General governments	206 393	377 656
Other financial corporations	141 639	122 740
Non-financial corporations	404 966	300 611
Households	3 092 955	2 674 510
Deposits redeemable at notice	**1 341 101**	**1 647 429**
Households	1 341 101	1 647 429
Total	**9 101 434**	**9 683 889**
General governments	**248 099**	**516 348**
Other financial corporations	**236 489**	**277 645**
Non-financial corporations	**1 679 360**	**1 249 742**
Households	**6 937 486**	**7 640 154**

As at 31 December 2014 deposits from banks included subordinated debt from the parent bank in amount €100 million (2013: €100 million). This debt ranks behind other liabilities in the case of financial difficulties of the Bank.

As at 31 December 2014, no deposits from customers were collateralised by securities.

As at 31 December 2014, no embedded derivatives (2013: €1.3 million) were included in deposits from customers.

27) Debt securities issued

in ths. EUR	2013	2014
Subordinated liabilities	73 000	75 102
Subordinated issues and deposits	73 000	75 102
Other debt securities issued	624 234	854 737
Bonds / Certificates	31 122	137 407
Mortgage covered bonds	593 112	717 330
Total	**697 234**	**929 839**

SUBORDINATED DEBT

in ths. EUR	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Cu-rrency	2013	2014
Other bonds	June 2010	June 2015	3.80%	500	10 000	EUR	5 099	5 099
Other bonds	June 2011	June 2018	5.00%/4.25%	700	10 000	EUR	6 706	6 712
Other bonds	June 2011	June 2018	4.90%	132	50 000	EUR	6 611	6 611
Other bonds*	October 2011	October 2018	4.70%	543	10 000	EUR	5 013	5 074
Other bonds*	December 2011	December 2018	4.82%	407	10 000	EUR	3 818	3 795
Other bonds*	August 2010	August 2020	4.30%	10 000	1 000	EUR	11 096	11 532
Other bonds*	August 2011	August 2021	4.30%	10 000	1 000	EUR	10 610	11 036
Other bonds*	June 2012	June 2022	5.50%	11 000	1 000	EUR	11 074	11 683
Other bonds*	November 2012	November 2022	4.23%	9 000	1 000	EUR	8 674	9 070
Other bonds*	November 2011	November 2023	4.43%	4 250	1 000	EUR	4 299	4 490
Total subordinated liabilities							**73 000**	**75 102**

Interest rate represents actual interest expense as recorded by the Group.

** The bonds include embedded derivatives which were separated and disclosed under Financial liabilities at fair value through profit or loss. As at December 31 2014 fair value of these derivatives was €2.07 million (2013: €1.98 million).*

BONDS ISSUED

in ths. EUR	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Cu-rrency	2013	2014
Mortgage bonds	January 2010	January 2014	3.50%	-	-	EUR	5 939	
Mortgage bonds	February 2012	February 2014	3.28%	-	-	EUR	20 589	
Mortgage bonds	March 2010	March 2014	3.30%	-	-	EUR	10 621	
Mortgage bonds	May 2010	May 2014	2.80%	-	-	EUR	7 587	
Mortgage bonds	August 2012	August 2014	1.25%	-	-	EUR	40 190	
Mortgage bonds	September 2010	September 2014	2.80%	-	-	EUR	9 768	
Mortgage bonds	March 2011	September 2014	3.00%	-	-	EUR	14 554	
Mortgage bonds	March 2011	September 2014	3.00%	-	-	EUR	8 257	
Mortgage bonds	October 2010	October 2014	2.35%	-	-	EUR	9 902	
Mortgage bonds	February 2010	February 2015	3.62%	2 095	1 000	EUR	2 162	2 162
Mortgage bonds	February 2012	February 2015	3.30%/3.65%	339	10 000	EUR	3 446	3 436
Mortgage bonds	March 2010	March 2015	6mE + 0.95%	400	50 000	EUR	20 081	20 072
Mortgage bonds	September 2012	March 2015	1.40%	400	50 000	EUR	20 085	20 085
Mortgage bonds	April 2010	April 2015	3.50%	9 580	1 000	EUR	9 654	9 646
Mortgage bonds	June 2011	June 2015	3.20%	7 669	1 000	EUR	7 694	7 689
Mortgage bonds	July 2010	July 2015	3.10%	299	50 000	EUR	15 147	15 147
Mortgage bonds	July 2010	July 2015	6mE + 1.00%	199	50 000	EUR	10 007	10 006
Mortgage bonds	February 2011	August 2015	2.95%	9 685	1 000	EUR	9 932	9 800
Mortgage bonds	August 2010	August 2015	3.09%	340	50 000	EUR	17 185	17 184
Mortgage bonds	November 2010	November 2015	2.65%	9 808	1 000	EUR	9 874	9 844
Mortgage bonds	June 2013	December 2015	0.90%	200	50 000	EUR	9 970	9 987
Mortgage bonds	June 2011	January 2016	3.20%	2 493	1 000	EUR	2 530	2 530
Mortgage bonds	February 2014	February 2016	0.63%	600	50 000	EUR	-	30 121
Mortgage bonds	February 2012	February 2016	3.70%	8 815	1 000	EUR	8 986	8 930
Mortgage bonds	August 2011	February 2016	3.20%	5 333	1 000	EUR	5 402	5 392
Mortgage bonds	March 2011	March 2016	3.10%	14 717	1 000	EUR	14 890	14 866
Mortgage bonds	March 2006	March 2016	6mE + 0.09%	500	33 194	EUR	16 615	16 609
Mortgage bonds	January 2012	July 2016	3.70%	6 163	1 000	EUR	6 262	6 261
Mortgage bonds	February 2013	August 2016	1.15%	240	50 000	EUR	12 058	12 058
Mortgage bonds	August 2014	August 2016	6mE + 0.15%	200	50 000	EUR	-	10 017
Mortgage bonds	December 2011	December 2016	3.50%	6 318	1 000	EUR	6 350	6 333
Mortgage bonds	June 2012	December 2016	2.85%	2 787	1 000	EUR	2 792	2 791
Mortgage bonds	July 2012	January 2017	2.88%	8 004	1 000	EUR	8 124	8 109
Mortgage bonds	April 2014	April 2017	0.85%	300	50 000	EUR	-	15 055
Mortgage bonds	May 2012	May 2017	3.30%	700	50 000	EUR	35 767	35 767
Mortgage bonds	June 2012	June 2017	2.92%	400	50 000	EUR	20 323	20 323
Mortgage bonds	July 2014	July 2017	6mE + 0.18%	1 120	50 000	EUR	-	56 134
Mortgage bonds	February 2011	August 2017	3.55%	51	50 000	EUR	2 586	2 586
Mortgage bonds	October 2012	October 2017	1.95%	300	50 000	EUR	15 050	15 050
Mortgage bonds	February 2013	February 2018	1.75%	460	50 000	EUR	23 354	23 354
Mortgage bonds	March 2014	March 2018	1.22%	400	50 000	EUR	-	20 197
Mortgage bonds	August 2014	August 2018	0.50%	900	50 000	EUR	-	44 945
Mortgage bonds	September 2012	September 2018	2.85%	9 989	1 000	EUR	10 071	10 063
Mortgage bonds	December 2013	December 2018	6mE + 0.45%	600	50 000	EUR	30 010	30 008
Mortgage bonds	February 2013	February 2019	2.30%	4 977	1 000	EUR	5 042	5 019
Mortgage bonds	March 2013	March 2019	2.30%	4 980	1 000	EUR	5 034	5 014
Mortgage bonds	April 2013	April 2019	2.30%	4 958	1 000	EUR	5 025	4 982
Mortgage bonds	August 2013	August 2019	2.00%	2 574	1 000	EUR	2 595	2 595
Mortgage bonds	August 2013	August 2019	2.00%	4 306	1 000	EUR	4 340	4 337
Mortgage bonds	September 2013	September 2019	2.00%	6 440	1 000	EUR	6 530	6 475
Mortgage bonds	October 2013	October 2019	2.00%	5 920	1 000	EUR	5 954	5 943
Mortgage bonds	November 2013	November 2019	2.00%	6 671	1 000	EUR	6 713	6 686
Mortgage bonds	December 2013	December 2019	2.05%	70	50 000	EUR	3 504	3 504
Mortgage bonds	December 2012	December 2019	2.50%	66	50 000	EUR	3 304	3 304
Mortgage bonds	December 2013	December 2019	2.00%	4 186	1 000	EUR	4 189	4 189
Mortgage bonds	December 2013	December 2019	2.00%	9 682	1 000	EUR	9 711	9 688
Mortgage bonds	July 2013	January 2020	2.00%	2 235	1 000	EUR	2 256	2 256

in ths. EUR	Issue Date	Maturity Date	Interest Rate	Number of securities	Nominal	Cu-rrency	2013	2014
Mortgage bonds	February 2014	August 2020	2.00%	9 974	1 000	EUR	-	10 053
Mortgage bonds	November 2014	November 2020	0.88%	150	100 000	EUR	-	15 015
Mortgage bonds	March 2014	March 2021	2.00%	8 532	1 000	EUR	-	8 579
Mortgage bonds	April 2008	April 2021	5.00%	250	66 388	EUR	17 126	17 183
Mortgage bonds	May 2014	May 2021	1.90%	5 000	1 000	EUR	-	5 013
Mortgage bonds	June 2014	June 2021	1.75%	9 578	1 000	EUR	-	9 588
Mortgage bonds	July 2014	July 2021	1.55%	3 558	1 000	EUR	-	3 579
Mortgage bonds	March 2014	March 2022	2.00%	220	50 000	EUR	-	11 072
Mortgage bonds	January 2013	January 2025	3.10%	87	50 000	EUR	4 412	4 412
Mortgage bonds	July 2007	July 2027	4.95%	250	66 388	EUR	16 950	24 772
Mortgage bonds	June 2013	June 2028	3.00%	132	50 000	EUR	6 615	6 615
Mortgage bonds	February 2014	February 2029	2.80%	97	50 000	EUR	-	4 899
Other bonds	November 2009	November 2014	3.20%	-	-	EUR	4 679	
Other bonds	December 2010	December 2015	4.00%/12mE + 0.50%	2 795	1 000	EUR	2 883	2 822
Other bonds	December 2013	December 2016	3.00%	1 181	5 000	PLN	1 423	1 383
Other bonds	March 2011	March 2017	3.65%	49	50 000	EUR	2 523	2 473
Other bonds	May 2014	May 2017	3.00%	942	5 000	PLN	-	1 122
Other bonds	July 2014	July 2017	2.00%	25 196	100	EUR	-	2 523
Other bonds	December 2012	December 2018	2.00%	2 085	1 000	EUR	2 121	2 088
Other bonds	September 2014	September 2019	1.07%	1 000	100 000	EUR	-	100 295
Other bonds	September 2014	September 2019	1.50%	15 592	1 000	EUR	-	15 651
Other bonds	December 2013	December 2019	1.50%	677	1 000	EUR	658	673
Investment certificates	February 2013	February 2014	5.50%	-	-	EUR	4 429	
Investment certificates	February 2013	February 2014	5.50%	-	-	EUR	2 640	
Investment certificates	February 2013	February 2014	5.50%	-	-	EUR	4 749	
Investment certificates	July 2013	July 2014	5.50%	-	-	EUR	1 158	
Investment certificates	augusta 2013	August 2014	5.50%	-	-	EUR	1 331	
Investment certificates	October 2013	October 2014	5.50%	-	-	EUR	636	
Investment certificates	June 2012	June 2015	2.30%	494	500	EUR		0
Investment certificates	October 2014	October 2015	8.00%	2 000	1 000	EUR	-	2 196
Investment certificates	November 2014	November 2015	8.50%	1 620	1 000	EUR	-	1 789
Investment certificates	December 2014	December 2015	7.25%	1 041	5 000	NOK	-	640
Investment certificates	December 2014	December 2015	8.25%	300	1 000	EUR	-	332
Investment certificates	March 2014	March 2016	4.50%	40	1 000	EUR	-	42
Investment certificates	May 2013	May 2016	1.50%	1 547	500	EUR		0
Investment certificates	August 2013	August 2016	4.50%	441	1 000	EUR	579	475
Investment certificates	October 2013	October 2016	4.50%	525	1 000	EUR	587	567
Investment certificates	May 2014	May 2017	0.67%	1 375	500	EUR	-	0
Investment certificates	December 2013	December 2018	5.00%	612	1 000	EUR	724	702
Investment certificates	March 2014	March 2019	5.25%	574	5 000	PLN	-	737
Investment certificates	March 2014	March 2019	4.00%	784	1 000	EUR	-	897
Total debt securities issued							**560 037**	**790 744**

Transferability of securities is not limited. There are no pre-emptive rights, exchange rights or early redemption rights related to securities. All securities are unsecured.

All securities are issued in book-entry form as bearer or registered securities with annual or semi-annual coupon payments.

All mortgage bonds and selected bonds are traded on the Bratislava Stock Exchange .

As at 31 December 2014, debt securities issued include embedded derivatives in the amount of €726 thousand (2013: €3.926 million) which were separated and are disclosed under 'Financial assets - held for trading' and 'Financial liabilities – held for trading'.

In July 2007 the Bank issued fixed rate mortgage bonds in the amount of €16.6 million, which were hedged by interest rate swap in order to protect against interest rate risk. The notional and fair value of the aforementioned hedging derivative is reported in Note 38.

During the period, the hedge was effective in the hedging of fair value exposure to interest rate movements. For the year ended 31 December 2014, the Bank recognised a net gain of €3.2 million.

28) Provisions

in ths. EUR	2013	2014
Long-term employee benefits provisions	3 942	4 069
Pending legal issues and tax litigation	6 050	7 001
Commitments and guarantees given	12 861	18 892
Provisions for guarantees - off balance sheet (defaulted customers)	6 664	10 471
Provisions for guarantees - off balance sheet (non-defaulted customers)	6 197	8 421
Other provisions	298	298
Provisions	**23 151**	**30 260**

LONG – TERM EMPLOYEE BENEFITS PROVISIONS

The Bank has a defined benefit program, under which employees are entitled to a lump-sum payment upon taking retirement or a working jubilee. As at 31 December 2014 there were 3 861 employees at the Bank covered by this program (2013: 3 796 employees).

During the year ending 31 December 2014, the actuarial calculation based on the projected unit credit method was performed.

PROVISION FOR LEGAL CASES

Provision for legal cases represents provision for legal proceedings outstanding as at 31 December 2014 which arose from normal banking activities.

PROVISION FOR OFF-BALANCE SHEET AND OTHER RISKS

The provisions for credit risk of off-balance sheet items have been created to cover estimated losses present in the balances of unused loan commitments, guarantees, and letters of credits recorded in the off-balance sheet. Effect of discount is reflected in the calculation using actual market interest rates.

The amounts relating to long-term employee benefits provisions recognised in the Balance Sheet and Income Statement for the years 2014 and 2013 were as follows:

in ths. EUR	Pension obligations	Jubilee provisions	Total
Long-term employee benefits provisions, 31 Dec 2012	1 637	1 833	3 471
Service cost	175	213	388
Interest cost	41	46	87
Payments	(49)	(148)	(197)
Components recognised in other comprehensive income (Remeasurements)			
Actuarial gains/losses arising from changes from experience assumptions	236	(43)	193
Long-term employee benefits provisions as of 31 Dec 2013	**2 040**	**1 902**	**3 942**
Service cost	149	200	349
Interest cost	55	52	107
Payments	(65)	(90)	(155)
Components recognised in other comprehensive income (Remeasurements)			
Actuarial gains/losses arising from changes in demographic assumptions	3	1	4
Actuarial gains/losses arising from changes in financial assumptions	118	57	175
Actuarial gains/losses arising from changes from experience assumptions	(180)	(172)	(353)
Long-term employee provisions as of 31 Dec 2014	**2 120**	**1 949**	**4 069**

The provision for long-term employee benefits was calculated in accordance with the currently valid mortality tables issued by the Statistical Office of the Slovak Republic.

The actuarial calculation of pension obligations is based on the following assumptions:

Assumptions for the actuarial calculation of pension obligations	2013	2014
Annual real discount rate	2.72%	2.25%
Annual real rate of salary increase in future	0.00%	0.00%
Annual employee turnover	0.00% – 24.44%	2.07% – 15.15%
Retirement age	62 years	62 years

The actuarial calculation of jubilee provisions is based on the following assumptions:

Assumptions for the actuarial calculation of jubilee provisions	2013	2014
Annual real discount rate	2.72%	2.25%
Annual real rate of salary increase in future	0.00%	0.00%
Annual employee turnover	0.00% – 24.44%	2.07% – 15.15%
Retirement age	62 years	62 years

SUNDRY PROVISIONS

in ths. EUR	2013	Additions, includ. increases in exist. provisions	Amounts used	Unused amounts reversed during the period	Exchange -rate and other changes	Merge	2014
Pending legal issues and tax litigation	6 050	456	(185)	(8)	-	688	7 001
Provisions for contingent credit risk liabilities	12 861	68 177	-	(62 145)	-	-	18 893
Other provisions	298	-	-	-	-	-	298
Total	**19 209**	**68 633**	**(185)**	**(62 154)**	**-**	**688**	**26 191**

in ths. EUR	2012	Additions, includ. increases in exist. provisions	Amounts used	Unused amounts reversed during the period	Exchange -rate and other changes	Merge	2013
Pending legal issues and tax litigation	9 699	691	(3 301)	(1 039)	0	-	6 050
Provisions for contingent credit risk liabilities	10 681	15 424	-	(13 242)	(2)	-	12 861
Other provisions	298	-	-	-	0	-	298
Total	**20 678**	**16 115**	**(3 301)**	**(14 281)**	**(2)**	**-**	**19 209**

29) Other liabilities

in ths. EUR	2013	2014
Client settlement	46 217	44 935
Suppliers (including accruals)	19 054	31 580
Personnel balances and reserves, Social fund	19 746	24 799
State budget, social and health insurance, taxes	4 750	5 023
Other	1 922	2 997
Total	**91 689**	**109 334**

Development of the social fund liability included in Other liabilities is as follows:

in ths. EUR	2013	2014
As at 1 January 2014	392	213
Additions	1 473	2 153
Withdrawals	(1 652)	(1 596)
As at 31 December 2014	**213**	**770**

30) Equity

Share capital

Authorised, called-up, and fully paid share capital consists of the following:

Nominal value	Number of shares	2013 ths. EUR	Number of shares	2014 ths. EUR
EUR 1.000 each	212 000	212 000	212 000	212 000
Total		**212 000**		**212 000**

The proposed distribution of profit is shown in the following table:

Dividends per share	Attributable from the profit for the year	
	2013	2014*
Profit of the year	188 259	181 477
Transfer to retained earnings	-	38 281
Dividends paid to shareholder from profit for the year	188 259	143 196
Number of shares EUR 1 000 each	212 000	212 000
Amount of dividends per EUR 1 000 share (EUR)	**888**	**675**

** Based on the proposed profit distribution.*

Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The Bank is obliged to contribute an amount to the fund each year which is not less than 10% of its annual net profit (calculated in accordance with Slovak accounting regulations) until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The level of the legal reserve fund was higher then 20% of the issued share capital in both years. The legal reserve Fund is not available for distribution to shareholders.

Other funds

Other funds as at 31 December 2014 included only the Statutory fund amounting to €39.3 million (2013: €39.3 million).

The Statutory fund was created from distributable profits to strengthen the Bank's capital base. The Statutory fund may be terminated and transferred back to distributable profits if the Bank's share capital or legal reserve fund is increased. Such termination and transfer requires the approval of the Supervisory Board and the General Assembly.

Revaluation reserves

Revaluation reserves represent the unrealised revaluation of Securities available for sale. Revaluation reserves are disclosed net of deferred tax effect.

Other funds and revaluation reserves are not available for distribution to shareholders.

31) Segment reporting

The segment reporting of the bank 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 the Bank the function of the chief operating decision maker is exercised by the management board. In addition, the the Bank segment report follows Erste Group standards for the purpose of presentation, measurement and steering of the group.

Structural change

Following a strategic review, the segment structure as well as the methodology for capital allocation was changed. SLSP, as part of Erste Group, therefore introduced a new segment reporting, starting from 1 January 2014. It is based on the matrix organization (business information) and provides comprehensive information to assess the performance of the business.

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

For the purpose of transparent presentation of the Banks structure, reflecting internal steering and measurement, the segment reporting has been harmonized with the segment structure of Erste Group and is divided into the following business segments:

- Retail,
- SME,
- Assets and Liabilities management (ALM) and Local corporate centre,
- Large Corporates,
- Commercial Real Estate,
- Group Markets,
- Free capital.

For the definition of segments/business lines in the Bank, the Bank applies account manager principle, which means that each client has assigned an account manager, who is assigned to a particular business line/segment. In other words, profit/loss is allocated to an account manager and a customer can only be allocated to one account manager.

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. Retail products and services including current and savings accounts, mortgage and consumer loans, investment products, credit cards and cross selling products such as, insurance and building society products are offered via various distribution channels (branch networks and digital banking). The Retail stream is divided into 8 regions, then to 76 areas and then 292 branches (status as of 31 December 2014). In addition the Retail segment also includes at the equity results of building society (PSS, a.s.).

SME

The SME segment primarily comprises small, medium and local corporate enterprises with turnover from EUR 1 million up to EUR 75 million, Public sector (e.g. municipalities). Factoring Slovenskej sporiteľne, a.s. was merged with the Bank at 1 November 2014 and factoring business is presented as single product within SME sector.

Assets and Liabilities Management (ALM) and Local corporate centre

The segment includes activities in connection with balance sheet management, investment securities management, and new issues of debt securities as well as responsibility for setting of internal transfer rates. Consequently, the transformation margin as a result of the mismatch in balance sheet from a time and currency point of view is reported in this segment. In addition, the segment contains the non-client business of the bank, mainly positions and items which cannot be directly allocated to specific segment or activities which are managed centrally and reconciliation items.

Large Corporates

The Large Corporates segment comprises the business with large corporate customers whose annual turnover exceeds a defined threshold that starts in case of SLSP from EUR 75 million.

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.

Group Markets

The Group markets segment (GM) in terms of SLSP comprises divisionalized business units such as Treasury Trading and Treasury Sales (Retail, Corporate and Institutional Sales) and includes the treasury activities of the bank. The focus is on client-oriented business with institutional clients.

Free capital

Free capital segment represents free capital which is defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments.

Measurement

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

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

Capital consumption per segment is regularly reviewed by the management 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 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, SLSP 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).

in EUR million	Retail		SME		ALM & LCC		Large Corporates		Commercial Real Estate	
	1-12 13	1-12 14	1-12 13	1-12 14	1-12 13	1-12 14	1-12 13	1-12 14	1-12 13	1-12 14
Net interest income	304.9	332.7	17.4	33.9	81.2	58.3	12.2	12.6	8.9	8.0
Net fee and commission income	109.6	109.7	4.5	11.2	-8.4	-11.0	7.2	7.9	0.6	1.4
Dividend income	0.0	0.0	0.0	0.0	0.4	3.3	0.0	0.0	0.0	0.0
Net trading and fair value result	2.6	3.0	0.3	0.3	0.7	0.1	0.2	0.0	0.1	0.1
Net result from equity method investments	0.0	0.0	0.0	0.0	2.9	0.0	0.0	0.0	0.0	0.0
Rental income from investment properties & other operating leases	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0	0.0
General administrative expenses	-198.3	-214.3	-8.4	-18.9	-31.3	-21.5	-3.7	-4.9	-1.8	-1.7
thereof depreciation and amortization	-35.4	-34.2	-2.4	-3.2	-3.9	-2.0	-0.7	-0.9	-0.1	-0.1
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss. net	0.0	0.0	0.0	0.0	2.0	1.3	0.0	-0.1	0.0	0.0
Net impairment loss on financial assets not measured at fair value through profit or loss	-32.0	-31.9	-2.0	-5.4	-0.8	-2.7	-9.9	3.3	-2.7	-17.1
Other operating result	-28.9	-23.1	-0.9	-1.8	-10.4	-8.6	-0.9	-6.5	-0.2	-0.3
Levies on banking activities	-28.9	-22.8	-0.9	-1.4	-8.9	-3.9	-0.9	-1.2	-0.2	-0.2
Pre-tax result from continuing operations	**158.0**	**176.2**	**10.9**	**19.2**	**36.7**	**19.5**	**5.1**	**12.3**	**4.9**	**-9.6**
Taxes on income	-36.6	-38.8	-2.6	-4.2	-7.5	-8.1	-1.2	-2.7	-1.2	2.1
Net result for the period	121.4	137.4	8.3	15.0	29.2	11.4	3.9	9.6	3.7	-7.5
Net result attributable to owners of the parent	**121.4**	**137.4**	**8.3**	**15.0**	**29.2**	**11.4**	**3.9**	**9.6**	**3.7**	**-7.5**
Operating income	417.1	445.5	22.1	45.3	77.2	51.0	19.6	20.5	9.6	9.5
Operating expenses	-198.3	-214.3	-8.4	-18.9	-31.3	-21.5	-3.7	-4.9	-1.8	-1.7
Operating result	**218.8**	**231.1**	**13.7**	**26.4**	**45.8**	**29.5**	**15.9**	**15.6**	**7.8**	**7.8**
Risk-weighted assets (credit risk. eop)	1 899.3	2 228.8	1 040.7	983.5	266.6	473.6	411.4	490.3	348.8	160.1
Average allocated capital	207.7	194.9	86.4	83.4	136.5	167.5	39.9	34.1	31.2	22.5
Cost/income ratio	47.5%	48.1%	38.0%	41.7%	40.6%	42.2%	19.0%	23.7%	18.9%	17.5%
Return on allocated capital	58.5%	70.5%	9.6%	18.0%	21.4%	6.8%	9.7%	28.3%	11.9%	-33.3%
Total assets (eop)	5 127	6 044	1 126	1 214	4 373	4 551	571	658	388	356
Total liabilities excluding equity (eop)	7 533	7 936	465	461	1 321	1 784	334	289	49	67
Impairments and risk provisions	**-32.0**	**-32.2**	**-2.0**	**-5.8**	**-2.9**	**-2.6**	**-9.9**	**-2.1**	**-2.7**	**-17.3**
Net impairment loss on loans and receivables from credit institutions and customers	-32.0	-31.9	-2.0	-5.4	-0.3	0.3	-9.9	3.2	-2.7	-17.1
Net impairment loss on other financial assets not measured at fair value through profit and loss	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Allocation/release of provisions for contingent credit risk liabilities	0.0	-0.3	0.0	-0.4	-2.2	0.1	0.0	-5.3	0.0	-0.1
Net impairment loss on other non financial assets	0.0	0.0	0.0	0.0	-0.2	-3.0	0.0	0.0	0.0	0.0

in EUR million	Group Markets		Free capital		Total group	
	1-12 13	1-12 14	1-12 13	1-12 14	1-12 13	1-12 14
Net interest income	5.2	5.5	17.2	11.7	447.0	462.7
Net fee and commission income	4.2	4.5	0.0	0.0	117.6	123.6
Dividend income	0.0	0.0	0.0	0.0	0.4	3.3
Net trading and fair value result	7.7	6.0	0.0	0.0	11.6	9.5
Net result from equity method investments	0.0	0.0	0.0	0.0	2.9	0.0
Rental income from investment properties & other operating leases	0.0	0.0	0.0	0.0	0.4	0.4
General administrative expenses	-5.7	-5.6	0.0	0.0	-249.2	-266.9
thereof depreciation and amortization	-0.3	-0.7	0.0	0.0	-42.9	-41.1
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss. net	0.0	0.0	0.0	0.0	2.0	1.3
Net impairment loss on financial assets not measured at fair value through profit or loss	0.0	0.0	0.0	0.0	-47.3	-54.0
Other operating result	-2.5	-2.1	0.0	0.0	-43.9	-42.3
Levies on banking activities	-2.5	-2.1	0.0	0.0	-42.3	-31.5
Pre-tax result from continuing operations	**8.9**	**8.3**	**17.2**	**11.7**	**241.6**	**237.6**
Taxes on income	-2.0	-1.8	-2.2	-2.6	-53.3	-56.1
Net result for the period	6.8	6.5	15.0	9.1	188.3	181.5
Net result attributable to owners of the parent	**6.8**	**6.5**	**15.0**	**9.1**	**188.3**	**181.5**
Operating income	17.1	16.1	17.2	11.7	579.9	599.6
Operating expenses	-5.7	-5.6	0.0	0.0	-249.2	-266.9
Operating result	**11.4**	**10.4**	**17.2**	**11.7**	**330.7**	**332.6**
Risk-weighted assets (credit risk. eop)	29.4	63.5	0.0	0.0	3 996.2	4 399.8
Average allocated capital	4.1	7.3	675.5	712.1	1 181.3	1 221.8
Cost/income ratio	33.1%	35.1%	0.0%	0.0%	43.0%	44.5%
Return on allocated capital	>100%	88.0%	2.2%	1.3%	15.9%	14.9%
Total assets (eop)	80	120	0	0	11 665	12 943
Total liabilities excluding equity (eop)	536	957	173	175	10 410	11 669
Impairments and risk provisions	**0.0**	**0.0**	**0.0**	**0.0**	**-49.5**	**-60.0**
Net impairment loss on loans and receivables from credit institutions and customers	0.0	0.0	0.0	0.0	-46.9	-50.9
Net impairment loss on other financial assets not measured at fair value through profit and loss	0.0	0.0	0.0	0.0	-0.3	0.0
Allocation/release of provisions for contingent credit risk liabilities	0.0	0.0	0.0	0.0	-2.2	-6.0
Net impairment loss on other non financial assets	0.0	0.0	0.0	0.0	-0.2	-3.0

32) Related-party transactions

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by EGB Ceps Holding GmbH, which directly holds 100% of the voting rights of the Bank's total shares. Related parties include subsidiaries and associates of the Bank and other members of Erste Group.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits.

Assets and liabilities include accounting balances with the related parties, as follows:

in ths. EUR	Erste Group Bank	Companies under the control of Erste Group Bank	Subsidiaries	Associates	Erste Group Bank	Companies under the control of Erste Group Bank	Subsidiaries	Associates
		2013				2014		
Assets								
Derivatives	5 517	703	-	-	6 671	670	26	-
Loans and advances with banks	15 643	14 610	-	-	12 972	40 108	-	-
Loans and advances with customers	-	43 586	99 488	-	-	50 891	72 065	-
Other assets - other	4 498	951	559	-	4 000	313	513	-
Total	**25 658**	**59 850**	**100 047**	**-**	**23 643**	**91 982**	**72 605**	**-**
Liabilities								
Derivatives held for trading	36 192	15 691	-	-	70 378	16 835	-	-
Deposits from banks	77 482	2 738	-	31 163	371 593	516	-	7 723
Deposits from customers	-	6 049	10 873	-	-	14 773	17 604	-
Debt securities issued	100 041	-	-		100 295	-	-	-
Derivatives – Hedge accounting	-	-	-	-	49 077	-	-	-
Other liabilities other	-	772	4 709	-	2 616	1 550	4 168	-
Total	**213 715**	**25 250**	**15 582**	**31 163**	**593 959**	**33 675**	**21 772**	**7 723**

Income and expenses include transactions with the related parties, as follows:

in ths. EUR	Erste Group Bank 2013	Companies under the control of Erste Group Bank 2013	Subsidiaries 2013	Associates 2013	Erste Group Bank 2014	Companies under the control of Erste Group Bank 2014	Subsidiaries 2014	Associates 2014
Interest income	610	1 820	1 477	-	(4 529)	1 548	854	-
Interest expense	(2 149)	(58)	(5)	(21)	(2 108)	(22)	(65)	(27)
Dividend income	-	378	23	2 900	3 744	200	15	2 539
Net fee and commisssion income	108	3 427	29	-	460	5 520	33	116
Gains / losses on financial assets and liabilities held for trading	4 492	14 071	-	-	(65 784)	(1 901)	98	-
General administrative expenses	(628)	(4 249)	(23 430)	-	(3 907)	(5 058)	(25 853)	-
Other operating result	285	104	2 127	-	407	788	4 693	-
Total	**2 718**	**15 493**	**(19 779)**	**2 879**	**(71 717)**	**1 075**	**(20 226)**	**2 628**

Recognised losses towards Erste Group Bank on lines 'Interest income' and 'Gains / losses on financial assets and liabilities held for trading other, net' represent results from derivative instruments that are used to close positions with the clients.

The Bank received a guarantee issued by its sister bank (Ceska sporitelna a.s.) with a maximum value of €100 million (2013: €100 million) covering the Bank's exposures towards Slovenske elektrarne a.s. Under the agreement, the sister bank (Ceska sporitelna a.s.) pledged securities issued by the Slovak Republic with a face value amounting to €100 million (2013: €100 million). Another guarantee issued by Ceska sporitelna, a. s. with a maximum value of €17.6 million covers exposures towards s_Autoleasing SK, s.r.o. (2013: €17.6 million).

Exposures towards corporate clients covered by the parent's bank guarantees (excluding exposures towards ERSTE Group entities) are in the amount of €0 (2013: €62 million).

The Bank received a bank guarantee provided by its parent bank in the amount of €23.24 million covering exposures towards subsidiaries and other group members (2013: €38.5 million).
The Bank entered into a loan contract with its parent company Erste Group Bank representing subordinated debt in the amount of €100 million (2013: €100 million).

As at 31 December 2014 the Bank owned a share in real estate fund "Sporo realitny fond SPF Y" of Asset Management Slovenskej sporiteľne in the amount of €12.3 million (2013: €11.1 million).

Transactions with key management personnel

Remuneration of members of the Board of Directors and Supervisory Board paid during 2014 amounts to €2.0 million (2013: €1.8 million) which represents short-term employee benefits. Remuneration policy of the members of Board of Directors is in compliance with the CRD as adopted in the national legislation.

33) Collaterals

The Bank holds collateral against loans and advances to customers in the form of real estates, securities, bank guaranties and other credit enhancements. Estimates of fair value are based on the value of collateral assessed at the time of borrowing that is regularly updated. Collateral is not generally held over loans and advances to banks, except when securities are held as a part of reverse repurchase activities (see note 18).

Estimated fair values of collaterals and other credit enhancements held against loans, advances to customers, financial guarantees granted and undrawn loan commitments is shown below:

in ths. EUR	2013	2014
Real estates	5 493 656	6 428 639
Securities	204 817	207 120
Bank guaranties	131 092	77 978
Other	236 827	418 095
Total	**6 066 392**	**7 131 832**

34) Off-balance Sheet items

In the normal course of business, the Bank is a party to various financial transactions that are not reflected on the balance sheet and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Loan commitments, Guarantees and Letters of Credit

Bank guarantees and letters of credit cover liabilities to clients (payment and non-payment liabilities) against beneficiaries (third parties). Bank guarantees represents an irrevocable liability of the Bank to pay a certain amount as stated in the bank guarantee in the case that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

Letter of credit represents a written obligation of the Bank performed according to the instruction of the buyer to pay a specified amount to the seller against the documents that meet the letter of credit requirements. The Bank deals with letters of credit subject to 'Unified Rules and Customs for Documentary Letter-of-credit', in the version published by the International Chamber of Commerce.

The primary purpose of these instruments is to ensure that funds are available as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees, or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

:

The following table contains off-balance sheet credit exposures and also treasury commitments:

in ths. EUR	2013	2014
Guarantees provided	334 666	311 776
Guarantees from letter of credit	2 559	1 737
Loan commitments and undrawn loans	856 094	989 866
Total	**1 193 319**	**1 303 379**

Assets pledged as collateral

Following table shows assets pledged as collateral for the Bank's liabilities. Assets are recognised in the statement of financial position.

2014 in ths. EUR	Carrying amount of transferred assets Total	Repurchase agreements	Assets pledged for derivatives	Carrying amount of associated liabilities Total	Repurchase agreements	Other associated liabilities
Available-for-sale financial assets	49 483	-	49 483	56 637	-	56 637
Held-to-maturity investments	79 214	69 354	9 861	82 814	71 528	11 286
Total	**128 697**	**69 354**	**59 344**	**139 451**	**71 528**	**67 923**

2013 in ths. EUR	Carrying amount of transferred assets Total	Repurchase agreements	Assets pledged for derivatives	Carrying amount of associated liabilities Total	Repurchase agreements	Other associated liabilities
Held-to-maturity investments	26 687	26 687	-	27 283	27 283	-
Total	**26 687**	**26 687**	**-**	**27 283**	**27 283**	**-**

35) Financial assets and liabilities subject to offsetting and potential offsetting agreements

2014 in ths. EUR	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Assets							
Derivatives	109 896	-	109 896	-	-	-	109 896
Reverse repurchase agreements	-	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-	-
Total assets	**109 896**	**-**	**109 896**	**-**	**-**	**-**	**109 896**
Liabilities							
Derivatives	152 515	-	152 515	-	4 490	59 344	88 682
Repurchase agreements	71 528	-	71 528	-	-	71 528	-
Other financial instruments	-	-	-	-	-	-	-
Total liabilities	**224 043**	**-**	**224 043**	**-**	**4 490**	**130 871**	**88 682**

2013 in ths. EUR	Gross amounts of recognised financial liabilities	Amounts of financial assets set off against financial liabilities	Net amounts of financial liabilities in the balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting: Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Assets							
Derivatives	50 826	-	50 826	-	-	-	50 826
Reverse repurchase agreements	-	-	-	-	-	-	-
Other financial instruments	-	-	-	-	-	-	-
Total	**50 826**	**-**	**50 826**	**-**	**-**	**-**	**50 826**
Liabilities							
Derivatives	51 991	-	51 991	-	-	-	51 991
Repurchase agreements	27 284	-	27 284	-	-	26 768	516
Other financial instruments	-	-	-	-	-	-	-
Total	**79 275**	**-**	**79 275**	**-**	**-**	**26 768**	**52 507**

36) Risk management

Risk policy and strategy

SLSP takes a prudent and responsible approach to risk and risk-adjusted approach to revenues. Risk appetite of the bank (that is the maximum level of risk that the bank is willing to undertake) is clearly defined, measurable, and widely understood. The bank offsets its risk appetite with sufficient amount of internal capital to cover unexpected losses.

The bank prefers sustainability to short-term high-risk returns. The risk/return profile and the balance of risks follow this principle in order to generate sustainable and adequate return on capital.

Risk functions are independent from the commercial business lines. Risk management is centralized and the bank strives for an integrated risk management framework where all relevant risks are managed comprehensively and where dependencies between different risk types are accounted for.

The bank shall make sure that risk management is properly supported in terms of human, IT, and other resources needed for comprehensive coverage of all major drivers of risk.

Bank's primary risk management objective is to achieve a position where it will be able to identify all significant risks it faces, assess their potential impact and have policies in place to manage them effectively. These policies must be periodically reviewed in order to ensure their appropriateness in terms of their performance and in terms of changing circumstances of bank's operating environment.

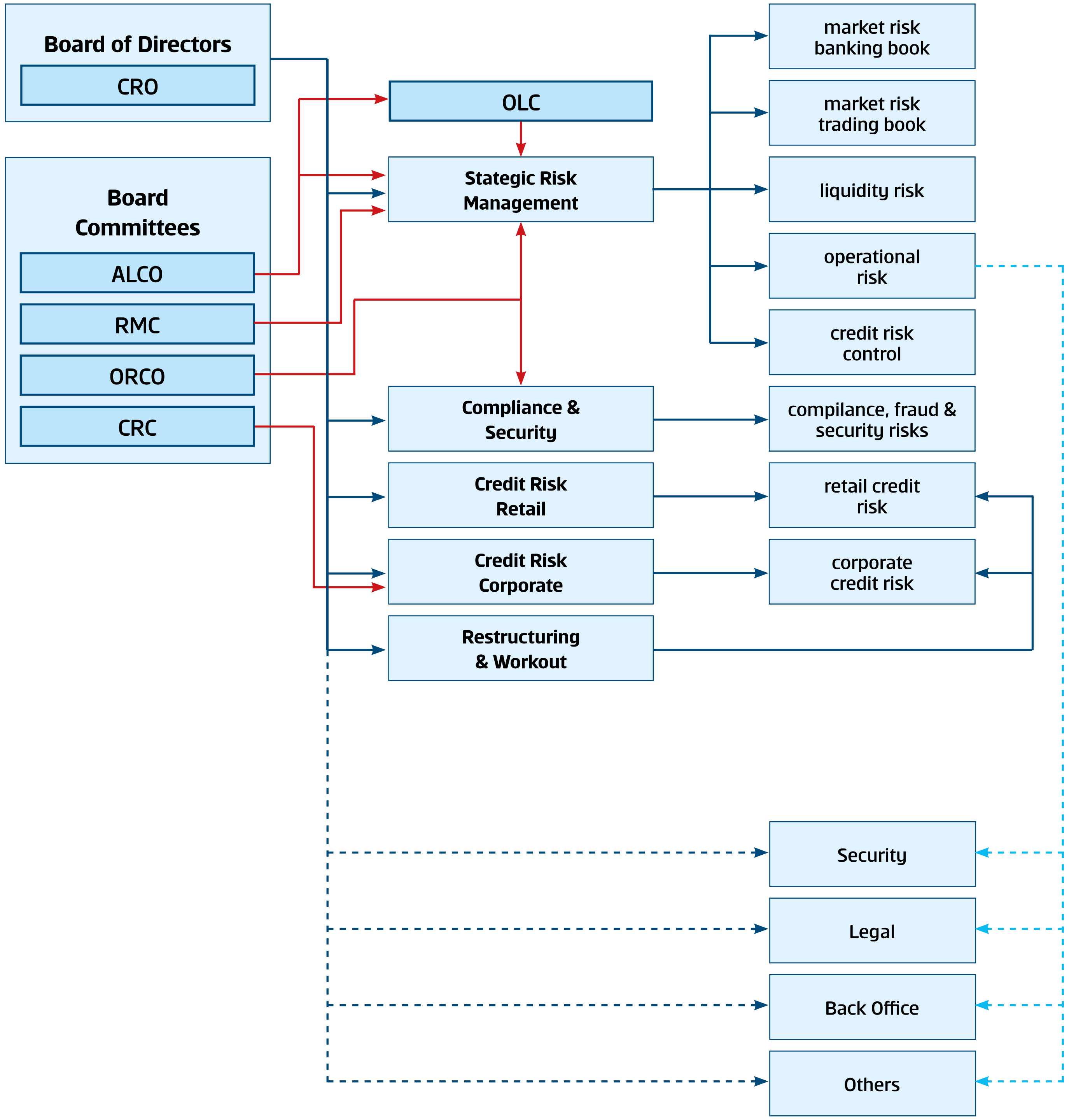
Risk taking is an inseparable part of bank's operations and bank business operations inevitably carry a certain degree of risk. Proper risk management should allow for better exploitation of business opportunities. Therefore, risk management strategy must be clearly linked to the business strategies.

Ultimately, risks should be quantified to the greatest possible extent (considering reasonable effort), and performance measurement of the bank should be risk weighted. Therefore, the model for calculation and allocation of economic capital is continuously being improved and the bank have established a sound internal capital management process (ICAAP).

The bank is also committed to follow the risk management provisions defined by both the local and international law and regulators.

Risk management organization

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits. The following chart presents the overview of organizational structure of risk in SLSP:



Overview of risk management structure

The ultimate risk management body is the Board of Directors. It may, however, delegate some of its authority for particular risk management areas to the respective committees (ALCO, ORCO, and CRC). The board also designates one of its members to serve as Chief Risk Officer (CRO).

Asset & Liability Committee (ALCO) has the ultimate authority over market risk of both trading and banking books (including interest rate risk) and over liquidity risk.

As for corporate credit risk, the ultimate decision making body is the Credit Committee.

Operational Risk and Compliance Committee (ORCO) is the authorized body to make decisions on operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for operational risk, compliance, financial crime, security, and anti-money laundering issues.

ALCO, ORCO, and CRC are composed of members of the board and senior managers. Chief Risk Officer is a member of all three committees.

Operating Liquidity Committee (OLC) governs the execution of liquidity management. OLC reports directly to ALCO. It analyses the liquidity situation of the bank on a regular basis and proposes measures to be taken. OLC consists of members of Treasury, BSM, and Strategic Risk Management.

Risk Management Committee (RMC) will be a new committee consisting of selected board members and senior managers. It will be responsible for the development and maintenance of effective system of risk management, approval and monitoring of risk management strategy and procedures, ICAAP and risk appetite, and comprehensive stress testing.

Bottom (executive) level of risk management organization consists of five crucial units:

- Corporate Credit Risk Management Division - carries out all activities concerning operative credit risk of corporate clients
- Retail Credit Risk Management Division - is responsible for management of credit risk for retail lend-ing, specifically credit policy, organization of lending process, early collection process, and portfolio management of the retail segment
- Strategic Risk Management - responsible for integrated risk management (ICAAP), operational risk, liquidity risk, market risk (overall as well as particular trading and banking books), and credit risk control, provisioning, and credit risk statistical and rating models. Within operational risk, SRM coordinates activities of global scope of other relevant departments (blue/dashed lines in the chart).
- Compliance & Security – responsible for compliance risk management (e.g. code of ethics, full compliance with legal requirements, anti-money laundering program, MiFID rules), for fraud risk management (prevention, detection, investigation, deterrence, and recovery of financial fraud) and security (information and strategic security, business continuity management)
- Restructuring & Work out – responsible for effective debt recovery and write-off management. It is also responsible for monitoring, restructuring of receivables over-due, and for specific provisions and collateral management.

Black lines show the assignment of different risk types to respective units. Solid black lines show the areas directly subordinated to Chief Risk Officer.

Strategic Risk Management, Corporate Credit Risk Management may also report directly to their respective committees. Reporting lines to committees are shown in red/dotted.

Risk management is not limited to risk management units only. Rather, all organizational units have to be risk-aware and should contribute to risk management.

All responsibilities regarding risk management are in detail described in bank's risk management strategy.

Comprehensive risk and capital management

Overview

Internal Capital Adequacy Assessment Process (ICAAP) is a process in which all significant risks that the Bank faces must be covered by internal capital (coverage potential). This means that all material risks are determined, quantified, aggregated, and compared to the coverage potential. Limits and lower trigger levels are defined and regularly monitored, so that corrective actions may be taken, thus avoiding situations when risk exposures are not sufficiently covered by capital.

Objectives of ICAAP are to integrate risk management for different risk types into a single high-level process, which then enables to continuously monitor and adjust capital levels to changing risk profiles. It is a comprehensive process that within the Bank consists of the following steps:

- Risk materiality assessment
  - identification of the most important risk types which are to be the major focus and which will be included into economic capital calculation
- Risk-bearing capacity calculation
  - calculation of the risk exposure for each particular material risk
  - aggregation of the individual risks into a single economic capital figure
  - calculation of internal capital (coverage potential)
  - relating economic to internal capital
- Stress testing
  - verification of economic capital figures via severe, yet plausible stress scenarios
- Capital management
  - management of consistency between economic and internal capital including forecasting

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the whole process serves to support the bank's management in pursuing its strategy.

Risk materiality assessment

The risk materiality assessment serves the purpose of identification of the most important risk types which are to be the major focus and which will be included in the economic capital calculation. It is an annual process based on both quantitative and qualitative factors, which is conducted for each identified risk type the bank faces.

The output of the risk materiality assessment is the set of material risks, which have to be quantified and covered by capital. It also includes other risk management practices to control and mitigate the identified risks (material or non-material).

Risk-bearing capacity calculation
The risk-bearing capacity calculation (RCC) is ultimately the tool to define the capital adequacy required by the ICAAP. Within the RCC, risk exposure for each particular material risk is quantified. The figures are aggregated into a capital requirement and compared to the coverage potential and the bank´s own funds. The integral forecast, risk appetite limit as well as a traffic light system support management in its discussions and decision processes.

The Board of Directors is briefed regularly, at least on a quarterly basis, in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential, the degree of the risk limit's utilization and the overall status of capital adequacy. It also contains a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks), in the context of Pillar 2, interest rate risks in the banking book, business and strategic risk, and credit risk for sovereign counterparties are explicitly considered within the required economic capital via internal models. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.9% confidence level. During 2014 the utilization of the economic capital was between 47%-49%.

Other risks, namely liquidity risk, credit concentration risk, residual credit risk and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and/or are covered by capital buffer. The capital buffer is proposed by Strategic risk management typically during the risk materiality assessment process and is approved by the Board of Directors.

The coverage potential required to cover risks and unexpected losses is based on regulatory own funds combined profit of the current year and considers subordinated liabilities and regulatory deductibles as well. The coverage potential must be sufficient to absorb unexpected losses resulting from the bank's operations.

Stress testing
Risk exposure calculation models carry inherent statistical error since they must work at extreme confidence interval and time horizon. 99.9% confidence on one year horizon means an extreme loss that occurs once in 1000 years. At this levels the model is impossible to back test, therefore it must be stress tested.

Stress testing is also used to analyse risks which are not covered by capital, mainly concentration, macroeconomic, and liquidity risks, as well as to identify potential vulnerabilities of covered risks which may not be properly covered by the calculation model used. Further, stress testing should also provide management with steering impulses and should yield to corrective actions, if deemed necessary.

Stress testing focuses on impact of severe, yet plausible scenarios on the bank's positions, thus providing further assurance of internal capital adequacy. Should stress testing results show potentially higher losses than calculated risk exposures, the ICAAP profile has to be adjusted either via add-ons to risk exposures or via capital cushion.

The Bank was reviewed within Comprehensive Assessment conducted by the European Central Bank (ECB).

The Bank passed the first stage of the assessment - Asset Quality Review (AQR). The AQR adjusted CET1 (Core Tier I) ratio reached 19.49% and thus exceeded the required threshold of 8% by a large margin.

The second stage of the assessment comprised Stress tests which are supposed to estimate capital shortfall for various economy scenarios. The adjusted CET1 ratio after baseline scenario over a 3-year period reached 19.91% which also considerably exceeds the threshold required by ECB (8% for baseline scenario). In case of the adverse scenario, the Bank reached 19.51% which also comfortably exceeds the regulatory requirement (5.5% for adverse scenario) As a result; the bank will not need any additional capital in accordance with ECB rules.

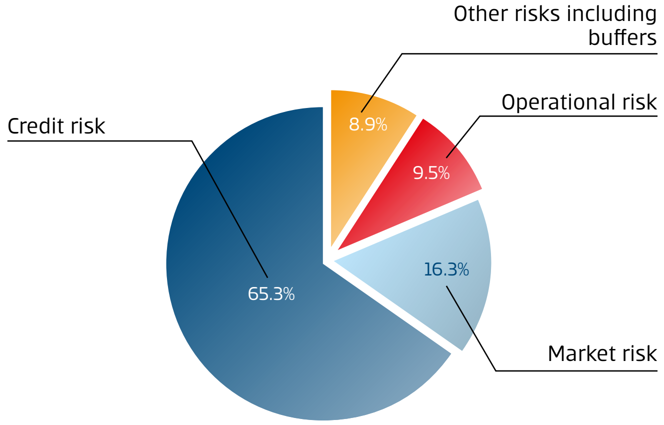
Capital Management
Within capital management, the volume of internal capital (coverage potential) is compared against the calculated risk exposures and should any discrepancies arise, measures must be taken in order to correct the situation. This is carried out quarterly, but the frequency may be increased should the situation require so, and is also forward-looking in that it considers forecasted figures.

Capital management is also part of the bank's business strategy (worked out through budget) which determines risk appetite and capital coverage levels. Comprehensive limit framework is established for each major risk type in order to ensure the day-to-day adherence to the approved risk profile and capital levels.

Risk planning and forecasting
The responsibility for risk management includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the overall planning process. The risk planning and forecasting process includes both a forward- and backward-looking component, focusing on both portfolio and economic environment changes.

Capital allocation
An important task integral to the risk planning process is the allocation of capital to business lines. Each particular risk (both Pillar I and Pillar II) is allocated to business lines based on their risk consumption. The process is done with close cooperation between Risk Management and Controlling.

SLSP's aggregate capital requirement by risk type
The following diagram presents the composition of the economic capital requirement as of 30 September 2014 according to type of risk in %.



Credit risk

Definition and overview
Credit risk, in broad terms, is the risk that a loss will be incurred if the bank's counterparty to a transaction does not fulfill its financial obligations in a timely manner. More precisely, credit risk is the risk of financial loss arising out of entering into a particular contract or portfolio investment.

Credit risk is the largest single risk in the bank. It results from traditional lending activities where losses are incurred by default (deteriorating creditworthiness) of borrowers, as well as from trading in market instruments. Credit risk includes also sovereign, country, concentration, settlement, counterparty, and dilution risk.

The bank shall follow the policy of long-term risk-adjusted profitability and the principle of adequate pricing (higher credit risk leads to higher risk premium).

The bank shall annually review its credit risk tolerance, and shall set priorities, i.e. quantitative and qualitative measures, for the next term with respect to the credit risk point of view.

Three fundamental layers of documents regulate the credit activity of the bank. Credit strategy, defined by the top management, introduces the overall orientation, areas of activity and strategic objectives of the bank. The credit policy sets out the principles, identifies operating procedures, and specifies framework responsibilities related to credit activities. Subordinated internal provisions take the form of detailed manuals or department-specific instructions or guidelines, describing precisely responsibilities to the lowest levels, any applicable deadlines, reports and other relevant contingencies of credit process and credit risk management.

The organization of the bank's credit activity is governed by the following principles:

- clear segregation of credit risk management function from business activities or delegation of these activities to business function with clearly defined split of responsibilities
- centralization of operative credit risk management – independent credit risk management divisions for both corporate and retail segments
- flexibility and accuracy of credit process and quality of credit decisions
- personally assigned and clearly specified competences
- general application of four-eye principle in all critical lending processes (with justified exceptions)
- diversification of credit portfolio in order to keep the exposures within defined limits
- independent credit risk control function – Strategic Risk Management.

Strategic Risk Management
Strategic Risk Management, more specifically its Credit Risk Control department, is the independent risk control unit in line with Basel Capital Accord. SRM is not involved in the operative credit decision-making. However it is responsible for the design of rating systems, testing and monitoring of accuracy and selectivity of internal rating grades, production and analysis of summary reports from the bank's rating systems. SRM is also responsible for the design and implementation of models for calculation of risk parameters (PD, LGD, CCF, etc.), standard risk costs and portfolio provisions. It is also responsible for the design and implementation of models for calculation of risk-weighted assets according to CRR/CRD and model for economic capital. In addition to this, SRM has two other specific roles:

- credit exposures to banks, sovereigns, and countries, which are governed centrally by Erste Holding (credit analysis, limit setting), are locally approved and monitored by SRM
- credit lines of Treasury clients (approved by Credit Risk Corporate) are determined and monitored by SRM.

Retail Credit Risk Management Division
Retail Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for retail clients and designs and oversees processes in retail lending activity. It is responsible for risk assessment of counterparties and credit facilities (rating assignment, credit transaction assessment). It furthermore monitors the development of credit portfolio of retail clients. It also designs, sets, and monitors limits, maintains deal and limits documentation, and performs early collection.

Corporate Credit Risk Management Division
Corporate Credit Risk Management Division formulates the credit policy and internal provisions on the credit approval process for corporate clients. It is responsible for risk analysis of counterparties and credit facilities (financial analysis, rating assignment, credit transaction assessment). It furthermore monitors the development of the credit portfolio of corporate clients. It regularly reviews assigned ratings and counterparty financial situation. It also designs, sets, and monitors limits and maintains deal and limit documentation for corporate clients.

Restructuring & Workout
Restructuring & Workout is responsible for strategy and effective debt recovery (work-out and late collection) and write-off management. It is also responsible for monitoring, restructuring of receivables overdue, and for specific provisions and collateral management.

Internal rating system
Overview
The bank, as the first bank in Slovakia, reports capital adequacy using the "internal-ratings based" (IRB) approach to credit risk since July 2008. The approval by the Financial Market Authority of Austria and National Bank of Slovakia indicated that the Bank's credit risk measurement and control systems are sound and

implemented properly into risk management, credit process and capital adequacy estimation as well as into internal controls and reporting and that they play the essential role.

All material aspects of the rating and estimation processes shall be approved by BOD. Senior management and BOD shall possess a general understanding of the internal rating system and detailed comprehension of associated management reports.

Senior management, with main responsibility on head of Strategic Risk Management, shall ensure on an ongoing basis that the rating systems are operating properly. Senior management shall be regularly informed by the credit risk control unit about the performance of the rating process, areas needing improvement, and the status of efforts to improve previously identified deficiencies.

The rating system of the bank comprises all methods, processes, control mechanisms, data collection and IT systems supporting credit risk measurement, assigning exposures to risk grades and risk pools and quantification of risk parameters. The rating system consists of several rating methods and rating tools depending on obligor asset class and other obligor characteristics.

Internal rating is a cornerstone of a complex credit risk management system of the bank. It is a fundamental indicator of the probability of default of a client. The result of a rating assessment is the allocation of an obligor into a particular rating grade.

The internal rating is composed of hard and soft facts about the client and possibly also includes transformed selected external investment rating(s). The bank shall use comprehensive rating systems for evaluation of both retail and corporate clients. Obligors in a given asset class and rating method, which have similar probability of default should have the same rating grade. Rating scale should have sufficient discriminatory power to properly distinguish between various levels of credit risk. Distribution of obligors in a given rating grade should be such that the risk parameters quantification for that grade is sufficiently accurate.

Credit Risk Control department is responsible for development of scoring and rating models. Performance of the models, i.e., accuracy and selectivity of internal rating grades, is regularly monitored and reported. Full scope validation of the models is performed on annual basis.

Assigned ratings shall be reviewed at least annually. Behavioural (batch) rating shall be used for retail exposures, other exposure classes shall be reviewed by Corporate Credit Risk Management Division. If new and important information about the obligor or exposure is available, the rating shall be updated too. It is possible to override a rating only based on information, which is not used by the rating tool, or was not considered during rating approval. All rating overrides shall be recorded and analysed.

The internal rating system shall be properly documented. Detailed principles and processes of the internal rating system shall be specified within internal guidelines.

Risk grades and default definition

The classification of credit assets into risk grades is based on SLPS's internal ratings. SLSP uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of 8 risk grades (for retail) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade. A default is deemed to have occurred with a client when a client is assigned internal rating R, i.e. when whatever of the following events has taken place:

- a client is unlikely to fully repay its credit obligations to the bank without realizing collaterals;
- a retail / corporate client is past due more than 90 days on any material credit obligation to the bank;
- whatever condition or obligation under contract has been breached by client, on the basis of which the bank is entitled to take appropriate actions (such as require a premature repayment of credit obligation of the client whether in full or its part, charge the late payment interests or claim satisfaction of credit exposure from the means securing such credit obligation).

The bank defines 5 default events:

- E1 – unlikely to pay
- E2 – 90 days overdue
- E3 – distressed restructuring on exposure, non-performing forbearance
- E4 – exposure write-off
- E5 – bankruptcy

The Credit Risk Control department participates on the definition of default with Late Collection and Corporate Workout departments. The definition of default fulfils CRR/CRD criteria and influences estimation of LLP, SRC, etc.

Maximum exposure to credit risk

Maximum exposure to the credit risk of financial assets is represented by their net carrying amount (carrying amount in the case of derivatives measured at fair value).

Maximum exposure to credit risk for off balance sheet commitments (e.g. undrawn loan limits, financial guarantees granted) is represented by the maximum amount the bank has to pay if the commitment is called on.

Information regarding exposure to credit risk arising from financial assets other than loans and off balance sheet commitments is detailed in individual notes

Exposure to credit risk from loans, advances to customers, financial guarantees granted and undrawn loan commitments.

The following table presents the maximum exposure to credit risk of loans, advances to customers, financial guarantees granted and undrawn loan commitments:

in ths. EUR	2013	2014
Gross amount	**8 752 722**	**9 788 310**
On-balance sheet total (Note 19)	7 559 403	8 484 930
Off-balance sheet total (Note 34)	1 193 319	1 303 380
Gross amount	**8 752 722**	**9 788 310**
Retail (incl. micros)	5 678 904	6 609 122
Corporate and other classes	3 073 819	3 179 188
Allowance for impairment	**(351 008)**	**(361 438)**
Retail (incl. micros)	(236 876)	(227 761)
Corporate and other classes	(114 132)	(133 676)
Net amount	**8 401 715**	**9 426 872**
Retail (incl. micros)	5 442 028	6 381 361
Corporate and other classes	2 959 687	3 045 511

Provisions for impairment are structured as follows:

in ths. EUR	2013	2014
Provisions for losses on loans and advances (Note 19)	338 147	342 546
Provissions for off-balance sheet items (Note 28)	12 860	18 892
Allowance for impairment	**351 008**	**361 438**

Information on the credit quality of loans, advances to customers, financial guarantees granted and undrawn loan commitments, classified as retail asset class by the Bank are as follows:

Retail asset class

in ths. EUR	2013	2014
Total exposure		
Investment grade (1-5)	4 971 657	5 935 217
Subinvestment grade (6)	176 912	160 832
Subinvestment grade (7)	93 818	87 260
Subinvestment grade (8)	199 929	87 708
Non-performing exposure (NPE)**	236 587	338 105
Gross amount	**5 678 904**	**6 609 122**
Allowance for impairment	(236 876)	(227 761)
Net amount	**5 442 028**	**6 381 361**
Collective assessment comprises	-	-
0 days	5 208 931	6 082 815
1-30 days	182 545	159 249
31-60 days	29 135	18 225
61-90 days	21 595	10 611
90 days+ *	111	117

** Overdue amount is non material, i.e. less than €50 per client (materiality limit introduced in Q4/09).*

*** Non-performing Exposure (NPE) definition update - alignment with the EBA definition (methodology change). This definition update has no impact to profitability of the bank or to quality of loan portfolio and no additional provision have been needed in respect of this update.*

NPE loans and irrevocable commitments
NPE loans and irrevocable commitments are those for which the Bank determines that it is probable it will be unable to collect all principal and interest due according to the contractual terms of these financial instruments.

Past due but not NPE loans
'Past due but not NPE loans' are the loans where contractual interest or principal payments are past due but the Bank believes that NPE is not applicable.

Neither past due nor NPE loans
Loans where contractual interest or principal payments are not past due and the Bank does not expect impairment Corporate and other asset classes

Information regarding the credit quality of loans advances to customers, financial guarantees granted and undrawn loan commitments (classified as corporate, institutional or sovereign asset class) are as follows:

in ths. EUR	2013	2014
Total exposure		
Investment grade (1-5)	2 665 544	2 761 422
Subinvestment grade (6)	110 132	109 291
Subinvestment grade (7)	47 233	26 567
Subinvestment grade (8)	43 725	22 050
Non-performing exposure (NPE)**	207 184	259 857
Gross amount	**3 073 819**	**3 179 188**
Allowance for impairment	(114 132)	(133 676)
Net amount	**2 959 687**	**3 045 511**
Individually impaired		
Gross amount	**207 184**	**259 857**
Allowance for impairment	(92 298)	(112 550)
Net amount	**114 886**	**147 307**
Past due but not impairment		
Investment grade (1-5)	31 663	84 903
Subinvestment grade (6)	8 524	4 365
Subinvestment grade (7)	1 465	2 417
Subinvestment grade (8)	29 401	2 747
Non-performing exposure (NPE)**	-	
Gross amount	**71 054**	**94 432**
Allowance for impairment	(3 206)	(1 152)
Net amount	**67 847**	**93 280**
Past due but not impaired comprises:		
1-30 days	45 083	90 316
31-60 days	12 358	4 042
61-90 days	13 606	22
90 days+ *	6	52
Neither past due nor impaired		
Investment grade (1-5)	2 633 881	2 676 519
Subinvestment grade (6)	101 608	104 926
Subinvestment grade (7)	45 767	24 151
Subinvestment grade (8)	14 324	19 303
Non-performing exposure (NPE)**	-	-
Gross amount	**2 795 581**	**2 824 899**
Allowance for impairment	(18 627)	(19 974)
Net amount	**2 776 954**	**2 804 924**

** Overdue amount is non material, i.e. less than €250 per client.*

*** Non-performing Exposure (NPE) definition update – alignment with the EBA definition (methodology change). This definition update has no impact to profitability of the bank or to quality of loan portfolio and no additional provision have been needed in respect of this update.*

Note: The Increasing internal rating of exposures corresponds with their increasing credit risk; when assigning the rating the Bank considers financial position and performance of counterparty, qualitative factors as well as general economic trends in particular industry and country.

Exposures rated as 1 – 8 according to the Bank's internal rating are not considered to be individually impaired.

Renegotiated loans
In September 2014 the SLSP has implemented forbearance definition based on EBA definition. Forborne exposure can be identified both in the performing and in the non performing portfolios.

- Performing forbearance – renegotiated loans for customers without financial difficulties.
- Non performing forbearance – restructured loans for customers, which defaulted after restructuring.
- Defaulted forbearance – restructured loans for customers in default.

Renegotiated loans are exposures with performing forbearance status. The carrying amount of renegotiated exposures during 2014 and 2013:

in ths. EUR	2013	2014
Renegotiated loans	22 832	76 315

In September 2014 the SLSP has implemented forbearance definition based on EBA definition.

Concentration risk
A summary of concentrations of financial assets (including derivatives), loan commitments and guarantees as of 31 December 2014 and 2013 based on the debtors' industry are presented below:

2014	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
in ths. EUR	Gross	Net	Gross	Net	Gross	Net
Natural Resources & Commodities	385 723	376 449	-	-	-	-
Utilities & Renewable Energy	469 410	468 153	-	-	-	-
Construction and building materials	415 858	370 681	-	-	-	-
Automotive	86 814	85 158	-	-	-	-
Cyclical Consumer Products	142 334	132 311	-	-	-	-
Non-Cyclical Consumer Products	188 720	176 265	-	-	13 108	13 108
Machinery	124 615	119 630	-	-	6 646	6 646
Transportation	328 392	321 899	-	-	-	-
Telecommunications, Media, Technology and Paper & Packaging	54 815	53 947	-	-	-	-
Healthcare & Services	101 672	98 026	-	-	-	-
Hotels, Gaming & Leisure Industry	79 611	64 911	-	-	-	-
Real Estate	860 722	816 154	-	-	13 526	13 526
Public Sector	221 201	220 740	-	-	3 506 530	3 506 294
Financial Institutions	153 518	152 715	179 058	179 005	382 257	381 172
Private Households	6 174 865	5 969 796	-	-	-	-
Other	40	37	-	-	-	-
Total	**9 788 310**	**9 426 872**	**179 058**	**179 005**	**3 922 067**	**3 920 746**

2013	Loans and advances to customers		Loans and advances to financial institutions		Investment securities	
in ths. EUR	Gross	Net	Gross	Net	Gross	Net
Natural Resources & Commodities	484 264	466 538	-	-	-	-
Utilities & Renewable Energy	458 228	457 445	-	-	-	-
Construction and building materials	315 747	275 097	-	-	608	608
Automotive	77 488	75 501	-	-	-	-
Cyclical Consumer Products	143 476	130 610	-	-	-	-
Non-Cyclical Consumer Products	188 296	177 645	-	-	19 560	19 560
Machinery	99 159	93 074	-	-	6 601	6 601
Transportation	289 581	283 471	-	-	26 269	26 269
Telecommunications, Media, Technology and Paper & Packaging	143 225	141 992	-	-	-	-
Healthcare & Services	103 598	99 429	-	-	-	-
Hotels, Gaming & Leisure Industry	80 152	71 311	-	-	-	-
Real Estate	782 024	745 213	-	-	12 593	12 593
Public Sector	219 661	219 261	-	-	3 420 002	3 419 736
Financial Institutions	73 154	72 929	80 046	80 036	220 918	220 918
Private Households	5 294 643	5 092 175	-	-	-	-
Other	26	25	-	-	-	-
Total	**8 752 722**	**8 401 715**	**80 046**	**80 036**	**3 706 551**	**3 706 285**

A summary of the concentrations of loans and advances to customers, loan commitments, and guarantees classified by asset classes (as of 31 December 2014 and 2013) is presented below:

in ths. EUR	2013		2014	
	Gross	Net	Gross	Net
Retail	5 678 904	5 442 028	6 609 122	6 381 361
Corporate	2 848 453	2 734 722	2 925 692	2 792 500
Institution	225 366	224 965	252 695	252 229
Sovereigns	0	0	800	782
Carrying amount	**8 752 722**	**8 401 715**	**9 788 310**	**9 426 872**

The following table presents a summary of the bank's credit risk to the Slovak Republic, companies controlled by the Slovak government, self-governing regions, guarantees issued by the Slovak government, and similar exposures:

in ths. EUR	2013		2014	
	Amount	Portion of total assets %	Amount	Portion of total assets %
Cash and balances at the central bank	39 673	0.34%	87 392	0.68%
Loans and advances to customers	566 306	4.85%	536 330	4.14%
Securities portfolios	3 247 034	27.84%	3 418 612	26.41%
Deferred income tax asset	36 287	0.31%	33 923	0.26%
Total	**3 889 300**	**33.34%**	**4 076 257**	**31.5%**

The Bank holds a large volume of State debt securities. A breakdown of State debt securities is shown below per portfolio and type of security:

in ths. EUR	2013	2014
Financial assets at fair value through profit or loss	6 565	-
State bonds denominated in EUR	6 565	-
Securities available for sale	586 334	922 281
Treasury bills	-	-
Slovak government Eurobonds	583 643	922 281
Companies controlled by the Slovak government	2 691	-
Securities held to maturity	2 654 135	2 496 331
State bonds denominated in EUR	2 605 021	2 467 393
State bonds denominated in USD	25 539	28 938
Companies controlled by the Slovak government	23 575	-
Total	**3 247 034**	**3 418 612**

The sovereign issuer rating of the Slovak Republic according to the international rating agency Standard & Poor's is A with positive outlook (rating since January 13th 2012, outlook updated on August 1st 2014).

Market risk

Definition and overview
Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market factors, i.e. prices, interest rates, foreign exchange rates, volatilities, etc. The risk management process comprises of the four key elements:

- risk identification - identify all risks inherent in the trading operations and in new products (new products check), and ensure these are subject to adequate procedures and controls before being introduced or undertaken
- risk measurement – calculation of risk exposure using sensitivities and value-at-risk.
- limits management - comprehensive limit system and limit allocation in order to restrict the maximum risk exposure
- risk monitoring and reporting

The entire market risk management is independent from the business lines and is carried out by Strategic Risk Management (SRM). Trading and investment operations are subject to strict rules defined by SRM and approved by ALCO committee.

Methods and instruments employed
All positions of the bank, both in banking and trading books, that are subject to market risk are re-valued daily (including positions held-to-maturity), either to market or to model, and respective Profit or Loss is calculated.

The main tool to measure market risk exposure in the Bank is sensitivity analysis and value-at-risk (VaR) which is complemented by back testing and stress testing programme.

VaR for trading book and investment portfolios of banking book estimates the maximum potential loss over 1-day holding period with 99% confidence interval and is based on historical simulation (2-year history window, equally weighted) while all positions are treated via full valuation in the calculation (i.e. no simplification of positions for the purpose of VaR). VaR is measured consistently across all portfolios (both banking and trading book) and relevant market factors. The Bank's VaR model was approved by the regulator to be used for the regulatory capital charge calculation.

In addition to that, a stressed value-at-risk measure is calculated whereby the above described model is repeatedly applied to a 2-year rolling window of historical rates within longer time span to come up with the most severe VaR measure over a current position.

VaR for the overall banking book uses 99% confidence interval, 10-day holding period, 6-year rolling window for the historical simulation and a decay factor of 0.99.

In order to validate the value-at-risk model, daily back testing routines are applied. In the procedure the real value of closing position of the previous trading day is computed first using relevant market rates of that day. The same closing position is then revalued using the closing market rates of the current day. The difference between the two values is the so-called hypothetical profit and loss, i.e. profit and loss that would have been obtained if the position remained unchanged during the last trading day. If this P/L figure exceeds the value-at-risk figure, an exception is recorded and documented. Back testing is conducted not only for the whole trading book, but also for each trading desk, and additionally for each applicable risk factor (interest rate, FX rate, stock price, volatility, etc.).

VaR is subject to some model assumptions (e.g. historical simulation), hence stress testing is established in order to partially tackle these shortcomings by estimating losses due to extreme changes in market factors, the probabilities of which are very small. Position or portfolios are tested under a number of potential extreme scenarios and their impact on value and hence profit and loss is computed.

Furthermore, the application of the 'extreme value theory' allows describing the influence of events with extreme low probability on the P/L of the trading portfolio, and thus well supports other stress testing measures and the model itself. The bank uses EVT based on approximation of empirical market data (two year history) by Pareto probability distribution function. From this function, it is possible to obtain maximum loss (i.e. the EVT loss) with confidence level of 99.95% (compared to 99% VaR). It is measured on daily basis.

Overall market risk of the entire balance sheet is also measured using market value of equity measure – all positions of the bank are re-valued using an extreme (200bp) up and down parallel shift of the yield curve and the resulting sensitivity is related to available capital.

Risk mitigation and reporting
In order to manage the maximum risk exposure, a comprehensive system of limits is established, including VaR, sensitivity, and stop-loss limits. Limits are structured according to individual sub-portfolios (separate limits are defined for derivative trades). Monitoring is performed daily by SRM.

Risk reporting is done daily for relevant management and monthly for ALCO.

Market risk measures
The following tables summarize the risk measures as of 31 December 2014 and 31 December 2013. VaR figure is almost fully driven by interest rate risk, whilst foreign exchange and other risks are negligible.

Value at Risk of banking book and trading book 2014

in ths. EUR	Total
Trading book VaR	27.06
Banking book VaR - ALM portfolio	6 782.54
Banking book VaR - Corporate portfolio	915.38
Overall Banking book VaR (November 2014)	49 248.85
Overall Banking book sensitivity (200bp shock) (November 2014)	188 722.03

Value at Risk of banking book and trading book 2013

in ths. EUR	Total
Trading book VaR	9.58
Banking book ALM portfolio VaR	11 157.98
Banking book Corporate portfolio VaR	1 353.82
Overall Banking book VaR	102 297.62
Overall Banking book sensitivity (200bp shock)	179 445.85

Liquidity risk

Definition and overview
The liquidity risk is defined in SLSP as the inability to meet bank's cash obligations as they come due because of an inability to liquidate assets or obtain adequate funding. Accordingly, a distinction is made between market liquidity risk, which is the risk that the bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks will not be able to meet efficiently both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of bank.

Liquidity risk is within the authority of ALCO. The L-OLC (Local Operating Liquidity Committee) is responsible for operational managing and analysing of the liquidity situation of the Bank.

Actual management of liquidity risk is done by Strategic Risk Management. Structural liquidity management is performed by Balance Sheet Management and daily liquidity managing and the fulfilment of minimum required reserves is performed by the Treasury department.

Liquidity strategy
The primary goal of the Funding Strategy in 2014 was to cover the planned funding gap coming from the core business by increased issuance of own bonds and local & intragroup money market funding, and thus to reach an optimal liquidity status in terms of structure and costs versus risk tolerance. This goal has been successfully reached when the notional value of the own issues portfolio have increased from EUR 690 to 914 million, and the rest of the gap was financed via treasury operations mainly by intragroup deals with Erste Holding.

SLSP has maintained sufficient liquidity reserve throughout 2014 created mainly by government bond portfolio. Total liquidity reserve was 4.1bn as end of December 2014. Volume of an available liquidity reserve used for Survival Period Analysis calculation was EUR 3.8bn on average during year 2014. This fact together with a very high share of stable customer deposits indicates a strong liquidity position.

Methods and instruments employed
Short-term insolvency risk is monitored by calculating the survival period (SPA – survival period analysis) on weekly basis. This analysis determines the maximum period during which the bank can survive different crisis scenarios (severe market, idiosyncratic, or combined crisis) while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow.

Liquidity ratios defined by the regulator (LCR, NSFR, and local LCR) are periodically monitored and are all at very satisfactory levels. All limits defined by the regulator are observed with large buffer.

Additionally, the static liquidity gap is monitored regularly on weekly basis and reported monthly to ALCO. Funding concentration risk is continuously analysed in respect to counterparties and is also reported to ALCO monthly.

Newly introduced in 2014 was reverse stress testing of liquidity where several assumptions (withdrawal, rollover, reserve haircuts) are modelled in order for the bank to survive exactly one month. This is done on a monthly basis and is reported to ALCO.

Methods and instruments of risk mitigation
General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by L-OLC and ALCO.

The short-term liquidity risk is managed by limits resulting from the survival period analysis where horizon limits are defined for each scenario as follows:

- ordinary course of business – over 3 months
- severe name crisis – over 2 months
- severe market crisis – over 2 months
- combined name and market crisis – over 1 month

The minimum volume of the liquidity buffer (counter-balancing capacity) is limited by €1.5 billion. SLSP daily monitors its counter-balancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets. These assets can be mobilized in the short term to offset potential cash outflows in a crisis situation.

Further, short-term risk is managed by regulatory and internal (more severe) limits on LCR, NFSR, and local LCR ratios.

Funding Concentrations management - no client may account for more than 30% of the total whole-sale funding. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess. Sum of top 10 biggest clients may not account for more than 50% of the total wholesale funding. Should this amount be exceeded, the minimum liquidity reserve must be increased by the amount of excess.

Based on analysis and measurement, and based on liquidity strategy, medium and long-term (structural) management of liquidity is carried out by BSM while major decisions have to be approved by ALCO. Strategic Risk Management must ensure that the execution is in line with the approved Liquidity Strategy and that the approved limits are being followed. ALCO must be informed on the status of structural liquidity within the regular ALCO liquidity reports.

The Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk
Regulatory Ratios
All regulatory ratios were well above the defined regulatory limits throughout 2014. At end of 2014, LCR was over 200%, locally defined LCR was at 169%, the liquid assets ratio was 1.29 (limit >1.0).

Internal Analysis
Counter-balancing capacity - minimum amount of highly-liquid ECB eligible securities to cover unexpected cash outflow was €4.1bn at the end of 2014 and was well above the limit during the entire year 2014. The term structure of the bank's counterbalancing capacity as of year-end 2014 and year-end 2013 are shown in the tables below:

Term structure of counterbalancing capacity 2014

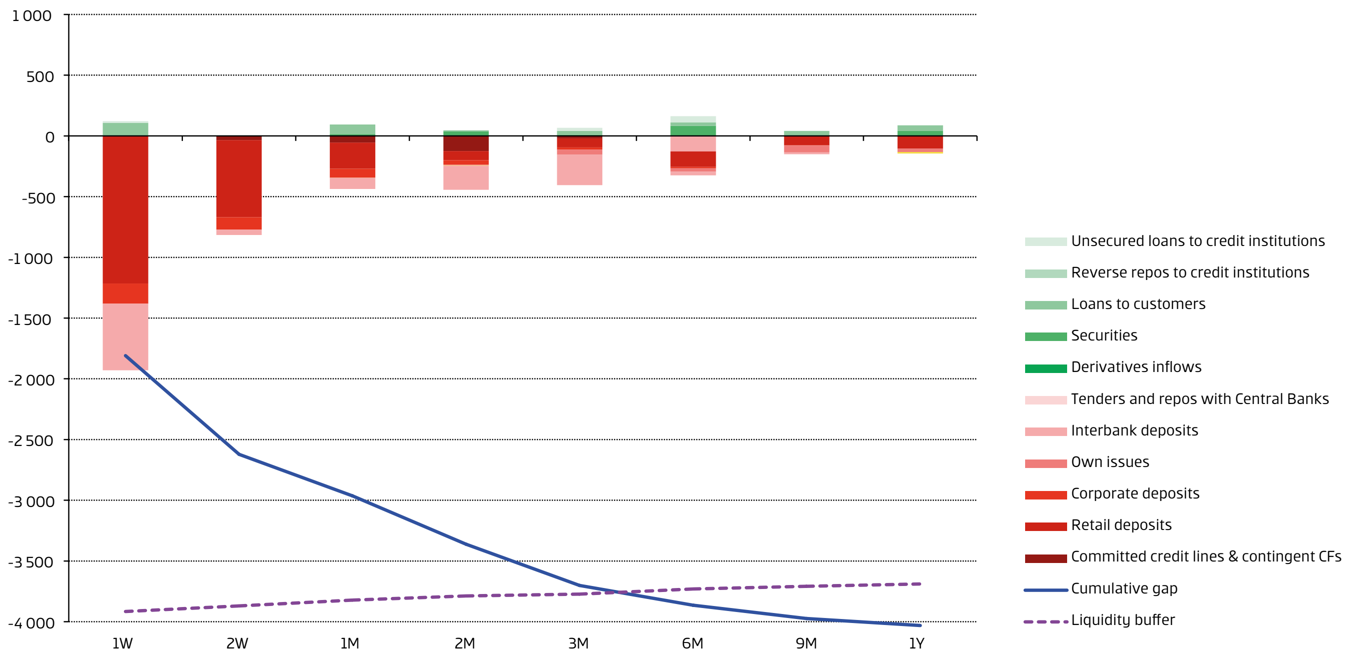
in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	261	-	-	-	-
Liquid assets	3 827	-	-16	-14	-
Counterbalancing capacity	4 088	-	-16	-14	-

Term structure of counterbalancing capacity 2013

in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	246	-	-	-	-
Liquid assets	3 465	-	-8	-57	-40
Counterbalancing capacity	3 712	-	-8	-57	-40

Survival Period Horizon - during 2014 all SPA limits were fulfilled. The most severe scenario (combined crisis) had a minimum value of 48 days but have increased toward year end to three months. The results for the combined crisis are depicted below:

Combined Crisis



Funding concentrations - during 2014 both concentrations limits were fulfilled at all times.

Operational risk

Main objectives of effective system of operational risk management are:

- to set up a bank-wide framework for operational risk management and to translate this framework into specific policies, procedures or processes that can be implemented and verified within different business units
- to properly identify major drivers of operational risk
- to develop model for quantification of risk exposure profile and for calculation of both economic and regulatory capital
- to prevent or minimize losses due to operational risk by adaptation of suitable processes, preventive measures or by selecting suitable insurance
- to continuously improve the operational risk management process (described in subsequent chapters on risk identification, measurement and management)
- to provide quality reporting and documentation

Risk Identification

Comprehensive risk identification is imperative for each subsequent stages of the operational risk management life cycle. Its primary objective is to provide information needed for correct decision making within operational risk management. Prompt risk identification may lead to quick detection and correction of deficiencies in policies or processes, and may substantially reduce the potential frequency and/or severity of loss events.

Risk identification should be generally forward-looking. While it is inevitable to use historical loss data, they should be supported by forward-looking approaches in order to obtain better quality assessment. Whenever possible, identification factors should be translatable into quantitative measures.

The most significant sources of operational risk in the bank are:

- theft and fraud (both external and internal)
- legal risks
- human processing error
- data, infrastructure, and system related risks
- improper practices (including incomplete or ambiguous internal guidelines)
- natural disaster and wilful damage

These sources of risk must be consistently assessed and re-evaluated using a variety of risk identification techniques, described in the following sub-sections. The results of the risk identification are regularly reported to high-level decision bodies (ORCO, Board of Directors).

Internal Data Collection

The bank shall maintain a central database of operational risk events and losses. This should be as comprehensive as possible in that it captures all material activities throughout the bank. Data collection is conducted via a web-based application EMUS.

Operational risk event is defined as an event due to inadequate or failed processes, human factors or systems, or external events, which lead (or have the potential to lead) to losses, or have other negative impact on the bank. All organizational units and their employees are obligated to report operational risk events, encountered or potential loss (both direct and indirect) of which is higher than defined threshold, or is not quantifiable yet relevant. Reporting is done via EMUS, where every employee of the bank has an access right. Information on loss amounts, recoveries, date of event, and other relevant descriptive information must be provided.

Events have two-stage acceptance procedure. Depending on the type of event, first stage is conducted by either IT Security, Physical Security, Financial Crime & Compliance, Card Services, Internal Services or Strategic Risk Management. Second stage is a data consistency check and is performed by Strategic Risk Management. Events should be categorized according to business lines. Special attention must be paid to events that span more than one business line, or events that arise in centralized function that cannot be directly mapped to a business line. Internal data collection process shall be covered by Strategic Risk Management in an associated guideline. This guideline covers definitions, principles for event and loss classification, minimum loss threshold, event acceptance procedure, required data for each event, etc.

External Data

As severe operational risk events are scarce, and may not have been captured in internal data collection, the bank shall also include adequate external event data in its risk identification system. These should cover infrequent severe events with relevance to the bank or financial industry. The bank should systematically incorporate external data into its risk measurement methodology. External data collection shall be coordinated with Erste Group efforts on this matter and will be conducted by Strategic Risk Management.

Scenario Analysis

Contrary to internal and external data collection, scenario analysis is a forward-looking tool of risk identification. The bank shall include such analysis in order to evaluate its exposure to high-severity events and to derive reasonable estimates of potential severe losses. The results will in turn serve as input factors to the risk measurement process. Scenarios must be periodically reassessed for meaningfulness and should consider breakdown of assumed correlation patterns (i.e. the possibility of two or more severe events happening simultaneously). Scenario analysis is conducted by Strategic Risk Management.

R**isk Mapping and Key Risk Indicators**

The objective of this risk identification technique is to map the level of different operational risks across the bank and to set up a measurable framework (known as key risk indicators) that tracks the most important drivers of operational risk and that could subsequently be used in risk measurement. Risk mapping is a top-down approach. Strategic Risk Management, with the help of respective senior or 3rd level manager, will conduct an analysis and grading of operational risks inherent in each unit's activities, in order to come with overall risk map of the bank. The resulting map will have three dimensions, namely:

- risk category
- business line/product
- functional process level – where applicable, this provides depth for the business line/product dimension (e.g. stages of particular process or lifecycle phases of product)

The outcome of risk mapping will provide the basis for defining the KRI, which will in turn be periodically monitored. It will serve as input for risk measurement and operational risk management decision making. Reporting on KRI is the responsibility of business units.

KRI should have the following properties:

- it should be easy to use, i.e. available for reliable periodical measurement, cost effective to measure, and easy to understand and communicate
- it should be effective, i.e. apply to high risk points, reflect objective measurement rather than subjective judgment, and provide useful management information.

Risk Measurement

The bank measures its operational risk exposure using the loss distribution approach. In this, the probability distribution of both frequency of loss and amount of loss is modelled, and is recombined (typically using Monte Carlo simulation) into a compound distribution of yearly losses. Out of this distribution, both expected and unexpected losses could be calculated. In accordance with Basel II, the confidence interval for unexpected loss should be at least 99.9% and the holding period should be one year.

In modelling the distribution, all outcomes of risk identification process should be used, i.e. both internal and external data, scenario analysis, risk mapping, and factors reflecting the business environment and internal control systems should be used. In calculating the exposure, mitigation techniques (specifically insurance) may be included. This is done via decreasing of the gross loss for individual loss events by probable insurance coverage.

The bank should be able, given both adequate data and sound models are available, to arrive at sufficiently granular profile of the risk exposures, i.e. to calculate the exposures for all major drivers of operational risk (along business lines and risk types). Over time, the model should be validated through comparison to actual experience and appropriate corrections should be made. Design of the risk measurement model is within the responsibility of Erste Holding (for more details see the group AMA documentation). Modelling inputs are provided by Strategic Risk Management.

Managing Operational Risk

Management of operational risk is primarily the responsibility of each individual business unit in its daily course of operations. In addition, Strategic Risk Management has a harmonization role and performs activities of global scope.

In general, operational risk can be managed via any (or a combination) of the following:

- risk mitigation, including insurance and internal control system
- risk acceptance
- decrease of the extent or disposal of the risky activity.

Selection of the approach is by definition the responsibility of senior managers or of the Board of Directors for the activities and risks of global scope. For risks identified as significant, senior managers are required to present the selected risk management tactics to a high-level decision body (ORCO, Board of Directors) for approval.

The following sub-sections give an overview of the main activities regarding operational risk management within the bank.

Operational Risk and Compliance Committee (ORCO)

ORCO is the ultimate decision-making body for operational risk issues. It is defined as a high-level management committee that deals with operational risk strategies and procedures, decides on risk appetite and tolerance levels, and decides on mitigation measures for, or risk acceptance of operational risk, compliance, financial crime, IT security and operations, anti-money laundering, etc.

SRM or any other unit may present results of risk identification and risk measurement processes or other operational risk issues to ORCO for a risk acceptance/disapproval decision. It will typically happen in case high risk was identified during risk mapping or larger loss event was recorded or any substantial activity carrying possible high operational risk is planned. In case ORCO does not accept the identified risk, it assigns tasks to senior management to come up with mitigation measures. ORCO consists of selected board members, senior managers, and other representatives.

System of Internal Controls

Each unit manager shall implement a system of internal controls within his area of competence, with the objective of identification and mitigation of operational risks. Within the system, a set of operative controls is created, in order to systematically check selected product, service, process, etc. Each unit manager is responsible for effectiveness and quality of the system. It is also his responsibility to identify problematic or risky areas that should be covered by operative controls.

Internal control system shall consist of:

- risk assessment – in order to determine what are the most important processes and what controls are needed
- written policies and procedures – all important operations must be covered by operation manuals
- control activities – control procedures itself
- review – in order to assess the appropriateness of controls
- accounting, information, and communication systems – a proper combination of such systems in order to provide detailed, accurate, and timely information

Principles to be followed when implementing ICS include, but are not limited to:

- four-eye principle
- thorough task assignment and monitoring
- substitutability of staff
- required vacation or absence from duties (for relevant units only)
- segregation of duties
- avoidance of conflict of interest

Internal Audit shall regularly conduct an audit of the bank's ICS in order to determine whether the bank is following enacted policies and procedures. Strategic Risk Management shall issue associated Internal Control System Policy giving detailed information on the system. However, SRM does not assume any coordination role in the implementation and execution of ICS by individual managers.

Insurance

In order to mitigate operational risk, the bank shall engage in a comprehensive insurance program. This should cover direct or indirect losses due to all major sources of operational risk, i.e. improper use or failure of internal processes, human factor failures, system failures or external factors, and that in both the bank and its daughter companies. The primary objective of the insurance program is to safeguard the bank against catastrophic events. Insurance does not serve for protection against common, expected losses. Responsibility for the insurance program is given to Strategic Risk Management. It shall design suitable and cost-effective insurance program with the objective of minimizing losses due to operational risk. Overall insurance program is designed on Erste Holding level. The program is to be documented in an associated guideline which should, inter alia, cover procedures in case of insurance incident.

Outsourcing
Outsourcing is defined as long-term delegation of internal operation to external entity that specializes in that operation. In context of operational risk management, the primary focus is on outsourcing of banking operations.

Outsourcing should be governed by the following high-level principles:

- outsourcing of any banking operation must be approved by the board of directors by outsourcing an activity,
- the bank neither relinquishes the responsibility for, nor does it get disposed of the risks brought along by such activity
- special attention is to be paid to legal and regulatory issues

General outsourcing policy is defined on Erste Holding level. Strategic Risk Management is responsible for local implementation of this policy, giving detailed definition of principles and procedures for outsourcing. These shall be documented in associated internal policy. All outsourced activities must strictly follow this policy.

Each outsourcing must have an outsourcing sponsor and an outsourcing manager (both coming from the bank) who are responsible for governance, correct functioning, operational risk, and other issues related to the outsourced activity.

Operational risk management related to outsourcing is within the responsibility of respective outsourcing sponsor and outsourcing manager. Strategic Risk Management shall periodically conduct overall risk assessment of outsourcing.

Outsourcing shall be periodically checked by Internal audit.

37) Fair values of financial assets and liabilities

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 both external (similar securities or issuers) and internal (risk parameters such as rating, PD, or LGD) sources are used.
Fair values of financial instruments

Financial instruments measured at fair value in the balance sheet

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

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

Securities
For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including also methods described for OTC-derivatives. All securities are valued using the bid/ask levels (depending whether asset or liability, i.e. more conservative then the mid level).

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

The Bank values derivatives at mid-market levels.
Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank`s credit quality. The Bank has implemented an approach, where the modelling of the expected exposure is based on option replication strategies. This modelling 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. The Bank's probability of default has been derived from the buy-back levels of the Bank'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. Both the methodology and the calculation itself is carried out by Erste Holding.

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 €3.87 million (2013: €1.35 million) and the total DVA-adjustment amounts to €1.73 million (2013: €1.12 million).

Description of the valuation process for fair value measurements categorised within Level 3
A level 3 position involves one or more significant inputs that are not directly observable on the market. Additional price verification 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 carried out by risk management unit which is independent from all trading, sales, or investment units.

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

	Quoted market prices in active markets		Marked to model based on observable market data		Marked to model based on non-observable inputs		Total	
	Level 1		Level 2		Level 3			
in ths. EUR	2013	2014	2013	2014	2013	2014	2013	2014
ASSETS								
Financial assets held for trading	-	-	50 826	99 493	-	2 081	50 826	101 574
Derivatives held for trading	-	-	50 826	99 493	-	2 081	50 826	101 574
Financial assets designated at FV through profit or loss	10 791	-	6 629	6 646	13 752	13 557	31 172	20 203
Financial assets - available for sale	619 046	1 001 348	187 947	187 637	34 444	29 489	841 437	1 218 474
Derivatives - Hedge accounting	-	-	5 119	8 322	-	-	5 119	8 322
Total Assets	**629 837**	**1 001 348**	**250 521**	**302 098**	**48 196**	**45 127**	**928 554**	**1 348 573**
LIABILITIES								
Financial liabilities held for trading	-	-	51 991	103 439	-	-	51 991	103 439
Derivatives held for trading	-	-	51 991	103 439	-	-	51 991	103 439
Derivatives - Hedge accounting	-	-	18 159	49 077	-	-	18 159	49 077
Total Liabilities	**-**	**-**	**70 150**	**152 516**	**-**	**-**	**70 150**	**152 516**

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
There were no significant transfers between Level 1 and Level 2 of financial instruments measured at fair value in the balance sheet.

Movements in Level 3 of financial instruments measured at fair value
The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in ths. EUR	2013	Gains / Losses in profit or loss	Gains / Losses in other comprehensive income	Purchase	Sales/ Settlements	Transfer into Level 3	2014
ASSETS							
Financial assets held for trading	-	-	-	-	-	2 081	2 081
Derivatives held for trading	-	-	-	-	-	2 081	2 081
Financial assets designated at fair value through Profit & Loss	13 752	976	-	-	(1 198)	28	13 557
Financial assets available for sale	34 444	962	338	2 000	(8 255)	-	29 489
Total Assets	**48 196**	**1 938**	**338**	**2 000**	**(9 453)**	**2 109**	**45 127**

in ths. EUR	2012	Gains / Losses in profit or loss	Gains / Losses in other comprehensive income	Purchase	Sales/ Settlements	Transfer into Level 3	2013
ASSETS							
Financial assets designated at fair value through Profit & Loss	13 085	(1 070)	-	1 800	(63)	-	13 752
Financial assets available for sale	34 011	964	436	-	(967)	-	34 444
Total Assets	**47 096**	**(106)**	**436**	**1 800**	**(1 030)**	**-**	**48 196**

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

in ths. EUR	2013	2014
ASSETS		
Financial assets held for trading	-	2 124
Derivatives held for trading	-	2 124
Financial assets designated at FV through profit or loss	1 070	912
TOTAL	**1 070**	**3 036**

The volume of Level 3 financial assets consists solely of a few positions in illiquid securities.

Financial instruments whose fair value is disclosed in the notes

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

in ths. EUR	Carrying amount	Fair value	Quoted market prices in active marktes Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	408 119	408 119	-	-	-
Financial assets - held to maturity	2 579 817	3 061 949	2 995 616	66 231	102
Loans and receivables to credit institutions	179 005	163 073	-	-	163 073
Loans and receivables to customers	8 142 383	8 154 045	-	-	8 154 045
LIABILITIES					
Financial liabilities measured at amortised costs	11 354 414	10 921 141	-	936 200	9 984 941
Deposits from banks	740 685	732 923	-	-	732 923
Deposits from customers	9 683 889	9 476 925	-	-	9 476 925
Debt securities issued	929 840	936 200	-	936 200	-

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2013.

in ths. EUR	Carrying amount	Fair value	Quoted market prices in active marktes Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
ASSETS					
Cash and cash balances	329 977	329 977	-	-	-
Financial assets - held to maturity	2 764 888	3 031 387	1 722 853	1 308 534	-
Loans and receivables to credit institutions	80 036	74 276	-	-	74 276
Loans and receivables to customers	7 221 256	6 701 534	-	-	6 701 534
LIABILITIES					
Financial liabilities measured at amortised costs	10 223 044	9 889 044	-	723 676	9 165 368
Deposits from banks	424 377	408 319	-	-	408 319
Deposits from customers	9 101 433	8 757 049	-	-	8 757 049
Debt securities issued	697 234	723 676	-	723 676	-

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available, otherwise it is estimated by taking into consideration the actual interest rate environment and in this case they are allocated to Level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads, and these are allocated to Level 3.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated market value and the notional amount of the hypothetical loan equivalents represents the fair value of these contingent liabilities.

Fair values of non-financial assets

The fair values of non-financial assets are determined by experts with recognised and relevant professional qualification.

Property, equipment and other assets

Property, equipment and other assets are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell.

Fair values of non-financial assets owned by the Bank are based on valuation reports relying essentially on observable market inputs (such as selling price per square meter charged in recent market observable transactions for similar assets). Such measurements are disclosed as Level 2 of the fair value hierarchy. If fair values of non-financial assets result from valuation models using expected future rental income method they are presented in Level 3 of the fair value hierarchy.

For non-financial assets owned by the Bank the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

Investment property

Investment property is measured at fair value on recurring basis.

The estimated fair value of investment property as at 31 December 2014 was €3.2 million (2013: €2.4 million). The Bank uses its own model for determining the fair value of investment property, which is based on discounting future rental income decreased by direct operating expenses. Future rental income was determined using market rental rates for buildings with similar conditions and location. Such measurements are presented in Level 2 of the fair value hierarchy.

38) Current and non-current assets and liabilities

The following table shows the distribution of assets and liabilities and equity to current (due within one year) and non-current (due over one year) based on their remaining contractual maturity.

in ths. EUR	< 1 year	> 1 year	< 1 year	> 1 year
	2013		2014	
Assets				
Cash and cash balances	329 977	-	408 119	-
Financial assets - held for trading	10 297	40 529	23 949	77 625
Derivatives	10 297	40 529	23 949	77 625
Financial assets - at fair value through profit or loss	6 363	24 808	4	20 199
Financial assets - available for sale	58 426	800 976	54 627	1 164 525
Financial assets - held to maturity	134 129	2 630 759	80 896	2 498 921
Loans and receivables to credit institutions	68 230	11 806	179 005	-
Loans and receivables to customers	1 225 335	5 995 921	1 305 677	6 836 706
Derivatives - hedge accounting	-	5 119	-	8 322
Property and equipment	-	130 499	-	113 801
Investment properties	-	2 805	-	3 306
Intangible assets	-	97 231	-	89 963
Investments in subsidiaries and associates	-	16 787	-	19 493
Deferred tax assets	-	36 287	-	33 923
Other assets	20 076	18 155	23 525	-
TOTAL ASSETS	**1 852 833**	**9 811 682**	**2 075 803**	**10 866 783**
Liabilities				
Financial liabilities - held for trading	10 727	41 264	29 411	74 028
Derivatives	10 727	41 264	29 411	74 028
Financial liabilities measured at amortised cost	9 187 572	1 035 472	10 048 953	1 305 462
Deposits from banks	244 859	179 518	499 595	241 091
Deposits from customers	8 791 114	310 319	9 396 406	287 483
Debt securities issued	151 599	545 635	152 952	776 888
Derivatives - hedge accounting	-	18 159	-	49 077
Provisions	-	23 151	-	30 260
Current tax liabilities	2 042	-	22 765	-
Other liabilities	86 880	4 810	109 332	-
TOTAL LIABILITIES	**9 287 221**	**1 122 856**	**10 210 462**	**1 458 826**

The following table shows the Bank´s remaining contractual maturity for its non-derivative financial liabilities. The table have been drawn up based on undiscounted cash flows of financial liabilities.

in ths. EUR	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total 2014
Financial liabilities measured at amortised cost						
Deposits from banks	403 616	82 068	14 093	181 279	64 563	745 619
Deposits from customers	6 950 163	1 031 685	1 419 849	290 859	-	9 692 557
Debt securities issued	539	47 856	105 918	642 916	204 938	1 002 167
Total	**7 354 317**	**1 161 610**	**1 539 860**	**1 115 055**	**269 502**	**11 440 344**

in ths. EUR	On demand and less then 1M	1 to 3M	3M to 1Y	1 to 5Y	Over 5Y	Total 2013
Financial liabilities measured at amortised cost						
Deposits from banks	170 566	65 835	8 520	165 673	14 488	425 082
Deposits from customers	6 329 189	770 702	1 699 905	315 905	-	9 115 701
Debt securities issued	6 326	44 868	101 762	421 302	187 017	761 275
Total	**6 506 081**	**881 405**	**1 810 187**	**902 880**	**201 505**	**10 302 058**

39) Own funds and capital requirements

The Bank's lead regulator, ECB together with NBS as local regulator , sets and monitors capital requirements.

Regulatory capital

Supervising authorities for the Bank are European Central Bank together with National Bank of Slovakia and Austrian Financial Market Authority. Based on their common decision the Bank shall at all times satisfy, on an individual basis, an overall capital ratio equal to 6.85% in terms of CET1 Ratio as defined in the Regulation (EU) No. 575/2013 of the European Parliament and of the Council and an own funds requirement of 11.69%. As of 31 December 2014, 2013 and 2012, the Bank has fulfilled the minimum level of capital adequacy. The capital adequacy is defined as a ratio of total capital to 12.5 multiple of the capital requirements defined by the Slovak Banking Act and other related legislation.

The Bank calculates requirements for credit risk using the Basel II IRB approach, for market risk in its trading portfolios using internal VaR models and AMA approach for operational risk.

The Bank's regulatory capital is analysed in two tiers:
Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve after deduction for goodwill, intangible assets, AFS reserve (negative revaluation only) and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
Tier 2 capital, which includes qualifying subordinated liabilities and the element of fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base. The amount of qualifying *tier 2* capital cannot exceed tier 1 capital and qualifying term subordinated loan capital may not exceed 50% of *Tier 1* capital. Other deductions from capital include the carrying amounts of investments qualifying as financial institutions exceeding 10% participation on their share capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain the future development of the business. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The Bank's regulatory capital position at 31 December 2014 and 2013 was as follows:

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

	2013 Basel II	2013 Basel III	2014 Basel III
Tier 1 capital			
Ordinary share capital	212 000	212 000	212 000
Share premium	-	-	-
Perpetual bonds	-	-	-
Capital reserves	118 899	118 899	118 899
Retained earnings	701 842	701 842	702 446
Translation reserve	-	-	-
Less intangible assets	(97 231)	(97 231)	(89 963)
Other regulatory adjustments	(2 846)	(8 556)	(26 750)
Total	**932 664**	**926 954**	**916 632**
Tier 2 capital			
Fair value reserve for available-for-sale equity securities	34 796	-	-
Collective allowances for impairment			
IRB Surplus	10 061	10 061	12 613
Qualifying subordinated liabilities	163 730	125 447	100 914
Total	**208 587**	**135 508**	**113 527**
Deductions from Tier I and Tier II capital	(11 986)	-	-
Total regulatory capital	**1 129 265**	**1 062 462**	**1 030 159**

40) Assets under Administration

The Bank provides custody, trustee, investment management, and advisory services to third parties, which involves the Bank making allocation and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The Bank is holding assets for collective investments undertakings in amount of €1 007.5 million as at 31 December 2014 (2013: €719.5 million).

The Bank is also holding assets for customers other than collective investments undertakings in amount of €4 463 million as at 31 December 2014 (2013: €4 425.6 million).

41) Post-balance Sheet Events

From 31 December 2014 up to the date of issue of these financial statements there were no other events identified that would require adjustments to or disclosure in these financial statements, then stated below:

Planned change of the sole shareholder of the Bank is expected during February 2015. New sole shareholder of the Bank will be Erste Group Bank AG, that obtain the shares by transfer based on § 18 legal code No. 566/2001 Z.z. o cenných papieroch a investičných službách v znení neskorších predpisov (about shares and investment services).

This change will have no impact to the composition of the Board of Directors or Supervisory Board of the Bank and has no impact to consolidated IFRS statements of Erste Group Bank or capital adequacy requirements of Erste Group Bank.

New shareholder will obtain shares of the Bank on its own account and will have no obligation to execute owner rights on behalf of the third party and does not act in contradiction of other shareholders of the Bank, because the Bank have any other shareholders.