

## **ERSTE Befektetési Zrt.**

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

**ERSTE INVESTMENT LTD.**

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## **This is a translation of the Hungarian Report**

### **Independent Auditors' Report**

To the Shareholder of Erste Befektetési Zrt.

#### **Report on financial statements**

1.) We have audited the accompanying 2014 consolidated financial statements of Erste Befektetési Zrt. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2014 - showing a balance sheet total of HUF 60,428,138 thousand and a profit for the year of HUF 2,077,761 thousand -, the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in total equity, 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 consolidated financial statements**

2.) Management is responsible for the preparation and presentation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by 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.

#### **Auditor's responsibility**

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

4.) 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 auditor's 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 control 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.

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

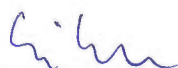
#### **Opinion**

6.) In our opinion the consolidated financial statements give a true and fair view of the equity and financial position of Erste Befektetési Zrt. as at 31 December 2014 and of the results of its operations for the year then ended in accordance with the International Financial Reporting Standards as adopted by EU.

#### **Other reporting requirement – Report on the consolidated business report**

7.) We have reviewed the consolidated business report of Erste Befektetési Zrt. for 2014. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian legal requirements. Our responsibility is to assess whether the consolidated business report is consistent with the consolidated financial statements for the same financial year. Our work regarding the consolidated business report has been restricted to assessing whether the consolidated business report is consistent with the consolidated financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the consolidated business report of Erste Befektetési Zrt. for 2014 corresponds to the disclosures in the 2014 consolidated financial statements of Erste Befektetési Zrt.

Budapest, 10 June 2015



Szabó Gergely  
Ernst & Young Kft.  
Registration No.: 001165



Sulyok Krisztina  
Registered auditor  
Chamber membership No.: 006660

**ERSTE INVESTMENT LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
(in thousands of HUF, unless otherwise stated)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**At December 31, 2014**

	<i>Notes</i>	<i>2014</i>	<i>2013</i>
<b>ASSETS</b>			
Cash and bank account	3.	34,412,177	29,435,335
Financial assets at fair value held for trading	4.	2,708,573	3,303,525
Trading assets pledged as collateral	5.	4,866,340	5,539,802
Derivative financial assets	6.	155,465	149,650
Financial assets -available-for-sale	7.	33	33
Receivables from securities trading	8.	338,058	3,608,901
Receivables from customers	9.	15,258,295	8,165,934
Other assets	10.	652,895	353,687
Current tax assets	11.	310,848	245,282
Deferred tax assets	28.	9,643	57,966
Tangible fixed assets	12.	172,828	159,349
Intangible fixed assets	12.	1,542,983	1,450,682
<b>TOTAL ASSETS</b>		<b>60,428,138</b>	<b>52,470,146</b>
<b>LIABILITIES AND EQUITY</b>			
Financial liabilities at fair value held for trading	13.	2,486,070	1,274,908
Derivative financial liabilities	6.	8,351	99,817
Payables on securities trading	14.	203,904	3,728,764
Payables to customers	15.	42,818,104	31,805,736
Trade payables	16.	569,379	242,228
Short-term loans	17.	2,352,054	2,854,851
Current tax liabilities	11.	0	0
Other liabilities	18.	1,000,892	930,285
Provisions	19.	386,230	508,164
Deferred tax liabilities	28.	0	0
<b>TOTAL LIABILITIES</b>		<b>49,824,984</b>	<b>41,444,753</b>
<b>EQUITY</b>			
Share capital	20.	2,000,000	2,000,000
Share premium	20.	141,882	141,882
Retained earnings		8,461,272	8,883,511
<b>TOTAL EQUITY</b>		<b>10,603,154</b>	<b>11,025,393</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>60,428,138</b>	<b>52,470,146</b>

Approved by the Board of Directors on June 10, 2015 Budapest




Róbert Cselovszki, Zsolt Grebicsaj  
President General Director and Managing Director

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**CONSOLIDATED INCOME STATEMENT**  
for the year ended December 31, 2014

	<i>Notes</i>	<u>2014</u>	<u>2013</u>
Net trading income	21.	1,611,921	1,877,890
Net fees and commission income	22.	4,581,212	4,723,358
Impairment of receivables from customers	23.	470,420	-111,777
<b>Total operating income</b>		<b>6,663,553</b>	<b>6,489,471</b>
Financial result, net	24.	415,530	996,436
General and administrative expenses	25.	-1,022,624	-932,086
Personal expenses	26.	-2,055,252	-2,060,911
Other operating expenses, net	27.	-846,316	-632,184
Depreciation and amortisation	12.	-294,280	-299,643
<b>Total operating expenses</b>		<b>-3,802,942</b>	<b>-2,928,388</b>
<b>Profit before tax</b>		<b>2,860,611</b>	<b>3,561,083</b>
Income tax	28.	-782,850	-855,721
<b>Net profit for the year</b>		<b><u>2,077,761</u></b>	<b><u>2,705,362</u></b>
<i>Attributable to:</i>			
<b>Equity holders of the parent</b>		<b>2,077,761</b>	<b>2,705,362</b>

Approved by the Board of Directors on June 10, 2015 Budapest



Róbert Cselovszki, Zsolt Grebicsaj  
President General Director and Managing Director

**ERSTE**  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**for the year ended December 31, 2014**

	<i>Notes</i>	<u>2014</u>	<u>2013</u>
Net profit for the year		2,077,761	2,705,362
Other comprehensive income for the year, net of tax		0	0
<b>Total comprehensive income for the year, net of tax</b>		<b>2,077,761</b>	<b>2,705,362</b>
<i>Attributable to:</i>			
<b>Equity holders of the parent</b>		<b>2,077,761</b>	<b>2,705,362</b>

Approved by the Board of Directors on June 10, 2015 Budapest



Róbert Cselovszki, Zsolt Grebicsaj  
President General Director and Managing Director

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**CONSOLIDATED CASH FLOW STATEMENT**  
for the year ended December 31, 2014

	<i>Notes</i>	<i>2014</i>	<i>2013</i>
<b>Operating Activities</b>			
Net profit before income tax		2,860,611	3,561,083
<i>Adjustments to reconcile profit for the year to net cash used in operating activities:</i>			
Depreciation and amortisation	12.	294,280	299,643
Allowance and release of impairment for past due receivables from negative client cash accounts, net	9.	-470,420	111,777
Loss on sale of tangible and intangible fixed assets	12.	6,911	18,437
Allowance and release of provisions for liabilities, net	19.	-121,934	39,343
<i>Changes in operating assets and liabilities:</i>		<i>2,637,880</i>	<i>2,714,383</i>
Net change in financial assets at fair value held for trading	4.	594,952	2,839,904
Net change in trading assets pledged as collateral	5.	673,462	-5,192,322
Net change in derivative financial assets	6.	-5,815	-97,870
Net change in financial assets -available-for-sale	7.	0	0
Net change in receivables from securities trading	8.	3,270,843	2,942,475
Net change in receivables from customers	9.	-6,621,941	-122,868
Net change in other assets	10.	-299,208	1,329
Net change in financial liabilities at fair value held for trading	13	1,211,162	483,327
Net change in derivatives financial liabilities	6.	-91,466	16,320
Net change in payables on securities trading	14.	-3,524,860	-2,181,671
Net change in payables to customers	15.	11,012,368	9,675,818
Net change in deposits from customers	15.	-3,979,375	-5,922,670
Net change in trade payables	16.	327,151	110,145
Net change in other liabilities	18.	70,607	162,466
<i>Income tax paid</i>	28.	<i>-800,093</i>	<i>-734,624</i>
<b>Net cash flow used in operating activities</b>		<b>4,407,235</b>	<b>6,001,042</b>
<b>Investing activities:</b>			
Purchase of tangible and intangible fixed assets	12.	-419,256	-870,233
Proceeds on disposal of tangible and intangible fixed assets	12.	12,285	39,290
<b>Net cash flow used in investing activities</b>		<b>-406,971</b>	<b>-830,943</b>
<b>Financing activities:</b>			
Borrowings		276,932,316	137,760,013
Repayment of loans		-277,435,113	-141,120,000
Dividend paid	20.	-2,500,000	-2,600,000
<b>Net cash flow from financing activities</b>		<b>3,002,797</b>	<b>5,959,987</b>
<b>Net increase in cash and cash equivalents</b>		<b>997,467</b>	<b>-789,888</b>
Cash and cash equivalents, beginning of the year	3.	2,504,384	3,294,272
<b>Cash and cash equivalents, end of the year</b>	3.	<b>3,501,851</b>	<b>2,504,384</b>



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**CONSOLIDATED CASH FLOW STATEMENT [continued]**

*Notes*

for the year ended December 31, 2014

		<u>2014</u>	<u>2013</u>
<b>Operating cash flows from interest and dividends</b>			
Interest paid		364,587	177,320
Interest received		740,676	1,136,895
Dividend received		11,866	140,147
 <b>Cash and bank account, end of the year</b>			
Deposits from customers	3.	30,910,326	26,930,951
Nostro accounts	3.	3,501,851	2,504,384
<b>Cash and bank account, end of the year</b>		<b>34,412,177</b>	<b>29,435,335</b>

Approved by the Board of Directors on June 10, 2015 Budapest



Róbert Cselovszki, Zsolt Grebicsaj  
President General Director and Managing Director

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**ERSTE INVESTMENT LTD.**  
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the year ended December 31, 2014**

	Share Capital	Share premium	Retained Earnings	Total
Notes	20.	20.	20.	
At January 1, 2013	2,000,000	141,882	8,778,149	10,920,031
Dividend paid	0	0	-2,600,000	-2,600,000
Profit for the year	0	0	2,705,362	2,705,362
<b>At December 31, 2013</b>	<b>2,000,000</b>	<b>141,882</b>	<b>8,883,511</b>	<b>11,025,393</b>

	Share Capital	Share premium	Retained Earnings	Total
Notes	20.	20.	20.	
At January 1, 2014	2,000,000	141,882	8,883,511	11,025,393
Dividend paid	0	0	-2,500,000	-2,500,000
Profit for the year	0	0	2,077,761	2,077,761
<b>At December 31, 2014</b>	<b>2,000,000</b>	<b>141,882</b>	<b>8,461,272</b>	<b>10,603,154</b>

Approved by the Board of Directors on June 10, 2015 Budapest



Róbert Cselovszki, Zsolt Grebicsaj  
President General Director and Managing Director

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Corporate information**

Erste Investment Ltd. (hereinafter referred to as 'the Company') was formed as a private limited company on May 24, 1990 as Girocentrale. Due to changes in ownership, the name of the Company has changed several times since it was founded. During the ownership of Investmentbank Austria AG the Company was called Bank Austria Investment Hungary [Bank Austria Investment Ltd] until December 18, 1997. Investmentbank Austria AG then sold its 100 % ownership to ERSTE Bank Der Oesterreichischen Sparkassen AG. Due to the change of the ownership, the Company's name was changed to ERSTE Bank Befektetési Magyarország Rt. [ERSTE Bank Investment Hungary]. On December 31, 1997 ERSTE Bank der Oesterreichischen Sparkassen AG acquired majority ownership of the domestic Mezőbank Rt., whose official name, as of November 1, 1998 became ERSTE Bank Hungary Rt. According to the resolutions and merge contracts of the owners, Mezőbank Értékpapírforgalmazó és Befektetési Rt. Magyarország [Mezőbank Securities and Investment Ltd, Hungary], which previously operated independently, was merged into ERSTE Bank Investment on March 31, 1998.

On December 1, 2002 the Court of registration subscribed the ownership change, since the new 100% owner of the Company became ERSTE Bank Hungary.

In 2003 one of the subsidiaries of ERSTE Bank Hungary, ESZE Kft. obtained the 1% ownership of the Company.

On July 31, 2004 the Postbank Security Ltd. was merged into the Company.

In the year 2006 the name of the Company has changed to Erste Befektetési Zrt [Erste Investment Ltd.]. The new name was registered on September 08, 2006.

In the year 2007 ESZE Kft. was merged into the Erste Ingatlan Kft., thus Erste Ingatlan Kft. obtained 1% ownership of the Company. This 1% ownership was sold to Erste Bank Hungary Zrt. on December 15, 2011.

Erste Investment Ltd. is a limited liability company incorporated and domiciled in Hungary.

The headquarters of the Company: 1138 Budapest, Népfürdő u. 24-26.

The ownership structure of Erste Investment Ltd. at December 31, 2014 is as follows:

- 100 % Erste Bank Hungary Zrt. (1138 Budapest, Népfürdő u. 24-26.)

Erste Investment Ltd. is a subsidiary of Erste Bank Hungary Zrt. (hereinafter referred to as 'Erste Bank Hungary') which consolidates the financial statement of Erste Investment Ltd. and the financial statements of its subsidiary (Portfolio Trading, Service and Information Technology Ltd., hereinafter referred to as 'Portfólió Ltd.' ) in its financial statements.

The above mentioned consolidated financial statements are available at the head office of Erste Bank Hungary (1138 Budapest, Népfürdő u. 24-26.).

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The ultimate parent of Erste Investment Ltd. is Erste Group Bank AG. (formerly known as Erste Bank der Oesterreichischen Sparkassen AG and hereinafter referred to as 'Erste Group Bank AG.', head office: Austria, Wien, 1010 Graben 21). It prepares the consolidated financial statement of the International Erste Group. This annual report is available at the head office of Erste Group Bank AG. The average number of employees at the company and its subsidiary companies (together the "Group" or "Erste Investment Group") was 132 and 111 as at December 31, 2014 and 2013, respectively.

Erste Investment Ltd. has been approved by MNB (Hungarian National Bank) as the Supervisory Authority, to carry out business activity as an investment company.

Core business activities include:

Erste Investment Ltd.

- trading and selling of listed and not listed securities both on nostro and on commission trade,
- trading and selling of derivative financial instruments, primarily for institutional investors,
- trading and selling of government bonds on primary and secondary markets,
- organizing of public issue of securities,
- organizing of private offering of securities,
- consultation related to purchase, sale, merge and split up of companies,
- trading in investment notes
- portfolio management, primarily for institutional and corporate investors and local governments,
- preparation of share and securities market research,
- investment advisory services,
- maintaining securities accounts of the clients related to core business activities; providing securities custody and depository services,
- securities lending and borrowing.

Portfolió Ltd.

- hardware advisory services,
- software development advisory services,
- data processing.

The Erste Bank Hungary Management Board on April, 2013 proposed the Board of Directors of Erste Investment Limited to perform the elimination of Portfolió Ltd. in order to develop the transparency and better understanding of the activity and organisational structure of the entity.

Based on the proposal of the Erste Bank Hungary Management Board the Board of Directors of Erste Investment Limited on December 31, 2013 approved to perform the elimination of Portfolió Ltd. by voluntary liquidation. The starting date of the voluntary liquidation process is January 1, 2014.

After receiving the Tax Authority (NAV) final resolution for Portfolió Ltd, the company was deleted from the Court of registry on January 21, 2015.

Portfolió provided IT services such as software and hardware licensing, operation of applications / IT infrastructure and processing data for Erste Investment Ltd, Erste Fund Management Ltd. and Erste Bank Hungary Ltd. The IT activity was focused on Erste Investment Ltd: 90% of the services were provided to Erste Investment Ltd. IT services were taken over by the relevant entities on November 30, 2013. This change had no significant impact on the income of the Group.

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After the proposal of Erste Bank Hungary Management Board, from June, 2013 the trading activities of Portfolió Ltd, stock and index arbitrage in the Budapest Stock Exchange, are executed in Erste Investment Ltd.

## **2. Accounting policies**

### **2.1 Basis of preparation**

The Consolidated Financial Statements have been prepared on a historical cost basis, except for available-for-sale financial assets, financial assets and financial liabilities at fair value held for trading, trading assets pledged as collateral and derivative financial instrument, that have been measured at fair value.

The Consolidated Financial Statements are presented in thousands of HUF, which is the Erste Investment Group's presentation currency.

#### ***Statement of compliance***

The consolidated financial statements of the Erste Investment Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations approved by the International Accounting Standards Board ("IASB") as adopted by the European Union.

#### ***Basis of consolidation***

The Consolidated Financial Statements for the year ended December 31, 2014 include the financial statements of Erste Investment Ltd. and its subsidiary the Portfolió Ltd. where the Company owns 100% interest and exercises effective control.

The books and records of the Erste Investment Group companies are maintained in accordance with local requirements and then adjusted to present the financial position and results of operations in accordance with IFRS.

The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

### **2.2 Significant accounting judgements and estimates**

In the process of applying the Erste Investment Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

#### ***Going concern***

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant

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doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

***Fair value of financial instruments***

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that determined them. Models are approved in the product development process before they are used and calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

***Impairment losses on loans and advances***

The Erste Investment Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the Consolidated Income Statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Erste Investment Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

***Deferred tax assets***

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management 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.

***Impairment of equity instruments***

The Erste Investment Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement. The Erste Investment Group treats 'significant' generally as 30% or more and 'prolonged' greater than 12 months. In addition, the Erste Investment Group evaluates other factors, such as the share price volatility.

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## **2.3 Summary of significant accounting policies**

### **2.3.1 Foreign currency translation**

Foreign currency transactions are translated into HUF at the official exchange rates published by the National Bank of Hungary prevailing on the transaction date.

Each entity in the Erste Investment Group determines its own functional currency (HUF in each) and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are recorded in the functional currency at the rate ruling at the date of the transaction. At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the statement of financial position date. Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, as well as unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the Consolidated Income Statement.

### **2.3.2 Cash and bank account**

Cash and bank account consist of cash on hand and amounts due from financial institutions (i.e.: commercial banks, KELER ZRt., (Central clearing house and depository) except for transactions under settlement with KELER Zrt.), which mature within three months of the date of origination and are free from contractual encumbrances. These accounts contain nostro accounts and deposits from customers, not available for use by the Group. According to the legal requirements the customer deposits are held on separate bank accounts (commercial bank or KELER ZRt.) The Group may receive interest on these separate deposits, but the Group does not pay any interest to the customers on it. The customer deposits may be used restrictedly for the next purposes:

- financial settlement of the customer's transactions
- settlement of liabilities to customers.

The separate bank accounts are not presented as part of cash and cash equivalents.

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand and non-restricted nostro bank accounts.

There are no other short- term assets with an original maturity of three months or less in this line of the consolidated statement of financial position.

See Notes 3. and Cash flow statement

### **2.3.3 Financial assets and liabilities**

Financial assets and liabilities in the scope of International Accounting Standard 39 ("IAS 39") "Financial Instruments: Recognition and Measurement" are classified as either financial assets or liabilities at fair value held for trading or designated at fair value, financial assets or liabilities measured at amortised cost, or financial assets available-for-sale, as appropriate. The Erste Investment Group determines the classification of its financial assets and liabilities at initial recognition.



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The Relationships between the Statement of Financial Position and measurement categories are described in the next table:

Balance sheet	Measurement method	
	Fair Value	At amortised cost
<b>Assets</b>		
Cash and bank account		x
Financial assets at fair value held for trading	x	
Trading assets pledged as collateral	x	
Derivative financial assets	x	
Financial assets -available-for-sale		x
Receivables from securities trading		x
Receivables from customers		x
<b>Liabilities</b>		
Financial liabilities at fair value held for trading	x	
Derivative financial liabilities	x	
Payables on securities trading		x
Payables to customers		x
Trade payables		x
Short-term loans		x

***Date of recognition***

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Erste Investment Group commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

**2.3.3.1 Financial assets at fair value held for trading**

Financial assets and liabilities at fair value are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term. The financial assets and liabilities at fair value held for trading are measured at fair value. Changes in fair value are recognised in 'Net trading income'. Interest and dividend income or expenses are recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions in debt securities and securities which have been acquired principally for the purpose of selling and/or repurchasing in the near term.

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**2.3.3.2 Trading assets pledged as collateral**

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated statement of financial position (instrument is derecognized) if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

**2.3.3.3 Derivative financial instruments**

In the normal course of business, Erste Investment Group enters into various derivative financial instruments. Such financial instruments are held for trading and are initially recognised and subsequently measured at their fair value. Fair values are determined based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Gains and losses resulting from these instruments are included in the Consolidated Income Statement as Net trading income.

In relation to derivative trading Erste Investment Group usually requires customers and is sometimes required by counterparts to place deposit in the form of cash or securities to cover risks related to the instrument. If the deposit is received or paid in accordance with the terms of a particular contract it is considered to be a part of the contract's fair value and is included in derivative assets or liabilities as of the year end. If the deposit placed or received is not directly linked to a particular contract it is shown as a receivable or payable with counterparts or customers on the face of the consolidated statement of financial position.

***Forwards and futures***

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated stock exchanges and are subject to daily cash margin requirements.

The Group currently has no option transactions.

**2.3.3.4 Financial assets available-for-sale**

Financial assets available-for-sale are those non-derivative financial assets that are classified as available-for-sale or are not classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised through Other Comprehensive Income as Available-for sale Reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the Consolidated Income Statement. Interest is calculated using the effective interest method and recognised in the Consolidated Income Statement. Dividends on available-for-sale equity instruments are recognised as profit or loss when the Erste Investment Group's right to receive payment is established. Equity instruments currently classified as available-for-sale have a fair value equal to cost as this is believed to be the best estimate of their fair value.

For available-for-sale financial investments, Erste Investment Group assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

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In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, 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 Consolidated Income Statement – is removed from Available-for-sale Reserve and recognised in the Consolidated Income Statement. Impairment losses on equity investments are not reversed through the Consolidated Income Statement; increases in their fair value after impairment are recognised directly in Available-for-sale Reserve.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Net trading income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Consolidated Income Statement, the impairment loss is reversed through the Consolidated Income Statement.

#### **2.3.3.5 Financial assets measured at amortised cost**

Financial assets measured at amortised cost are carried at amortised cost using the effective interest method. Interest is recognized in the Consolidated Income Statement. Gains and losses are recognised in the Consolidated Income Statement when the loans and receivables are derecognised or impaired.

##### **2.3.3.5.1 Receivables from customers**

The Group may grant investment loans to its clients. The purpose of an investment loan is to complement the resources available for the purchase of a security or to provide credit for the whole of the purchase price. The purchase of securities with investment loans can take place exclusively with the completion of a commissioned purchase order given by the client to the Group simultaneously with the agreement on the investment loan.

Receivables from customers are in all instances fully collateralized upon the entry into of the transaction with the client. In case of default, the Group is permitted to sell the assets of the client and offset its receivables against the cash obtained.

Subject to compliance of the maximum value of the investment loan allowed for financing at any point of time, the Group may limit the stock of investment loans and deferred payments for any given security. The maximum size of an investment loan that can be granted to a client is determined on the basis of their client rating.

If the Group allowed the client a deferred financial settlement, the total quantity of the securities purchased in the transaction affected by the deferred financial settlement shall be used as collateral for the benefit of the Group, in addition to which, the client is obliged to provide the collateral determined by the Group (basic and floating collateral), continuously, until the financial settlement of the transaction.

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**2.3.3.5.2 Receivables from securities trading**

Receivables from securities trading include the following:

- Receivables from trading on the Budapest Stock Exchange (BSE) shows the balance of receivables resulting from securities transactions concluded on the stock exchange on own account around the statement of financial position date (not trade on commission).
- Receivables from OTC market trading include receivables from security transactions concluded on the OTC market on own account (not trade on commission).
- Other receivables from KELER Zrt. include settlement and deposit accounts held with the clearing house and amounts transferred to the Stock Exchange Settlement Fund maintained by the clearing house.

**2.3.3.5.3 Allowance for impairment of loans and receivables**

For amounts due from banks and loans and advances to customers carried at amortised cost, Erste Investment Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Erste Investment Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it 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 there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). Accounting for impairment on other receivables (trade receivables, receivables against stock exchange) is carried out based on the same principles. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collaterals have been realised or have been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the impairment of receivables from customers.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Erste Investment Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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 current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for

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estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

**2.3.3.6 Financial liabilities measured at amortised cost**

**2.3.3.6.1 Payables on securities trading**

Payables on securities trading include the following:

- Payables arising from OTC and auction trading includes liabilities from security transactions concluded on the OTC market on own account (not trade on commission).
- Payables arising from trading on the Budapest Stock Exchange shows the balance of liabilities resulting from securities transactions concluded on the stock exchange on own account around the statement of financial position date (not trade on commission).

**2.3.3.6.2 Payables to customer**

Payables to customer include the positive balance of the Clients Accounts.

Client Accounts mean the accounts kept for clients and exclusively used for the execution of client orders.

**2.3.3.7 Derecognition of financial assets and liabilities**

The Erste Investment Group derecognises a financial asset and a financial liability only when the derecognition criteria in IAS 39 are met.

*Financial assets*

A financial asset is derecognised when:

- the 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:

- the Group has transferred substantially all the risk and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In case, the Group also recognised an associated liability the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations the Group has retained.

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Continuing involvement has taken the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Consolidated Income Statement.

**2.3.4 Repurchase and reverse repurchase agreements**

Erste Investment Group enters into transactions involving the purchase of securities with a simultaneous agreement to resell (reverse repurchase agreements) and transactions involving the sale of securities with a simultaneous agreement to repurchase (repurchase agreements) to provide short-term financing and liquidity. In reverse repurchase agreements, the cash delivered is derecognised and a corresponding receivable, including accrued interest, is recorded on the consolidated statement of financial position, recognising the Erste Investment Group's right to receive it back. In repurchase agreements, the cash received, including accrued interest is recognised on the Consolidated statement of financial position with a corresponding obligation to return it. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognised as interest income or interest expense over the life of each agreement using the effective yield method and included in interest income and expense, respectively.

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised on or are not derecognised from the consolidated statement of financial position, unless the risks and rewards of ownership are obtained or relinquished. In repurchase agreements where Erste Investment Group transfers owned securities and where the recipient is granted the right to resell or re-pledge them, the securities are reclassified in the consolidated statement of financial position to trading assets pledged as collateral. Erste Investment Group monitors the market value of the securities received or delivered on a daily basis and provides or requests additional collateral or recalls or returns surplus collateral in accordance with the underlying agreements.

**2.3.5 Securities borrowing and lending**

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the consolidated statement of financial position, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading income'.

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**2.3.6 Tangible and intangible fixed assets**

Tangible and intangible fixed assets are stated at cost, less accumulated depreciation and amortisation. Depreciation and amortisation are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Buildings	17 years
Machinery, equipment and vehicles	5 to 7 years
Software	3 years
Other intangibles	3 to 8 years

Depreciation and amortisation on tangible and intangible fixed assets commence on the day such assets are placed into service. Depreciation is not charged on land or on assets in the course of construction.

The carrying value of each tangible and intangible asset is reviewed annually and adjusted for permanent impairment, where it is considered necessary. Where the carrying value of a tangible or intangible fixed asset is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

The Group currently has no intangible assets with indefinite useful lives.

**2.3.7 Provisions and contingencies**

Provisions are recognised when Erste Investment Group has a current legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any losses in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is virtually certain.

**2.3.8 Taxation**

***Income taxes***

Income taxes have been provided for in the Consolidated Financial Statements in accordance with the tax legislation enacted or substantively enacted by the statement of financial position date in the Hungarian jurisdictions in which Erste Investment Group operates. The income tax charge comprises current and deferred taxes and is recognised in the Consolidated Income Statement. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. The Hungarian local business tax and innovation contribution are presented as part of income tax. Taxes other than income taxes are recorded within operating expenses.



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***Deferred taxes***

Deferred income tax is provided using liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recognised only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

***Bank Tax***

The Hungarian Parliament approved the Act 2006. LIX. in August 2010 that provides the framework for the levying of a “bank tax”.

The basis and the rate of the bank tax that is payable is dependent upon the type of financial institution. The rates are uniformly based on the statutory reported financial data of the reporting entity for the period ended 31 December 2009. For investment companies the tax base is determined as the income from investment service activities less expenses on investment service activities as disclosed in the Hungarian stand alone annual report for the year 2009. The applicable tax rate is 5.6 %. The bank tax is recorded as an expense in the financial period in which it is legally payable. As the bank tax is based on the prior year non net income measures it does not meet the definition of an income tax under IFRS and is therefore presented as an operating expense in the consolidated income statement. The bank tax is expected to remain in effect for 2015.

**2.3.9 Customer assets and funds**

Erste Investment Group acts in its own name as trustee and also in a fiduciary capacity for the benefit of third parties. The assets managed in such a capacity are not reported on the consolidated statement of financial position as they are not the assets of the Erste Investment Group. Erste Investment Group earns commission and performance fee income from such transactions and assets. These activities potentially expose Erste Investment Group to liability risks in cases of gross negligence with regard to non-compliance with its fiduciary and contractual duties. Erste Investment Group has policies and processes in place to control these risks.

**2.3.10 Net trading income**

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading and the derivative financial instruments and net gains on financial assets available for sale. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised through Other Comprehensive Income as available-for-sale Reserve until the

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investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in "Net trading income". Interest is calculated using the effective interest method and recognised in "Net trading income". Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate to the net carrying amount of the financial asset or financial liability. Dividends on available-for-sale equity instruments are recognised as profit or loss when the Erste Investment Group's right to receive payment is established.

#### **2.3.11 Fee and commission income**

The Erste Investment Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income can be divided into two broad categories, income earned from services that are provided over a certain period of time and income earned from providing transaction-type services. The key basis of recognition is as follows:

Fees and commission earned from services that are provided over a certain period of time are recognised over the service period.

Fees and commission earned from providing transaction-type services are recognised when the service has been completed.

Performance linked fees or fee components are recognised when the performance criteria are met.

Fee and commission income is predominantly earned from services that are provided over a period of time including assets and wealth management, advisory fees. Fees predominantly earned from providing transaction-type services include underwriting fees and commission and brokerage fees.

#### **2.3.12 Dividends**

Dividends are recognised as a liability at the statement of financial position date only if they are declared before or on the statement of financial position date. Dividends are disclosed when they are proposed before the statement of financial position date or proposed or declared after the statement of financial position date but before the Consolidated Financial Statements are authorised for issue.

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

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

#### **2.3.14 Operating leases**

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the period of the lease term and are included in general and administrative expenses.

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**2.3.15 Determination of whether an arrangement contains a lease**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**2.4 Changes in accounting policies**

*APPLICATION OF AMENDED AND NEW IFRS/IAS*

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2014. As regards new standards and interpretations and their amendments, only those that are relevant for the business of Erste Investment Group are listed below

*Effective standards and interpretations*

The following standards and their amendments have been mandatory since 2014:

- Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
- Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IAS 36 – Recoverable Amounts Disclosures for Non-financial Assets
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guidance
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities
- IAS 27 (revised 2011) Separate Financial Statements
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures

Application of these standards had no material effect on the recognition and measurement methods of Erste Investment Group. However, there were the following presentation and disclosure impacts:

**Amendments to IAS 32 – Offsetting Financial Assets and Liabilities**

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. The amended rights of set-off must not only be legally enforceable in the normal course of business and for the whole contract period, but must also be enforceable in the event of default and the event of bankruptcy or insolvency. These amendments have no impact on Erste Investment Group, since none of the entities in the Group has offsetting arrangements which would have qualified for offsetting based on these clarifications.

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**Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting**

Amendments to IAS 39 were issued in June 2013 and are effective for annual periods beginning on or after 1 January 2014. Under the amendments there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. Application of these amendments did not have any significant impact on Erste Investment Group's financial statements.

**Amendments to IAS 36 – Recoverable Amounts Disclosures for Non-financial Assets**

IAS 36 removed the requirement to disclose recoverable amounts of assets or CGUs for periods when there has been no impairment or reversal of impairment. Furthermore, the amendments extend the disclosure requirements when the recoverable amount of an asset or CGU is based on fair value less cost of disposal. Erste Investment Group incorporated these new disclosure requirements accordingly. There is no impact on financial position or results.

**IFRS 10 Consolidated Financial Statements**

IFRS 10 replaces the guidance on control and consolidation in IAS 27 "Consolidated and Separate Financial Statements" and in SIC 12 "Consolidation – Special Purpose Entities". The new standard had no significant impact on Erste Investment Group's financial statements.

**IFRS 12 Disclosure of Interests in Other Entities**

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard requires entities to disclose significant judgements and assumptions made in determining whether an entity controls, jointly controls, significantly influences or has some other interests in other entities. Furthermore, entities are required to provide disclosures relating to interests in structured entities. The requirements in IFRS 12 are more comprehensive than the previous disclosure requirements. Application of other standards and amendments had no material effect on the financial statements of Erste Investment Group.

*Standards and interpretations not yet effective*

The standards and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are not yet endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15: Revenue from Contracts with Customers
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants
- Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations

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- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012 2014 Cycle

Following standards, amendments and interpretations are already endorsed by the EU:

- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
- IFRIC 21 Levies
- Annual Improvements to IFRSs 2010 2012 and 2011 2013 Cycle

**Annual Improvements to IFRSs 2010 2012 and 2011 2013 Cycle**

In December 2013, the IASB issued two sets of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 July 2014. Application of these amendments does not have a significant impact on Erste Investment Group's financial statements.

**IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018)**

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income is applicable to financial assets that meet condition a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income.

The standard provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected losses. Lifetime expected losses are to be recognised for all instrument whose credit risk increases subsequently after initial recognition. Furthermore the standard brings new rules for accounting for losses resulting from modification of contractual conditions of financial assets.

The objective of the new hedge accounting model is to reflect in accounting actual risk management practices of entities hedging risks. For Erste Group, the following areas are expected to be relevant to achieve this objective: only the prospective effectiveness test is required and the retrospective effectiveness test with the 80%-125% corridor was abandoned; when options are used as hedging

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instruments, the volatility of the time value is recognised through OCI rather than profit or loss; the possibility of hedging synthetic items containing derivatives.

This standard will have a significant effect on balance sheet items and measurement methods for financial instruments. In 2015 Erste Group will start with determining the quantitative impacts resulting from the application of IFRS 9.

**IFRS 14 Regulatory Deferral Accounts (IASB Effective Date: 1 January 2016)**

IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Erste Investment Group does not expect any significant impact from application of IFRS 14.

**IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2017)**

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2017. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on Erste Investment Group's financial statements.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB Effective Date: 1 January 2016 to be amended)**

Amendments to IFRS 10 and IAS 28 were issued in September 2014 and are effective for annual periods beginning on or after 1 January 2016. These amendments deal with the sale or contribution of assets or subsidiaries in a transaction between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised only when the assets or the subsidiaries constitute a business. Application of these amendments is not expected to have a significant impact on Erste Investment Group's financial statements.

**Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (IASB Effective Date: 1 January 2016)**

The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value. Also, they clarify that when applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries. Application of these amendments is not expected to have a significant impact on Erste Investment Group's financial statements.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (IASB Effective Date: 1 January 2016)**

Amendments to IAS 16 and IAS 38 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for

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intangible assets. Application of these amendments is not expected to have a significant impact on Erste Investment Group's financial statements.

**Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants (IASB Effective Date: 1 January 2016)**

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead IAS 16 will apply. After initial recognition bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost *model* or revaluation model (after maturity). Application of these amendments is not expected to have a significant impact on Erste Investment Group's financial statements.

**Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations (IASB Effective Date: 1 January 2016)**

Amendments to IFRS 11 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments specify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Application of these amendments is not expected to have a significant impact on Erste Investment Group's financial statements.

**Amendments to IAS 1: Disclosure Initiative (IASB effective date: 1 January 2016)**

Disclosure Initiative (Amendments to IAS 1) makes the following changes:

• **Materiality**

The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.

• **Statement of Financial position and statement of profit or loss and other comprehensive income**

The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

• **Notes**

The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

These changes and clarifications are not expected to trigger significant changes in the presentation of Erste Investment Group's IFRS consolidated financial statements.



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**Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions**

Amendments to IAS 19 were issued in November 2013 and are effective for annual periods beginning on or after 1 July 2014. The amendments clarify that contributions from employees or third parties that are linked to service must be attributed to periods of service using the same attribution method as used for the gross benefit. However, the contribution may be recognised as a reduction in the service cost if the amount of the contributions is independent of the number of years of service. Application of these amendments does not have a significant impact on Erste Investment Group's financial statements.

**IFRIC 21 Levies**

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on Erste Investment Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

**Annual Improvements to IFRSs 2010 2012 and 2011 2013 Cycle**

In December 2013, the IASB issued two sets of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 July 2014. Application of these amendments is not expected to have a significant impact on Erste Investment Group's financial statements.

**Annual Improvements to IFRSs 2012 2014 Cycle (IASB effective date: 1 January 2016)**

In September 2014, the IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 January 2016. Application of these amendments is not expected to have a significant impact on Erste Investment Group's financial statements.

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**3. CASH AND BANK ACCOUNT**

<b>Cash and bank account</b>	<b>2014</b>	<b>2013</b>
Cash on hand	277	255
Deposits with KELER Zrt.	306,837	650,092
Current accounts with banks	34,105,063	28,784,988
	<u>34,412,177</u>	<u>29,435,335</u>
Nostro accounts/ cash and cash equivalents	3,501,851	2,504,384
Deposits from customers/not available for use by the Group	30,910,326	26,930,951
	<u>34,412,177</u>	<u>29,435,335</u>

According to the legal requirements the customer deposits are held on separate bank accounts (commercial bank or KELER Zrt.) The Group may receive interest on these separate deposits, but the Group does not pay any interest to the customers on it. The customer deposits may be used restrictedly.

**4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING**

	<b>2014</b>	<b>2013</b>
Hungarian government bonds	612,509	191,591
Shares quoted on the Budapest Stock Exchange	1,119,154	1,124,289
OTC-traded shares	0	1,231
Treasury bills	712,204	1,486,384
Investment notes	38,437	417,233
Other bonds held for trading	226,269	82,797
	<u>2,708,573</u>	<u>3,303,525</u>

97.65% and 99.51% of the financial assets at fair value held for trading were denominated in HUF as at December 31, 2014 and 2013, respectively.

Interest rates on securities held for trading ranged from 2.41% to 10.00% and 2.91% to 10.00% as at December 31, 2014 and 2013, respectively.

In case of securities lending transactions Erste Investment Group continues to recognise the financial asset in its consolidated statement of financial position, if the Group transfers a financial asset in such a way that it retains substantially all the risks and rewards of ownership of the financial asset.

In case of securities borrowing transactions Erste Investment Group does not recognise the financial asset in its consolidated statement of financial position, if the Group obtains a financial asset in such a way that the counterparty retains substantially all the risks and rewards of the financial asset.

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**4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING [continued]**

The tables below show the outstanding balances of Erste Investment Group from securities borrowing/lending transactions and repurchase/reversed repurchase agreements as at December 31, 2014 and 2013, respectively.

**Securities borrowing transactions on December 31, 2014**

Security name	Opening date	Closing date	Nominal value (original currency)	Fair value
OTP	2014.12.29	2015.01.05	2,500	94,833
OTP	2014.12.31	2015.12.31	60,000	2,275,988
OTP PRÉMIUM SZÁRMAZTATOTT ALAPOK ALAPJA	2014.12.22	2015.01.05	1	2
<b>Total</b>			<b>62,501</b>	<b>2,370,823</b>

**Securities borrowing transactions on December 31, 2013**

Security name	Opening date	Closing date	Nominal value (original currency)	Fair value
RICHTER	2013.12.31	2014.12.31	35,000	1,535,721
ERSTE DAX TURBO LONG 46	2013.12.30	2014.01.02	*62	246
<b>Total</b>				<b>1,535,967</b>

\*Original currency: EUR

There was not any security lending transaction on December 31, 2013 and 2014, respectively.

**Repurchase and reverse repurchase agreements on December 31, 2014 (see Notes 9. Notes 15.)**

Security name	Type	Opening date	Closing date	Nominal value	Fair value
2016/C Magyar Államkötvény	repurchase	2014.12.29	2015.01.05	1,500,000	1,657,254
2023/A Magyar Államkötvény	repurchase	2014.12.30	2015.01.06	1,000,000	1,228,290
2028/A Magyar Államkötvény	repurchase	2014.12.30	2015.01.06	1,000,000	1,349,847
2028/A Magyar Államkötvény	repurchase	2014.12.29	2015.01.05	2,000,000	2,694,850
2015/C Magyar Államkötvény	repurchase	2014.12.29	2015.01.05	1,000,000	1,068,975
2015/C Magyar Államkötvény	repurchase	2014.12.30	2015.01.06	500,000	533,961
2025/B Magyar Államkötvény	repurchase	2014.12.30	2015.01.06	2,500,000	3,045,383
<b>Total repurchase</b>				<b>9,500,000</b>	<b>11,578,560</b>

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**4. FINANCIAL ASSETS AT FAIR VALUE HELD FOR TRADING [continued]**

Security name	Type	Opening date	Closing date	Nominal value	Fair value
2016/C Magyar Államkötvény	reverse repurchase	2014.12.29	2015.01.05	1,500,000	1,657,254
2023/A Magyar Államkötvény	reverse repurchase	2014.12.30	2015.01.06	1,000,000	1,228,290
2028/A Magyar Államkötvény	reverse repurchase	2014.12.29	2015.01.05	2,000,000	2,694,850
2028/A Magyar Államkötvény	reverse repurchase	2014.12.30	2015.01.06	1,000,000	1,349,847
2015/C Magyar Államkötvény	reverse repurchase	2014.12.30	2015.01.06	500,000	533,961
2015/C Magyar Államkötvény	reverse repurchase	2014.12.29	2015.01.05	1,000,000	1,068,975
2025/B Magyar Államkötvény	reverse repurchase	2014.12.30	2015.01.06	2,500,000	3,045,383
<b>Total reverse repurchase</b>				<b>9,500,000</b>	<b>11,578,560</b>

**Repurchase and reverse repurchase agreements on December 31, 2013**

Security name	Type	Opening date	Closing date	Nominal value	Fair value
2023/A Magyar Államkötvény	repurchase	2013.12.30	2014.01.07	3,000,000	3,130,005
2015/B Magyar Államkötvény	repurchase	2013.12.30	2014.01.06	300,000	297,944
<b>Total repurchase</b>				<b>3,300,000</b>	<b>3,427,949</b>
2023/A Magyar Államkötvény	reverse repurchase	2013.12.30	2014.01.07	3,000,000	3,130,005
2015/B Magyar Államkötvény	reverse repurchase	2013.12.30	2014.01.06	300,000	297,944
<b>Total reverse repurchase</b>				<b>3,300,000</b>	<b>3,427,949</b>

**5. TRADING ASSETS PLEDGED AS COLLATERAL**

	<b>2014</b>	<b>2013</b>
Hungarian government bonds	34,369	0
Shares quoted on BSE	474,195	1,213,079
Treasury bills	4,357,776	4,326,723
	<b>4,866,340</b>	<b>5,539,802</b>

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**5. TRADING ASSETS PLEDGED AS COLLATERAL [continued]**

The collateral in 2014 and 2013 was given in connection with securities borrowing transactions and securities trading on the stock exchange.

	<b>2014</b>	
	in connection with securities borrowing	in connection with securities trading on the stock exchange
2016/C Magyar Államkötvény	0	34,369
D150401	1,195,631	662,579
D150722	2,180,431	319,136
MOL	0	474,195
	<b>3,376,062</b>	<b>1,490,278</b>

	<b>2013</b>	
	in connection with securities borrowing	in connection with securities trading on the stock exchange
D140108	999,286	862,383
D140625	2,465,054	0
MAGYAR TELEKOM	0	353,852
MOL	0	859,226
	<b>3,464,340</b>	<b>2,075,462</b>

**6. DERIVATIVE FINANCIAL INSTRUMENTS**

The table below shows the fair values of derivative financial instruments, recorded as asset or liability, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

**Notional amount**

**Futures contracts**

	<b>2014</b>	<b>2013</b>
Index futures contracts	17,300	0
Other futures contracts (shares)	3,360,943	3,898,702

**Long positions (notional amount)**

	<b>2014</b>	<b>2013</b>
Index futures contracts	-16,901	0
Other futures contracts (shares)	-2,413,360	-5,087,772

**Short positions (notional amount)**

	<b>2014</b>	<b>2013</b>
Short positions (notional amount)	-2,430,261	-5,087,772

**Net position**

	<b>2014</b>	<b>2013</b>
Net position	947,981	-1,189,070

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**6. DERIVATIVE FINANCIAL INSTRUMENTS [continued]**

<b>Fair value</b>	<b>2014</b>	<b>2013</b>
Index futures contracts	171	0
Other futures contracts (shares)	155,293	149,650
<b>Positive fair value positions</b>	<b>155,465</b>	<b>149,650</b>
Index futures contracts	-570	0
Other futures contracts (shares)	-7,781	-99,817
<b>Negative fair value positions</b>	<b>-8,351</b>	<b>-99,817</b>
<b>Net fair value position</b>	<b>147,113</b>	<b>49,833</b>

**7. FINANCIAL ASSETS - AVAILABLE-FOR-SALE**

	<b>2014</b>	<b>2013</b>
Shares held in Erste Securities Istanbul A.S.	33	33
	<u>33</u>	<u>33</u>

Equity instruments classified as available-for-sale have a fair value equal to cost because this is believed to currently be the best estimate of their fair value. Of the available-for-sale securities portfolio 0% was denominated in HUF both at December 31, 2014 and 2013, respectively. As at December 31, 2014 and 2013 100 % of the available-for-sale securities portfolio was denominated in EUR, and recorded at its original purchase price of EUR 121.

**8. RECEIVABLES FROM SECURITIES TRADING**

	<b>2014</b>	<b>2013</b>
Receivables from trading on the Budapest Stock Exchange	208,007	2,992,381
Receivables from OTC market trading	48,051	505,520
Other receivables from KELER Zrt.	82,000	111,000
	<u>338,058</u>	<u>3,608,901</u>

**9. RECEIVABLES FROM CUSTOMERS**

	<b>2014</b>	<b>2013</b>
Trade receivables from customers	806,715	2,103,217
Receivables from negative client cash accounts	845,219	1,713,902
Investment loans	2,437,563	1,801,048
Receivables from repo transactions (see Notes 4.)	<u>11,578,560</u>	<u>3,427,949</u>
	<u>-409,762</u>	<u>-880,182</u>
Impairment on past due receivables	<u>15,258,295</u>	<u>8,165,934</u>

An analysis of the change in the impairment for past due receivables from receivables from customers are as follows:

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**9. RECEIVABLES FROM CUSTOMERS [continued]**

	<u>2014</u>	<u>2013</u>
Balance as at January 1	880,182	768,405
Release of impairment	-488,248	-7,007
Impairment charged during the year	17,828	118,784
Balance as at December 31	<u>409,762</u>	<u>880,182</u>
	<u>2014</u>	<u>2013</u>
Gross value of impaired receivables	416,801	974,861
Impairment	409,762	-880,182
Net value of impaired receivables	7,039	94,679
Not impaired receivables	3,672,696	8,071,255
Receivables from customers	<u>4,089,497</u>	<u>9,046,116</u>

**10. OTHER ASSETS**

	<u>2014</u>	<u>2013</u>
Loans given to employees	100,282	77,012
Prepaid expenses	41,329	23,816
Other tax receivables	0	1,859
Accrued commission of investment funds	235,902	46,985
Accrued income from brokerage fees	112,742	79,170
Accrued income from profit sharing from Erste Group Bank AG.	131,582	105,492
Accrued income from securities issuance fees	20,000	19,092
Other	11,058	261
	<u>652,895</u>	<u>353,687</u>

**11. CURRENT TAX ASSETS / CURRENT TAX LIABILITIES**

<u>Current tax assets</u>	<u>2014</u>	<u>2013</u>
Income tax	298,335	219,290
Innovation contribution	1,427	3,571
Local tax	11,086	22,421
Total	<u>310,848</u>	<u>245,282</u>
	<u>2014</u>	<u>2013</u>
<u>Current tax liabilities</u>		
Local tax	0	0
Total	<u>0</u>	<u>0</u>



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**12. TANGIBLE AND INTANGIBLE FIXED ASSETS**

	Machinery, Equipment and Vehicles	Intangible assets	Total
<u>Gross value</u>			
January 1, 2014	921,337	2,959,052	3,880,389
Additions	66,125	353,131	419,256
Disposals	-105,961	0	-105,961
December 31, 2014	881,501	3,312,183	4,193,684
<u>Accumulated depreciation and amortisation</u>			
January 1, 2014	761,988	1,508,370	2,270,358
Charge for the year	33,450	260,830	294,280
Disposals	-86,765	0	-86,765
December 31, 2014	708,673	1,769,200	2,477,873
<u>Net book value</u>			
December 31, 2013	159,349	1,450,682	1,610,031
December 31, 2014	172,828	1,542,983	1,715,811

	Machinery, Equipment and Vehicles	Intangible assets	Total
<u>Gross value</u>			
January 1, 2013	1,036,129	2,454,275	3,490,404
Additions	25,402	844,832	870,234
Disposals	-140,194	-340,055	-480,249
December 31, 2013	921,337	2,959,052	3,880,389
<u>Accumulated depreciation and amortisation</u>			
January 1, 2013	774,415	1,618,821	2,393,236
Charge for the year	70,039	229,604	299,643
Disposals	-82,466	-340,055	-422,521
December 31, 2013	761,988	1,508,370	2,270,358
<u>Net book value</u>			
December 31, 2012	261,714	835,454	1,097,168
December 31, 2013	159,349	1,450,682	1,610,031

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**12. TANGIBLE AND INTANGIBLE FIXED ASSETS [continued]**

Erste Investment Group does not have any expenditure of property, plant and equipment in the course of its construction on December 31, 2014. Erste Investment Group does not have any intangible assets from internal development on December 31, 2014.

The acquisition cost of fully amortised tangible and intangible assets was as follows:

*Fully amortised still in use*

	<u>2014</u>	<u>2013</u>
Tangible fixed assets (fully amortised still in use)	542,865	567,993
Intangible fixed assets (fully amortised still in use)	367,636	884,069
	<u>910,501</u>	<u>1,452,062</u>

**13. FINANCIAL LIABILITIES AT FAIR VALUE HELD FOR TRADING**

	<u>2014</u>	<u>2013</u>
Short positions	2,486,070	1,274,908
	<u>2,486,070</u>	<u>1,274,908</u>

Short position contains shares quoted on the Budapest Stock Exchange (OTP).

**14. PAYABLES ON SECURITIES TRADING**

	<u>2014</u>	<u>2013</u>
Payables arising from OTC and auction trading	15,581	2,171,208
Payables arising from trading on the Budapest Stock Exchange	188,323	1,557,556
	<u>203,904</u>	<u>3,728,764</u>

**15. PAYABLES TO CUSTOMERS**

	<u>2014</u>	<u>2013</u>
Client accounts in HUF	22,291,960	20,357,921
Client accounts in foreign currency	8,618,366	6,573,030
Liabilities from Erste Structured Products	329,218	1,446,836
Liabilities from repo transactions (see Notes 4.)	11,578,560	3,427,949
	<u>42,818,104</u>	<u>31,805,736</u>

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**16. TRADE PAYABLES**

	<u>2014</u>	<u>2013</u>
Accounts payable (Suppliers)	569,379	242,228
	<u>569,379</u>	<u>242,228</u>

**17. SHORT-TERM LOANS**

	<u>2014</u>	<u>2013</u>
Short-term loans from domestic banks	0	2,854,851
Overdrafts	2,352,054	0
	<u>2,352,054</u>	<u>2,854,851</u>

The short-term bank loans were granted by Erste Bank Hungary. The interest rates on the borrowed funds range from 2.4% to 6.5% based on market rates in 2013. The overdraft was granted by Erste Bank Hungary, ING Bank, OTP Bank, interest rates was from 1.1% to 3.0% based on market rates in 2014.

	amount in original currency	original currency	exchange rate	in thousands of HUF
<b>December 31, 2014</b>				
Overdraft credit facility at EBH	1,000,000,000	HUF	1.00	1,000,000
Overdraft credit facility at EBH	10,000,000	EUR	314.89	3,148,900
Overdraft credit facility at EBH	500,000	GBP	403.75	201,875
Overdraft credit facility at EBH	6,000,000	USD	259.13	1,554,780
Overdraft credit facility at EBH	500,000	CHF	261.85	130,925
Overdraft credit facility at OTP	200,000,000	HUF	1.00	200,000
Overdraft credit facility at ING	3,000,000	EUR	314.89	944,670
Total overdrafts credit facilities				7,181,150
Overdraft facility drawn on				2,352,054
Undrawn overdraft facility				4,829,096

	in thousands of EUR	HUF/EU R	in thousands of HUF
<b>December 31, 2013</b>			
Money Market line hold at disposal			15,000,000
Credit drawn on			2,854,851
Undrawn facility			12,145,149

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**17. SHORT-TERM LOANS [continued]**

<b>December 31, 2013</b>	<b>in thousands of original currency</b>	<b>amount in original currency</b>	<b>exchange rate</b>	<b>in thousands of HUF</b>
Overdraft credit facility at EBH	1,000,000,000	HUF	1.00	1,000,000
Overdraft credit facility at EBH	10,000,000	EUR	296.91	2,969,100
Overdraft credit facility at EBH	500,000	GBP	356.76	178,380
Overdraft credit facility at EBH	6,000,000	USD	215.67	1,294,020
Overdraft credit facility at EBH	500,000	CHF	242.14	121,070
Overdraft credit facility at OTP	200,000,000	HUF	1.00	200,000
Overdraft credit facility at ING	3,000,000	EUR	296.91	890,730
Total overdrafts credit facilities				6,653,300
Overdraft facility drawn on				0
Undrawn overdraft facility				6,653,300

**18. OTHER LIABILITIES**

	<b>2014</b>	<b>2013</b>
Accrued commission of agents	623,890	529,961
Other accrued expenses (audit fee, Reuters, Hungarian Financial Supervisory Authority fee, other accrued cost and expenditures)	116,887	59,956
Accrued bonus brought forward before 2011	34,523	57,338
Wages and salaries liability	17,033	0
Personal income tax liability	115,363	182,445
Social security liability	74,335	82,063
Other tax liability	18,861	18,522
	<u>1,000,892</u>	<u>930,285</u>

The amount of bonus, for the period ending December 31, 2014 and 2013, was not accrued, but there was a provision charged for the bonus amount, due to the uncertainty of the final amount.

**19. PROVISIONS**

	<b>2014</b>	<b>2013</b>
Provisions	<u>386,230</u>	<u>508,164</u>
	<u>386,230</u>	<u>508,164</u>

In 2014. the amount of provision at HUF 373,162 thousands was charged for bonus.

In 2013. the amount of provision at HUF 495,096 thousands was charged for bonus.

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**19. PROVISIONS [continued]**

**Changes of provisions**

	<u>2014</u>	<u>2013</u>
January 1	508,164	468,821
Charged of provisions	373,162	495,096
Usage of provisions	-495,096	-455,753
December 31	<u>386,230</u>	<u>508,164</u>

**20. EQUITY**

The composition of the shares as at December 31, 2014 and December 31, 2013:

- 200,000 pieces of ordinary shares of HUF 10,000 nominal value and each fully paid.

The share premium was HUF 141,882 thousands as at December 31, 2014 and 2013 respectively.

At the Annual General Meeting held on May 28, 2014, the shareholders approved to distribute HUF 2,500,000 thousand in dividends after the year 2013, i.e. HUF 12,500 per share. Erste Investment Ltd. paid this dividend to Erste Bank Hungary Zrt. on June 30, 2014.

**Capital risk management**

Erste Investment Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of Erste Investment Ltd.'s capital is monitored using, among other measures, the rules and ratios established by the Act CXXXVIII of 2007 (on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities).

During 2014 Erste Investment Ltd. complied in full with all its externally imposed capital requirements.

**Capital adequacy**

In accordance with the law (the Act CXXXVIII of 2007, on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities), Erste Investment Ltd. must have a minimum regulatory capital amount higher than 8% of risk weighted assets. Erste Investment Ltd. takes this additional requirement into consideration when preparing its detailed budget and creates further reserves in order to have sufficient regulatory capital in case if the HUF is depreciating or other unexpected events occur. Erste Investment Ltd. reports its solvency situation to MNB (Hungarian National Bank) as the Supervisory Authority quarterly. Its subsidiary Portfolió Ltd. is not regulated and is not obliged to comply with any externally imposed capital requirements.

The following table shows the solvency margin and capital adequacy based on the statutory accounts of Erste Investment Ltd. in 2014 and 2013 respectively:

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**20.EQUITY [continued]**

	<b>2014</b>	<b>2013</b>
Paid up capital instruments (Subscribed capital)	2,000,000	2,000,000
Other reserves (Capital reserve)	141,882	141,882
Retained earnings (Profit reserve, if positive)	6,127,556	5,978,758
Standalone retained profit for the year	0	0
Intangible assets (-)	-1,187,228	-1,024,943
<b>TIER 1 CAPITAL (CORE CAPITAL)</b>	<b>7,082,210</b>	<b>7,095,697</b>

	<b>2013</b>
Total capital requirement for credit, counterparty credit, dilution and delivery risks	529,952
Total capital requirement for positions and exchange rate (incl. large exposure)	227,804
Total capital requirement for operational risks (OpR ))	1,060,079
<b>TOTAL CAPITAL REQUIREMENT</b>	<b>1,817,835</b>
<b>SOLVENCY MARGIN AVAILABLE FOR COVERING RISK</b>	<b>7,095,697</b>
<b>SOLVENCY MARGIN EXCESS/(DEFICIENCY)</b>	<b>5,277,862</b>
<b>CAPITAL ADEQUACY RATIO (%)</b>	<b>31.23</b>

	<b>2014</b>
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	14,066,834
Total risk exposure amount for position, foreign exchange and commodities risks	1,400,992
Total risk exposure amount for operational risk (OpR )	12,281,141
Total risk exposure amount for credit valuation adjustment	695,190
<b>TOTAL RISK EXPOSURE AMOUNT</b>	<b>28,444,157</b>
CET1 Capital ratio (%)	24.90
Surplus(+)/Deficit(-) of CET1 capital	5,802,223
T1 Capital ratio (%)	24.90
Surplus(+)/Deficit(-) of T1 capital	5,375,561
<b>TOTAL CAPITAL RATIO (%)</b>	<b>24.90</b>
<b>SURPLUS(+)/DEFICIT(-) OF TOTAL CAPITAL</b>	<b>4,806,678</b>

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**21. NET TRADING INCOME**

	<u>2014</u>	<u>2013</u>
Net gain on financial assets at fair value held for trading	1,611,921	1,877,890
Shares	271,354	814,097
Government securities	431,914	411,989
Other bonds	104,770	164,326
Other securities	-773	-14,685
Net income/expense from futures	371,736	104,760
Net income from forwards	432,920	397,403
	<u>1,611,921</u>	<u>1,877,890</u>

**22. NET FEES AND COMMISSION INCOME**

<b>FEE AND COMMISSION INCOME</b>	<u>2014</u>	<u>2013</u>
Brokerage fees	8,060,422	6,385,994
Commission received for securities issuance	752,132	1,279,474
Commissions from custodian services	14,743	18,631
Income from portfolio management services	216,547	78,603
Income from advisory services	0	8,000
Account keeping fee	1,062,257	1,011,703
Other fees and commissions received	55,712	62,135
Total fees and commission income	<u>10,161,813</u>	<u>8,844,540</u>

<b>FEE AND COMMISSION EXPENSES</b>	<u>2014</u>	<u>2013</u>
Brokerage fees paid	-5,198,800	-3,809,873
Commission paid for securities issuance	-25,848	-44,343
Costs of custodian services	-27,507	-18,922
Commission paid for portfolio management services	-68,229	-29,813
Other fees and commissions paid	-260,217	-218,231
Total fees and commission expense	<u>-5,580,601</u>	<u>-4,121,182</u>
<b>Net fees and commission income</b>	<u>4,581,212</u>	<u>4,723,358</u>

**23. IMPAIRMENT OF RECEIVABLES FROM CUSTOMERS**

	<u>2014</u>	<u>2013</u>
Release of impairment	488,248	7,007
Impairment charged during the year	-17,828	-118,784
	<u>470,420</u>	<u>-111,777</u>



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**24. FINANCIAL RESULT, NET**

	<u>2014</u>	<u>2013</u>
Interest income	274,721	739,869
Foreign exchange gain	5,382	7,348
Interest income of repurchase agreements	243,673	89,994
Gain on securities available-for-sale	0	0
Income from investment loans and deferred payments	256,371	335,003
Total financial income	780,147	1,172,214
Interest expense	-120,946	-85,784
Foreign exchange loss	0	0
Interest expense of repurchase agreements	-243,671	-89,994
Total financial expense	-364,617	-175,778
<b>Financial income, net</b>	<b>415,530</b>	<b>996,436</b>

**25. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2014</u>	<u>2013</u>
Rental fees	-132,903	-125,464
Legal consulting and other advisory fees	-37,375	-47,137
Reuters and other fees	-213,748	-150,860
Bank charges	-56,288	-49,185
Marketing	-96,548	-38,013
Telephone and post	-51,813	-67,852
IT services	-211,703	-192,273
Maintenance	-54,106	-62,831
Insurance fees	-27,420	-25,870
Travelling and accommodation costs	-12,647	-8,718
Administration services	-82,477	-105,852
Training and education costs	-16,889	-7,348
Consignment services	-318	-1,536
Membership fees	-5,069	-19,431
Other	-23,320	-29,716
	<u>-1,022,624</u>	<u>-932,086</u>

**26. PERSONNEL EXPENSES**

	<u>2014</u>	<u>2013</u>
Wages and salaries	-1,585,564	-1,591,054
Social security expenses	-469,688	-469,857
	<u>-2,055,252</u>	<u>-2,060,911</u>

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**27. OTHER OPERATING EXPENSES, NET**

	<u>2014</u>	<u>2013</u>
<b>Other operating income</b>		
Release of provision	495,096	455,753
Income from consignment services	433	8,223
Income from hardware and software services	0	18,368
Income of fixed asset disposal	12,285	39,290
Other income	37,419	20,459
<b>Total other operating income</b>	<u>545,233</u>	<u>542,093</u>
 <b>Other operating expenses</b>	 <u>2014</u>	 <u>2013</u>
VAT	-9,181	-8,304
Paid membership and supervisory fees	-122,733	-115,442
Donations to foundations	-50,000	-62,500
Expense of fixed asset disposal	-19,197	-57,727
Provisions	-373,162	-495,096
Other taxes paid	-724	-1,087
Bank tax	-424,430	-424,430
Write off receivable	-389,158	0
Expenses from consignment services	0	-5,970
Other expenses	-2,964	-3,721
<b>Total other operating expense</b>	<u>-1,391,549</u>	<u>-1,174,277</u>
 <b>Other operating expenses, net</b>	 <u>-846,316</u>	 <u>-632,184</u>

**28. INCOME TAXES**

The components of income tax expense for the years ended December 31, 2014 and 2013 are:

	<u>2014</u>	<u>2013</u>
Current income tax expense	-379,925	-511,111
Local tax expense	-308,350	-283,439
Innovation contribution expense	-46,252	-42,516
Deferred tax Benefit	-48,323	-18,655
<b>Total income tax</b>	<u>-782,850</u>	<u>-855,721</u>
 Net profit before income tax	 2,860,611	 3,561,083
 Effective tax rate after adjustments	 27.37%	 24.03%

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**28. INCOME TAXES [continued]**

**Statutory income tax expense**

In 2014 and 2013, corporate income tax is payable at 19% on taxable statutory profits.

The corporate tax was 10% of the positive tax base up to HUF 500 million forints in 2013, and in 2014.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised, this tax rate is 19% for the year ended December 31, 2014.

Reconciliation between the tax expense and the accounting profit multiplied by domestic tax rate for the years ended 31 December 2014 and 2013 is as follows:

	<b>2014</b>	<b>2013</b>
<b>Profit before tax</b>	<b>2,860,611</b>	<b>3,561,083</b>
Income tax rate*	19%	19%
<b>Income tax calculated (19%)</b>	<b>543,516</b>	<b>676,606</b>
Local tax and innovation contribution expense	354,602	325,955
Effect of local tax and innovation contribution on income tax	-67,374	-61,931
Income not subject to tax	-4,763	-22,690
<i>dividend</i>	-2,255	-26,628
<i>other</i>	-2,508	3,938
Non-deductible expenses	1,612	468
<i>other</i>	1,612	468
Effect of different tax rate *	-44,744	-62,686
<b>Income tax expense reported in the Consolidated Income Statement</b>	<b>782,850</b>	<b>822,721</b>

\* The corporate tax was 10% of the positive tax base up to HUF 500 million in 2013 and in 2014.

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**28. INCOME TAXES [continued]**

Deferred income taxes

The deferred taxes as included in the consolidated statement of financial position and changes recorded in the Consolidated Income Statement are as follows:

**For the year ended December 31, 2014:**

	Liabilities	Assets	Consolidated Income Statement impact
Fair value adjustments of financial instruments	0	-62,254	-25,075
Allowance of provisions adjustments	0	70,901	-23,167
Fixed assets depreciation	0	0	0
Personal costs (unused vacation)	0	996	-81
Total	0	9,643	-48,323
Net deferred tax assets		-48,323	

**For the year ended December 31, 2013:**

	Liabilities	Assets	Consolidated Income Statement impact
Fair value adjustments of financial instruments	0	-37,179	-25,985
Allowance of provisions adjustments	0	94,068	7,475
Fixed assets depreciation	0	0	0
Personal costs (unused vacation)	0	1,077	-145
Total	0	57,966	-18,655
Net deferred tax assets		-18,655	

**29. FUNDS UNDER MANAGEMENT AND CLIENT'S SECURITIES HANDLED BY THE GROUP**

Erste Investment provides securities custody and depository services. The market value of client's securities handled by the Group amounted to: HUF 1,109,553,631 thousands as at December 31, 2014 and HUF 972,043,774 thousands as at December 31, 2013.

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**30. RELATED PARTY TRANSACTIONS**

The ultimate parent of Erste Investment Ltd. is Erste Group Bank AG. It prepares the consolidated financial statement of the International Erste Group. Other related parties of Erste Investment Group are subsidiaries of Erste Group Bank AG. The following tables provide the outstanding balances at the year-end and the total amount of transactions, which have been entered into with related parties for the relevant financial year.

Transactions with related parties (equity holders: Erste Bank Hungary and ultimate parent: Erste Group Bank AG.) are summarized below for the year ended December 31, 2014:

***Open transactions at December 31, 2014***

<b>Description / Related Party</b>	<b>Erste Bank Hungary</b>	<b>Erste Group Bank AG</b>
Bank accounts (held at the related party)	24,804,750	8,666,149
Overdrafts	(25,655)	(2,281,011)
Receivables from securities trading	0	0
Accounts receivable	33,038	50,289
Payables on securities trading	0	0
Payables to customers	(82,762)	(38,582)
Trade payables	(533,732)	0
Accrued interest (income)	33	0
Accrued commission (income)	1,080	157,630
Accrued expenses (commission)	(346,227)	(3,321)
Repo transactions	0	(11,578,560)

***Transactions during 2014***

	<b>Erste Bank Hungary</b>	<b>Erste Group Bank AG</b>
Interest paid on loan	(24,235)	(61,508)
Interest received on bank account	281,510	3,438
Commission income	205,636	13,011
Distribution fee	8,862	314,449
Deposit-account management fee income	18,804	0
Paid interdealer fee	(3,794,470)	
Securities borrowing fee (paid)		(46,607)
Paid commission fee	(26,253)	(13,765)
Profit sharing income from securities trading		131,582
Captive fee (paid)	(23,943)	
Income from costs charged towards and IT services fee	0	11,129
SLA fee paid	(33,856)	
Rental fee (office lease payments)	(116,173)	

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**30. RELATED PARTY TRANSACTIONS [continued]**

Transactions with other related parties for the year ended December 31, 2014:

*Open transactions at December 31, 2014*

Description / Related Party	<u>Brokerjet</u>	<u>Erste Securities Polska</u>	<u>Erste Alapkezelő Zrt.</u>	<u>Erste Sparinvest</u>	<u>Erste Securities Istanbul</u>	<u>Erste Ingatlan Kft.</u>
Bank accounts (held at the related party)	46,434	355			89,911	
Receivables from customers						
Accounts receivable		2,070	293,597			
Other accrued commission income			0	45,587		
Payables to customers		0	(9)			
Trade payables						(922)
Other accrued expenses (rental fee, operating cost)			(23,618)			

*Transactions during 2014*

Description / Related Party	<u>Brokerjet</u>	<u>Erste Securities Istanbul</u>	<u>Erste Securities Polska</u>	<u>Erste Ingatlan Kft.</u>	<u>Erste Alapkezelő Zrt.</u>	<u>Ceska sporitelna</u>	<u>Erste Bank London</u>
Interest received on bank account		7,3714	66				
Interest paid on loan	(83)		(1)				
Commission income from investment notes transactions					286,229		
Commission income			2,719		7,369	2,691	3,719
Commission paid	(588)		(28,368)		(68,115)		
Operating costs				(24,816)			

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**30. RELATED PARTY TRANSACTIONS [continued]**

*Open transactions at December 31, 2013*

<b>Description / Related Party</b>	<b>Erste Bank Hungary</b>	<b>Erste Group Bank AG</b>
Bank accounts (held at the related party)	21,278,087	6,497,714
Overdrafts	0	(2,198,163)
Receivables from securities trading	0	316,997
Accounts receivable	28,748	1,596
Payables on securities trading	0	(833,375)
Payables to customers	(103,437)	(51,315)
Trade payables	(141,071)	0
Accrued commission (income)	17,985	124,539
Accrued expenses (commission)	(289,180)	(5,731)

*Transactions during 2013*

	<b>Erste Bank Hungary</b>	<b>Erste Group Bank AG</b>
Interest paid on loan	(27,098)	(54,509)
Interest received on bank account	640,250	7,794
Commission income	270,933	7,807
Distribution fee	16,848	345,589
Paid interdealer fee	(2,355,828)	
Securities borrowing fee (paid)		(38,105)
Paid commission fee	(26,715)	(15,157)
Profit sharing income from securities trading		105,837
Captive fee (paid)	(18,580)	
Income from costs charged towards and IT services fee	10,047	
SLA fee paid by Portfolió Ltd.	(18,656)	
Rental fee (office lease payments)	(103,400)	

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**30. RELATED PARTY TRANSACTIONS [continued]**

Transactions with other related parties for the year ended December 31, 2013:

*Open transactions at December 31, 2013*

Description / Related Party	Brokerjet	Erste Securities Polska	Erste Alapkezelő Zrt.	Erste Sparinvest	Erste Securities Istanbul	Erste Ingatlan Kft.
Bank accounts (held at the related party)	51,546	7,248			1,725	
Accounts receivable		288	229,513			
Other accrued commission income			9,387			
Payables to customers		59,677	2			
Trade payables						(1,450)
Other accrued expenses (rental fee, operating cost)						(897)

*Transactions during 2013*

Description / Related Party	Brokerjet	Erste Securities Istanbul	Erste Securities Polska	Erste Ingatlan Kft.	Erste Alapkezelő Zrt.	Ceska sporitelna	Erste Bank London
Interest received on bank account		9,866	179				
Interest paid on loan	(6)		(46)				
Commission income from investment notes transactions					243,474		
Commission income			2,408		17,045	5,313	406
Commission paid	(298)		(10,540)		(20,346)		
Operating costs				(19,792)			

The securities held by the Erste Investment Group include bonds issued by Erste Bank Hungary amounting to HUF 23,323 thousands as at December 31, 2014.

The securities held by the Erste Investment Group include bonds issued by Erste Bank Hungary amounting to HUF 69,442 thousands as at December 31, 2013.

The securities held by the Erste Investment Group include bonds issued by Erste Bank AG amounting to HUF 4,997 thousands as at December 31, 2014 and there was not any EAG bonds at December 31, 2013.

The members of the Board of Directors have not received any loan during 2014 and 2013 respectively.



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**31. COMPENSATION OF KEY MANAGEMENT PERSONNEL**

The Board of Directors and Members of the Supervisory Board received no remuneration for their Board related activities in 2014 and in 2013.

The compensation of key management personnel - such as the members of the Management, key employees (heads of department) of the Group and its subsidiaries is summarised below:

	<u>2014</u>	<u>2013</u>
Short-term employee benefits	515,871	443,085

**32. OPERATING LEASES**

The Group has entered into operating leases on premises. These leases have a life of 10 years with a renewal option for an additional 5 years included in the contracts.

Erste Investment Group rents its offices from Erste Bank Hungary Zrt. The rental fee (lease payments) of the offices paid by the group amounted to HUF 116,173 thousands for the year ended December 31, 2014, while it was HUF 103,400 thousands for the year ended December 31, 2013.

Future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

	<b>2014</b>	<b>2013</b>
	<b>EUR</b>	<b>EUR</b>
Within one year	376,160	376,160
After one year but not more than five years	1,504,640	1,504,640
More than five years	564,240	940,400
	<u>2,445,040</u>	<u>2,821,200</u>

The rental agreement determines the rental fee in EUR while all payments are deliverable in HUF at the prevailing exchange rate.

**33. FAIR VALUE OF FINANCIAL INSTRUMENTS**

*Financial instruments at fair value*

Financial assets at fair value held for trading, trading assets pledged as collateral, financial assets - available-for-sale, financial liabilities at fair value held for trading, and derivatives are carried at their fair value.

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**33. FAIR VALUE OF FINANCIAL INSTRUMENTS [continued]**

*Determination of fair value of financial instruments*

Financial instruments purchased or sold are recorded on a trade date basis and include proprietary securities and contractual commitments arising pursuant to futures, forward contracts. The estimated fair value of financial instruments is determined in accordance with the requirements of IAS 39. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in a forced sale or liquidation. The fair values of assets or liabilities that are actively traded in organised financial markets are determined by reference to quoted market bid or ask prices. For assets where there is no active market, fair value is determined using valuation techniques. The Group does not have financial instruments where the valuation techniques would be based on non market observable inputs.

*Fair value of derivatives*

All derivatives are carried at their fair value. Fair values of trading derivative financial instruments, such as forward foreign exchange, and futures are marked to market, based on international money and capital market price quotations.

In the normal course of business the Group may enter into a number of transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Set out below is a comparison by class of the carrying amounts and fair value of Erste Investment Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
	2014	2014	2013	2013	2013	2013
<b>Financial assets</b>						
Financial assets at fair value held for trading	2,708,573	2,708,573	-	3,303,525	3,303,525	-
Trading assets pledged as collateral	4,866,340	4,866,340	-	5,539,802	5,539,802	-
Derivative financial assets	155,465	155,465	-	149,650	149,650	-
Financial assets -available-for-sale	33	33	-	33	33	-
Receivables from securities trading	338,058	338,058	-	3,608,901	3,608,901	-
Receivables from customers	15,258,295	15,258,295	-	8,165,934	8,165,934	-

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**33. FAIR VALUE OF FINANCIAL INSTRUMENTS [continued]**

	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
	2014	2014	2013	2013	2013	2013
<i>Financial liabilities</i>						
Financial liabilities at fair value held for trading	2,486,070	2,486,070	-	1,274,908	1,274,908	-
Derivative financial liabilities	8,351	8,351	-	99,817	99,817	-
Payables on securities trading	203,904	203,904	-	3,728,764	3,728,764	-
Payables to customers	42,818,104	42,818,104	-	31,805,736	31,805,736	-
Trade payables	569,379	569,379	-	242,228	242,228	-
Short-term loans	2,352,054	2,352,054	-	2,854,851	2,854,851	-
<b>Total unrecognised change in unrealised fair value</b>			-			-

For assets currently classified as available-for-sale where there is no active market, fair value is assumed to be equal to cost as this is believed to be the best estimate of their fair value.

Equities and derivatives are quoted on the Stock Exchange and are measured on the quoted market prices, as are the majority of securities held. In the case of t-bills maturing within 3 months valuation techniques are used based on observable inputs to determine fair value.

As the maturity of Receivables from securities trading, Receivables from customers, Payables on securities trading, Trade payables and Short-term loans are short-term, management believes that the carrying value is the best estimate of their fair value.

**Determination of fair value and fair value hierarchy**

The following table shows an analysis of financial instruments recorded at fair value between those whose fair value is based on quoted market prices and those involving techniques where the model inputs are observable in the market. Erste Investment Group does not have financial instruments where the valuation techniques involve the use of non-market observable inputs.

Equity instruments currently classified as available-for-sale have a fair value equal to cost because this is believed to be the best estimate of their fair value. Therefore this table doesn't contain financial assets -available-for-sale.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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**33. FAIR VALUE OF FINANCIAL INSTRUMENTS [continued]**

Publicly quoted securities are transferred from Level 1 to Level 2 in case of trade frequency is over 1 month. If frequency exceeds 3 months, the instrument is transferred into Level 3.

The responsibility for valuation of a position measured at fair value is independent from the trading units.

<b>December 31, 2014:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value held for trading	1,739,409	969,164	0	2,708,573
Trading assets pledged as collateral	3,008,131	1,858,209	0	4,866,340
Derivative financial assets	155,465	0	0	155,465
Financial liabilities at fair value held for trading	2,486,070	0	0	2,486,070
Derivative financial liabilities	8,351	0	0	8,351

<b>December 31, 2013:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets at fair value held for trading	1,842,739	1,460,786	0	3,303,525
Trading assets pledged as collateral	3,678,133	1,861,669	0	5,539,802
Derivative financial assets	149,650	0	0	149,650
Financial liabilities at fair value held for trading	1,274,908	0	0	1,274,908
Derivative financial liabilities	99,817	0	0	99,817

Erste Investment Group uses the valuation techniques-market observable for treasury bills, structured bonds short- term maturity (less than 1 year). These securities do not have capital market price quotations. Their fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method based on benchmark yields. Market information is available on the Government Debt Management Agency's home page.

*Financial instruments not measured at fair value*

The book value of floating rate loans and advances reflect the market value of the asset based on the assumption of Erste Investment Group. For loans and advances other than floating rate, a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, and market rates of interest.

For deposits and unquoted notes issued, a discounted cash flow model is used based on current interest rate yield curves appropriate for the remaining term to maturity.

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**33. FAIR VALUE OF FINANCIAL INSTRUMENTS [continued]**

The following table shows the fair value of the financial instruments not recorded at fair value:

<b>December 31, 2014:</b>	<b>Value at amortized cost</b>	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and bank account	34,412,177	34,412,177	0	0	34,412,177	34,412,177
Receivables from securities trading	338,058	338,058	0	0	338,058	338,058
Receivables from customers	15,258,295	15,258,295	0	0	15,258,295	15,258,295
Payables on securities trading	203,904	203,904	0	0	203,904	203,904
Payables to customers	42,818,104	42,818,104	0	0	42,818,104	42,818,104
Trade payables	569,379	569,379	0	0	569,379	569,379
Short-term loans	2,352,054	2,352,054	0	0	2,352,054	2,352,054

<b>December 31, 2013:</b>	<b>Value at amortized cost</b>	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and bank account	29,435,335	29,435,335	0	0	29,435,335	29,435,335
Receivables from securities trading	3,608,901	3,608,901	0	0	3,608,901	3,608,901
Receivables from customers	8,165,934	8,165,934	0	0	8,165,934	8,165,934
Payables on securities trading	3,728,764	3,728,764	0	0	3,728,764	3,728,764
Payables to customers	31,805,736	31,805,736	0	0	31,805,736	31,805,736
Trade payables	242,228	242,228	0	0	242,228	242,228
Short-term loans	2,854,851	2,854,851	0	0	2,854,851	2,854,851

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**34. FINANCIAL ASSETS AND LIABILITIES SUBJECT TO OFFSETTING AND POTENTIAL OFFSETTING AGREEMENTS**

The following table shows the assets and liabilities subject to offsetting and potential offsetting agreements:

<b>December 31, 2014:</b>				<b>Potential effects of netting agreements not qualifying for balance sheet offsetting</b>			<b>Net amount after potential offsetting</b>
<b>Assets</b>	<b>Gross amounts of recognised financial assets</b>	<b>Amounts of financial liabilities set off against financial assets</b>	<b>Net amounts of financial assets in the balance sheet</b>	<b>Financial instruments</b>	<b>Cash collateral received</b>	<b>Non-cash financial collateral received</b>	
Derivatives	155,465	0	155,465	0	0		155,465
Reverse repurchase agreements	11,578,560	0	11,578,560	0	0	11,384,214	194,346
<b>Total</b>	<b>11,734,025</b>	<b>0</b>	<b>11,734,025</b>	<b>0</b>	<b>0</b>	<b>11,384,214</b>	<b>349,811</b>

				<b>Potential effects of netting agreements not qualifying for balance sheet offsetting</b>			<b>Net amount after potential offsetting</b>
<b>Liabilities</b>	<b>Gross amounts of recognised financial liabilities</b>	<b>Amounts of financial assets set off against financial liabilities</b>	<b>Net amounts of financial liabilities in the balance sheet</b>	<b>Financial instruments</b>	<b>Cash collateral received</b>	<b>Non-cash financial collateral received</b>	
Derivatives	-8,351	0	-8,351	0	0		-8,351
Repurchase agreements	-11,578,560	0	-11,578,560	0	0	-11,384,214	-194,346
<b>Total</b>	<b>-11,586,911</b>	<b>0</b>	<b>-11,586,911</b>	<b>0</b>	<b>0</b>	<b>-11,384,214</b>	<b>-202,697</b>

<b>December 31, 2013:</b>				<b>Potential effects of netting agreements not qualifying for balance sheet offsetting</b>			<b>Net amount after potential offsetting</b>
<b>Assets</b>	<b>Gross amounts of recognised financial assets</b>	<b>Amounts of financial liabilities set off against financial assets</b>	<b>Net amounts of financial assets in the balance sheet</b>	<b>Financial instruments</b>	<b>Cash collateral received</b>	<b>Non-cash financial collateral received</b>	
Derivatives	149,650	0	149,650	0	0		149,650
Reverse repurchase agreements	4,962,495	0	4,962,495	0	0	4,919,091	43,404
<b>Total</b>	<b>5,112,145</b>	<b>0</b>	<b>5,112,145</b>	<b>0</b>	<b>0</b>	<b>4,919,091</b>	<b>193,054</b>

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**34. FINANCIAL ASSETS AND LIABILITIES SUBJECT TO OFFSETTING AND POTENTIAL OFFSETTING AGREEMENTS [continued]**

Liabilities	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 received	Non-cash financial collateral received	
Derivatives	-99,817	0	-99,817	0	0		-99,817
Repurchase agreements	-3,427,949	0	-3,427,949	0	0	-3,383,124	-44,825
Total	-3,527,766	0	-3,527,766	0	0	-3,383,124	-144,642

**35. RISK MANAGEMENT**

Risk is inherent in Erste Investment Group's activities but it is managed through a process of ongoing identification, measurement and monitoring and is subject to risk limits and other controls. Erste Investment Group is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through Erste Investment Group's strategic planning process.

The Board of Directors is responsible for identifying and controlling risks; however, there is a separate independent department responsible for managing and monitoring risks.

Monitoring and controlling risks is primarily performed based on limits established by Erste Investment Group. These limits reflect the business strategy and market environment of Erste

Investment Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Erste Investment Group's objective is to achieve an appropriate balance between risk and return, and this is reflected in the Group's Risk Policy. Erste Investment Group has adopted Erste Group Bank AG approach to risk management that has been developed using internationally accepted guidelines and procedures tailored to the markets in which the Erste Investment Group operates.

Erste Investment Group manages a variety of risks in the ordinary course of its business. These risks are identified, measured, and monitored through various control mechanisms across the Group in accordance with the risk policy approved by Erste Group Bank AG and Erste Bank Hungary as parent companies.

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**35. RISK MANAGEMENT[continued]**

The Global Erste Group policy sets risk management standards for the Erste Investment Group and is supported in this role by the Risk Management Departments of those companies. They are responsible for approving credit and market limits, and setting other risk parameters.

New products introduced by the Group are subject to a new product development and approval process. The approval process includes an assessment of necessary accounting, legal, regulatory and compliance issues, tax and operational issues, and a full report of credit, market, and liquidity risks associated with the new product (including estimates of revenues and costs). Limits governing the activity in the new product are proposed at the preliminary stage to ensure future risk management criteria are established before the product is implemented.

Utilisation of market risk and counterparty risk limits is monitored intra-day and on-line using a real-time risk management system.

Detailed below are the primary risks associated with the Erste Investment Group's business:

***Liquidity risk***

Erste Investment Group has an independent department to manage Erste Investment Group's cash flows. Key goals are to provide data for the production of cash flow projections, identify where the Group's cash resources are restricted, monitor and address non-receipt of securities and cash and provide relevant information to enable Erste Investment Group to secure committed external financing lines. The Group calculates minimum cash requirements and provides detailed analysis to ensure Management is informed on any liquidity related issues.

**ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES AND LIQUIDITY RISK BY RESIDUAL MATURITY**

<b>December 31, 2014:</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Cash and cash equivalents	34,412,177	-	-	-	-	34,412,177
Financial assets at fair value held for trading	828,808	419,214	262,738	40,222	1,157,591	2,708,573
Trading assets pledged as collateral	0	4,357,776	34,369	0	474,195	4,866,340
Derivative financial assets	155,293	172	0	0	0	155,465
Financial assets available-for-sale	0	0	0	0	33	33
Receivables from securities trading	256,058	82,000	0	0	0	338,058
Receivables from customers	15,258,295	0	0	0	0	15,258,295
<b>Total financial assets</b>	<b>50,910,631</b>	<b>4,859,162</b>	<b>297,107</b>	<b>40,222</b>	<b>1,631,819</b>	<b>57,738,941</b>



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**35. RISK MANAGEMENT [continued]**

<b>December 31, 2014:</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Financial liabilities at fair value held for trading	2,486,070	0	0	0	0	2,486,070
Derivative financial liabilities	7,781	570	0	0	0	8,351
Payables on securities trading	203,904	0	0	0	0	203,904
Payables to customers	42,818,104	0	0	0	0	42,818,104
Trade payables	569,379	0	0	0	0	569,379
Short-term loans	2,352,054	0	0	0	0	2,352,054
<b>Total financial liabilities</b>	<b>48,437,292</b>	<b>570</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>48,437,862</b>
<b>Liquidity excess/(deficiency)</b>	<b>2,442,860</b>	<b>4,824,536</b>	<b>245,751</b>	<b>156,113</b>	<b>1,631,819</b>	<b>9,301,079</b>

<b>December 31, 2013:</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Cash and cash equivalents	29,435,335	-	-	-	-	29,435,335
Financial assets at fair value held for trading	1,127,513	472,915	116,496	43,848	1,542,753	3,303,525
Trading assets pledged as collateral	1,861,669	2,465,054	0	0	1,213,079	5,539,802
Derivative financial assets	149,650	0	0	0	0	149,650
Financial assets available-for-sale	0	0	0	0	33	33
Receivables from securities trading	3,497,901	111,000	0	0	0	3,608,901
Receivables from customers	8,165,934	0	0	0	0	8,165,934
<b>Total financial assets</b>	<b>44,238,002</b>	<b>3,048,969</b>	<b>116,496</b>	<b>43,848</b>	<b>2,755,865</b>	<b>50,203,180</b>

<b>December 31, 2013:</b>	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Without maturity</b>	<b>Total</b>
Financial liabilities at fair value held for trading	1,274,908	0	0	0	0	1,274,908
Derivative financial liabilities	99,817	0	0	0	0	99,817
Payables on securities trading	3,728,764	0	0	0	0	3,728,764
Payables to customers	31,805,736	0	0	0	0	31,805,736
Trade payables	242,228	0	0	0	0	242,228
Short-term loans	2,854,851	0	0	0	0	2,854,851
<b>Total financial liabilities</b>	<b>40,006,304</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40,006,304</b>
<b>Liquidity excess/(deficiency)</b>	<b>4,231,698</b>	<b>3,048,969</b>	<b>116,496</b>	<b>43,848</b>	<b>2,755,865</b>	<b>10,196,876</b>

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**35. RISK MANAGEMENT [continued]**

***Market risk-Trading***

Market risk arises from exposure to changes in equity, bond and commodity prices, credit spreads, interest rates and foreign exchange rates, and the correlation between them and their levels of volatility. The potential losses that could arise from these changes are measured and controlled by the Group's market risk methodology. Erste Investment Group uses a range of techniques to manage the price risk.

For the purposes of Trading risk measurement and control the following limits have been determined by Erste Investment Group:

- Open equity limit
- PVBP (Present Value of Basis Points) limit
- Stop-loss limit
- VaR limit

***Open equity limit (delta)***

The open equity position limits (excluding arbitrage book) applies to the end of day closing positions in equities, GDR/ADR and futures positions. Traded equities are assigned to one of five main categories, each of which has a separate limit. Individual equities, within the main groups, also have a singular limit attached to them. BUX futures positions have also a separate limit. An overall limit has also been defined but a separate limit applies over and above this to Xetra-traded equities open positions.

***PVBP (Present Value of Basis Points, interest rate sensitivity) limit***

The basis point sensitivity limits show the interest rate risk of the Group to a predetermined (i.e. 1) basis parallel shift in the yield curve.

K+ (Risk management and position keeping system) calculates the sensitivity of each position individually and these are sorted by exposure currency into 11 maturity bands (3 month, 6 month, 9 month, 1 year, 3 year, 5 year, 7 year, 10 year, 15 year, 20 year and 30 year). PVBP values within an exposure currency and assigned to the same time bucket are netted together to determine the net sensitivity of each time bucket of the exposure currency. Sensitivities are not, however, subject to netting between the time buckets themselves. Instead both the total positive and negative sensitivity are arrived at. The highest absolute figure of the two is taken as the total sensitivity of the given exposure currency.

***Stop-loss limits***

Stop-loss (loss-cut) limits attempt to cap losses caused by the negative move of underlying market rates or rates to a predefined limit.

Limits have been determined for the Fixed Income and Equity trading on a monthly and yearly basis.

***VaR (Value at risk) limit***

Although Erste Investment Group is satisfied that the controls it uses to manage the market price risk in its trading book is an effective means of controlling that risk, it recognises that measures of market price risk, when considered in isolation, have the following main limitations:

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**35. RISK MANAGEMENT [continued]**

The historical data on which the calculations have been based may not reflect all the factors that are relevant to the estimation of VaR, give the correct weight to these factors or be the best estimate of risk factor changes that will occur in the future; and

Focusing on the maximum loss that is expected to be incurred 99% of the time says little about the smaller losses that are expected to be incurred more frequently or the size of the losses in excess of the VaR that are expected to be incurred 1% of the time.

*VaR (Value at risk) assumptions*

Erste Investment Group applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. Risk Management Treasury and Investment Banking of Erste Bank AG. calculate the official VaR figures daily using the KVaR+ Sailfish risk calculation program. Calculation is made according to the historical simulation method to a 99% confidence interval for a one-day holding period (based on a time series for the last 730 calendar days). The Group does not consider itself to be exposed to significant currency risk, therefore the Group does not calculate FX VaR but alternative methods are used instead. (See below)

The table below shows the VAR figures.

<b>31.12.2014</b>	<b>Total</b>	<b>Interest</b>	<b>Currency</b>	<b>Price</b>	<b>Commodity</b>	<b>Volatility</b>
Total	7,441,958	3,384,726	4,667,787	2,073,396	-	425,582
Local	5,635,172	2,260,573	4,667,787	183,538	-	0
Sales	-	-	-	-	-	-
Trade	2,951,831	1,514,516	0	2,136,928	-	425,582
Finance	0	0	0	0	-	0

<b>31.12.2013</b>	<b>Total</b>	<b>Interest</b>	<b>Currency</b>	<b>Price</b>	<b>Commodity</b>	<b>Volatility</b>
Total	5,078	2,027	2,118	4,935	-	55
Local	2,061	1,247	2,118	272	-	-
Sales	1,643	0	0	1,643	-	-
Trade	5,523	740	0	5,386	-	55
Finance	8	8	0	0	-	-

*Currency risk*

The table below shows an analysis of the Group's currency exposures. As the table shows, Erste Investment Group does not have significant assets/liabilities in foreign currency.

Consequently, Erste Investment Group does not consider itself exposed to significant currency risk.

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**35. RISK MANAGEMENT [continued]**

*Net foreign currency position and foreign currency risk*

**December 31, 2014:**

	HUF	EUR	OTHER	Total
Cash and cash equivalents	24,813,176	5,313,523	4,285,478	34,412,177
Financial assets at fair value held for trading	2,644,844	63,729	0	2,708,573
Trading assets pledged as collateral	4,866,340	0	0	4,866,340
Derivative financial assets	155,465	0	0	155,465
Financial assets available-for-sale	0	33	0	33
Receivables from securities trading	338,058	0	0	338,058
Receivables from customers	13,960,650	1,145,082	152,563	15,258,295
<b>Total financial assets</b>	<b>46,778,533</b>	<b>6,522,367</b>	<b>4,438,041</b>	<b>57,738,941</b>
Financial liabilities at fair value held for trading	2,486,070	0	0	2,486,070
Derivative financial liabilities	8,351	0	0	8,351
Payables on securities trading	203,904	0	0	203,904
Payables to customers	34,187,797	4,891,699	3,738,608	42,818,104
Trade payables	554,036	4,148	11,195	569,379
Short-term loans	41,526	1,581,861	728,667	2,352,054
<b>Total financial liabilities</b>	<b>37,481,684</b>	<b>6,477,708</b>	<b>4,478,470</b>	<b>48,437,862</b>
<b>Currency excess</b>	<b>9,296,848</b>	<b>44,659</b>	<b>-40,429</b>	<b>9,301,079</b>

**December 31, 2013:**

	HUF	EUR	OTHER	Total
Cash and cash equivalents	21,662,603	4,039,150	3,733,582	29,435,335
Financial assets at fair value held for trading	3,287,283	14,441	1,801	3,303,525
Trading assets pledged as collateral	5,539,802	0	0	5,539,802
Derivative financial assets	149,650	0	0	149,650
Financial assets available-for-sale	0	33	0	33
Receivables from securities trading	3,608,901	0	0	3,608,901
Receivables from customers	6,489,537	1,012,648	663,749	8,165,934
<b>Total financial assets</b>	<b>40,737,777</b>	<b>5,066,272</b>	<b>4,399,132</b>	<b>50,203,181</b>
Financial liabilities at fair value held for trading	1,274,908	0	0	1,274,908
Derivative financial liabilities	99,817	0	0	99,817
Payables on securities trading	3,728,764	0	0	3,728,764
Payables to customers	24,544,556	3,437,113	3,824,067	31,805,736
Trade payables	221,692	5,027	15,509	242,228
Short-term loans	574,890	1,673,942	606,019	2,854,851
<b>Total financial liabilities</b>	<b>30,444,627</b>	<b>5,116,082</b>	<b>4,445,595</b>	<b>40,006,304</b>
<b>Currency excess</b>	<b>10,293,150</b>	<b>-49,810</b>	<b>-46,463</b>	<b>10,196,877</b>

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**35. RISK MANAGEMENT [continued]**

***Interest rate risk***

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The majority of the Group's lending and borrowing contracts and other financial assets and liabilities generally bear interest at fixed rates generally over fixed time horizons, but the maturities of the majority of the Erste Investment Group's assets and liabilities are relatively short-term. Consequently, Erste Investment Group does not consider itself exposed to significant interest rate risk or consequential cash flow risk. The Erste Investment Group's assets and liabilities are categorised by the earlier of contractual re-pricing or maturity dates.

Interest bearing assets with fixed interest rate on December 31, 2014:

<b>December 31, 2014</b>	<b>Below 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non interest bearing</b>	<b>Total</b>
Cash and cash equivalents	34,411,900 -	-	-	-	-	277	34,412,177
Financial assets at fair value held for trading	362,099	466,709	419,214	262,738	40,222	1,157,591	2,708,573
Trading assets pledged as collateral	0	0	4,357,776	34,369	0	474,195	4,866,340
Derivative financial assets	70,790	84,503	172	0	0	0	155,465
Financial assets -available-for- sale	-	0	0	0	0	33	33
Receivables from securities trading	-	-	82,000	0	0	256,058	338,058
Receivables from customers	14,016,123 -	-	0	0	0	1,242,172	15,258,295
<b>Total</b>	<b>48,860,912</b>	<b>551,212</b>	<b>4,859,162</b>	<b>297,107</b>	<b>40,222</b>	<b>3,130,326</b>	<b>57,738,941</b>

Interest bearing assets with fixed interest rate on December 31, 2013:

<b>December 31, 2013</b>	<b>Below 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non interest bearing</b>	<b>Total</b>
Cash and cash equivalents	29,435,080 -	-	-	-	-	255	29,435,335
Financial assets at fair value held for trading	636,545	490,968	472,915	116,496	43,848	1,542,753	3,303,525
Trading assets pledged as collateral	1,861,669	0	2,465,054	0	0	1,213,079	5,539,802
Derivative financial assets	-	-	0	0	0	149,650	149,650
Financial assets -available-for- sale	-	0	0	0	0	33	33
Receivables from securities trading	-	-	111,000	0	0	3,497,901	3,608,901
Receivables from customers	6,471,553 -	-	0	0	0	1,694,381	8,165,934
<b>Total</b>	<b>38,404,847</b>	<b>490,968</b>	<b>3,048,969</b>	<b>116,496</b>	<b>43,848</b>	<b>8,098,052</b>	<b>50,203,180</b>

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**35. RISK MANAGEMENT [continued]**

The Group has no interest bearing assets with floating interest rates on December 31, 2014 and 2013 respectively.

The Group has interest bearing liabilities with fixed interest rates on December 31, 2014:

- in “Short term loans” maturity “Below 1 month” amounted to HUF 2,352,054 thousands
- maturity “Below 1 month” in Payables to customers amounted to HUF 11,907,778 thousands
- Non interest bearing amounted to HUF 34,178,030 thousands.

The Group has interest bearing liabilities with fixed interest rates on December 31, 2013:

- in “Short term loans” maturity “Below 1 month” amounted to HUF 2,854,851 thousands
- maturity “Below 1 month” in Payables to customers amounted to HUF 4,874,785 thousands
- Non interest bearing amounted to HUF 32,276,668 thousands.

The Group has no interest bearing liabilities with floating rates on December 31, 2014 and 2013 respectively.

***Credit risk***

Erste Investment Group’s trading activities involve the execution, settlement and financing of various securities and financial instrument transactions. The execution of these transactions includes the purchase and sale of securities and other trading activities. These activities may expose Erste Investment Group to credit risk in the event that the counterparty to the transaction is unable or unwilling to fulfil its contractual obligations and credit enhancements (including collateral) are not sufficient to cover losses.

The Group’s exposure to non-performance of its counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. In these situations Erste Investment Group may be required to purchase or sell financial instruments at prevailing market prices that may not fully cover the obligations of its customers or counterparties.

Counterparty risk is considered as being a combination of “pre-settlement” and/or “settlement” risk, and limits are assigned considering both types of risk. The Group’s exposure to pre-settlement credit risk associated with counterparty non-performance is limited to the net replacement cost of the contracts in a gain position which are recognised in Erste Investment Group’s Consolidated Financial Statements, while settlement credit risk occurs when the Group is expecting an asset delivery from the counterparty on a settlement basis other than delivery-versus-payment (“DVP”), including cases of pre-delivered sale or prepaid purchase.

Erste Investment Group manages credit risk by following its established credit approval process, monitoring credit limits, and requiring collateral where appropriate. This includes analysis of risk concentrations, including those to individual counterparties, industry sectors, products, countries and geographic regions. The Group has controls in place to monitor credit exposures by limiting transactions with specific counterparties.

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**35. RISK MANAGEMENT [continued]**

The credit approval process is based on a system of quantitative and qualitative analysis tailored for the volatility of the environments in which the Erste Investment Group operates.

Larger risk limits are usually set for counterparties, which are large international banks, brokers and corporations. Trading with smaller counterparties is performed on prepayment/pre-delivery basis or delivery-versus-payment ("DVP") within small limits covering market risk of the transactions. The majority of domestic equity and fixed income transactions with local counterparts and custodians of foreign investors are settled delivery-versus-payment ("DVP") via Keler Zrt. and Erste Bank AG.

*Maximum exposure to credit risk*

Erste Investment Group expects that the maximum exposure to credit risk of financial assets is the gross amount of its.

The table below shows the maximum exposure to credit risk of financial assets:

	Notes	Gross maximum exposure 2014	Gross maximum exposure 2013
Cash and cash equivalents (excluding cash on hand)	3	34,411,900	29,435,080
Financial assets held for trading	4	1,550,982	1,760,772
Trading assets pledged as collateral	5	4,392,145	4,326,723
Derivative financial assets	6	155,465	149,650
Financial assets -available-for-sale	7	33	33
Receivables from securities trading	8	338,058	3,608,901
Receivables from customers	9	15,668,058	9,046,117
<b>Total credit risk exposure</b>		<b>56,516,641</b>	<b>48,327,276</b>

*Risk concentrations of the maximum exposure to credit risk*

The table below shows the geographical analysis of the financial assets:

December 31, 2014:	Hungary	Austria	Other countries	Total
Cash and cash equivalents (excluding cash on hand)	25,272,461	8,761,582	377,857	34,411,900
Financial assets held for trading	2,699,585	5,050	3,938	2,708,573
Trading assets pledged as collateral	4,866,340	0	0	4,866,340
Derivative financial assets	155,465	0	0	155,465
Financial assets -available-for-sale	33	0	0	33
Receivables from securities trading	338,058	0	0	338,058
Receivables from customers	15,534,402	50,385	83,271	15,668,058
	<b>48,866,344</b>	<b>8,817,017</b>	<b>465,066</b>	<b>58,148,427</b>

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**35. RISK MANAGEMENT [continued]**

The amount of other countries includes an item of HUF 254,898 thousands from Denmark.

<b>December 31, 2013:</b>	<b>Hungary</b>	<b>Austria</b>	<b>Other countries</b>	<b>Total</b>
Cash and cash equivalents (excluding cash on hand)	22,203,784	6,554,531	676,765	29,435,080
Financial assets held for trading	3,300,175	50	3,300	3,303,525
Trading assets pledged as collateral	5,539,802	0	0	5,539,802
Derivative financial assets	149,650	0	0	149,650
Financial assets -available-for-sale	33	0	0	33
Receivables from securities trading	3,249,704	316,997	42,200	3,608,901
Receivables from customers	8,950,174	2,500	93,443	9,046,117
	<b>43,393,322</b>	<b>6,874,078</b>	<b>815,708</b>	<b>51,083,108</b>

The amount of other countries includes an item of HUF 672,459 thousands from Denmark.

The following table shows the industry sector analysis of financial assets

<b>December 31, 2014:</b>	<b>Government</b>	<b>Financial services</b>	<b>Institutional Investors</b>	<b>Retail</b>	<b>Other</b>	<b>Total</b>
Cash and cash equivalents (excluding cash on hand)	0	34,411,900	0	0	0	34,411,900
Financial assets held for trading	1,324,713	153,740	1,230,120	0	0	2,708,573
Trading assets pledged as collateral	4,392,145	0	474,195	0	0	4,866,340
Derivative financial assets	0	155,465	0	0	0	155,465
Financial assets -available-for-sale	0	33	0	0	0	33
Receivables from securities trading	0	335,701	0	2,357	0	338,058
Receivables from customers	11,652,508	83,458	586,052	2,999,888	346,152	15,668,058
	<b>17,369,366</b>	<b>35,140,297</b>	<b>2,290,367</b>	<b>3,002,245</b>	<b>346,152</b>	<b>58,148,427</b>



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**35. RISK MANAGEMENT [continued]**

<b>December 31, 2013:</b>	<b>Government</b>	<b>Financial services</b>	<b>Institutional Investors</b>	<b>Retail</b>	<b>Other</b>	<b>Total</b>
Cash and cash equivalents (excluding cash on hand)	0	29,435,080	0	0	0	29,435,080
Financial assets held for trading	1,175,591	1,172,713	0	0	955,221	3,303,525
Trading assets pledged as collateral	4,326,723	0	0	0	1,213,079	5,539,802
Derivative financial assets	0	149,650	0	0	0	149,650
Financial assets -available-for-sale	0	33	0	0	0	33
Receivables from securities trading	0	3,526,468	0	79,334	3,099	3,608,901
Receivables from customers	3,605,613	1,246,539	1,031,753	2,518,169	644,043	9,046,117
	<b>9,107,927</b>	<b>35,530,483</b>	<b>1,031,753</b>	<b>2,597,503</b>	<b>2,815,442</b>	<b>51,083,108</b>

The amount of "Other" includes shares and investment funds in "Financial assets held for trading".

*Credit quality per class of financial assets*

The following table shows the credit quality by class of financial assets.

<b>December 31, 2014:</b>	<b>High grade</b>	<b>Standard or Sub-standard grade</b>	<b>Past due but not impaired</b>	<b>Individually impaired</b>	<b>Total</b>
Cash and cash equivalents (excluding cash on hand)	34,411,900	0	0	0	34,411,900
Financial assets held for trading	2,708,573	0	0	0	2,708,573
Trading assets pledged as collateral	4,866,340	0	0	0	4,866,340
Derivative financial assets	155,465	0	0	0	155,465
Financial assets -available-for-sale	33	0	0	0	33
Receivables from securities trading	338,058	0	0	0	338,058
Receivables from customers	14,822,839	0	428,418	416,801	15,668,058
	<b>57,303,208</b>	<b>0</b>	<b>428,418</b>	<b>416,801</b>	<b>58,148,427</b>

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**35. RISK MANAGEMENT [continued]**

<b>December 31, 2013:</b>	<b>High grade</b>	<b>Standard or Sub-standard grade</b>	<b>Past due but not impaired</b>	<b>Individually impaired</b>	<b>Total</b>
Cash and cash equivalents (excluding cash on hand)	29,435,080	0	0	0	29,435,080
Financial assets held for trading	3,303,525	0	0	0	3,303,525
Trading assets pledged as collateral	4,326,723	0	0	0	4,326,723
Derivative financial assets	149,650	0	0	0	149,650
Financial assets -available-for-sale	33	0	0	0	33
Receivables from securities trading	3,608,901	0	0	0	3,608,901
Receivables from customers	7,332,215	0	739,041	974,861	9,046,117
	<u>48,156,127</u>	<u>0</u>	<u>739,041</u>	<u>974,861</u>	<u>49,870,029</u>

The table below shows the percentage of secured and unsecured financial assets:

<b>December 31, 2014:</b>	<b>Secured share of exposure in percentage</b>	<b>Secured share of exposure</b>	<b>Unsecured share of exposure in percentage</b>	<b>Unsecured share of exposure</b>
High grade	100.00%	56,829,013	0.00%	0
Standard grade	-	-	-	-
Sub-standard grade	-	-	-	-
Past due but not impaired	100.00%	428,418	-	-
Impaired	1.69%	7,039	98.31%	409,762
Total	<u>99.29%</u>	<u>57,264,470</u>	<u>0.71%</u>	<u>409,762</u>

<b>December 31, 2013:</b>	<b>Secured share of exposure in percentage</b>	<b>Secured share of exposure</b>	<b>Unsecured share of exposure in percentage</b>	<b>Unsecured share of exposure</b>
High grade	100.00%	48,156,127	0.00%	0
Standard grade	-	-	-	-
Sub-standard grade	-	-	-	-
Past due but not impaired	100.00%	739,041	-	-
Impaired	9.71%	94,679	90.29%	880,182
Total	<u>98.24%</u>	<u>48,989,847</u>	<u>1.76%</u>	<u>880,182</u>

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**35. RISK MANAGEMENT [continued]**

Aging analysis of past due but not impaired financial assets:

<b>December 31, 2014:</b>	<b>Less than 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
Receivables from customers	428,418				428,418
Total	428,418				428,418

<b>December 31, 2013:</b>	<b>Less than 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
Receivables from customers	739,041				739,041
Total	739,041				739,041

***Collateral***

***Receivables from customers***

The Group shall perform or (depending on the transaction) endeavour to perform the agreement made with the client if sufficient cash for the transaction and for the broker's fee payable to the Group and other costs and fees payable by the client are available to the Group in full upon the entry into of the transaction with the client and thereafter in accordance with the provisions of the Group's Business Rules.

If the client does not make available sufficient cash for the transactions made with the Group, then the Group may carry out constrained liquidation in respect of the transactions performed in part or in whole by the Group and affected by the insufficiency of cash without any further request. If the client has a Coverage and Collateral Agreement in place, then the provisions of the Coverage and Collateral Agreement and the Business Rules, or if there is no Coverage and Collateral Agreement, then only the provisions of the Business Rules shall be applicable to the rules of constrained liquidation.

The Group only becomes entitled to constrained liquidation when under the agreement made with the client the Group becomes obliged to perform the agreement. If the Group exercises its right to constrained liquidation, then on the basis of the constrained liquidation it shall also be entitled to exercise its right to satisfaction from any instrument of the client held by or made available to the Group as a security deposit or exercise its right of set-off against any instrument of the client held by or made available to the Group and becomes entitled to seek satisfaction from any other collateral without further notice.

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**35. RISK MANAGEMENT [continued]**

The client accepts that when exercising its right to seek satisfaction from the security deposit, or any other right of set-off or right to seek satisfaction, the Group may seek satisfaction without delay for all its claims arising out of outstanding fees or costs, default interest or fines for default in payment even if the client did not receive any request for payment or any notice to that effect in respect of such liabilities or the period of time granted in the request for payment / notice to that effect has not expired.

The Group has the right to seek satisfaction from the Instruments held as a security deposit, which serve as collateral for any claim plus related costs arising on any grounds against the client as a main obligor, co-debtor or collateral debtor. When becoming entitled to seek satisfaction, the Group may seek satisfaction directly from the security deposit. Moreover the provisions of the Business Rules shall govern the provision of collateral for the payment obligation of the client vis-à-vis the Group and the due performance by the client.

The Group may grant investment loans to its clients. The purpose of an investment loan is to complement the resources available for the purchase of a security intended for purchase making use of the investment loan or to provide credit for the whole purchase price. The purchase of securities with investment loans can take place exclusively with the completion of a commissioned purchase order given by the client to the Group simultaneously with the agreement on the investment loan.

The client shall provide, as security for its liabilities originating from an investment loan, the following collaterals:

- the securities purchased with the use of that investment loan
- floating collateral: collateral required by the Group, during the term of the loan and in the period from the coming into effect of the investment loan agreement and the disbursement of the loan, calculated according to the daily decrease in the price of the security concerned in that transaction and the accumulation of interests.

Subject to compliance of the maximum value of the investment loan allowed for financing at any point of time, the Group may limit the stock of investment loans and deferred payments for any given security. The maximum size of an investment loan that can be granted to a client is determined on the basis of their client rating.

The Group may, on the basis of a separate agreement, allow deferred financial settlement for clients. On this basis, the client shall meet its payment obligation at the latest on the 15th day from its due date.

If the Group allowed the client a deferred financial settlement, the total quantity of the securities purchased in the transaction affected by the deferred financial settlement shall be used as collateral for the benefit of the Group, in addition to which, the client is obliged to provide the collateral determined by the Group (basic and floating collateral), continuously, until the financial settlement of the transaction.

According to the above mentioned, Erste Investment Ltd. referred the clients' securities to as collateral for all the receivables from customers up to the amount of the claim. The fair value of the client's securities owned handled by the Group, amounted to HUF 1,109,553,631 thousands and 972,043,774 on December 31, 2014 and 2013 respectively.

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**35. RISK MANAGEMENT [continued]**

*Receivables from securities trading*

Receivables from securities trading include the following:

- Receivables from trading on the Budapest Stock Exchange shows the balance of receivables resulting from securities transactions concluded on the stock exchange on own account around the consolidated statement of financial position date (not trade on commission).
- Receivables from OTC market trading include receivables from security transactions concluded on the OTC market on own account (not trade on commission).
- Other receivables from KELER Zrt. include settlement and deposit accounts held with the clearinghouse and amounts transferred to the Stock Exchange Settlement Fund maintained by the clearinghouse.

“Receivables from securities trading” derive from the difference between the trade date and the settlement date of the deals. Security delivery and bank transfer however occur the same day, so this kind of transactions means covered receivables.

*Operational risk*

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal controls and procedures. Erste Investment Group manages this risk through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by Internal Audit.

**36. EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATE**

At the Annual General Meeting held on 30 April 2015 the shareholders approved to distribute dividends of HUF 2,000 million after the year 2014, i.e. HUF 10,000 per share.

Portfolió Ltd. cancelled from registration on 21 January 2015 due to voluntary winding up procedure.

On 15 January 2015 the Swiss National Bank decided to discontinue the minimum exchange rate of CHF against EUR. This announcement resulted in significant appreciation of CHF against all major currencies including the currencies of CEE countries. Impact on Erste Investment Group was not significant due to the regulations of law on conversion.

On 9 February 2015 Erste Group, the European Bank for Reconstruction and Development (EBRD) and Hungarian Government declared cooperation on common press conference. Erste Group offered to the Hungarian Government and to EBRD to acquire minority share in Erste Bank Hungary Zrt at a maximum level of 15% per each. The change of the ownership structure hasn't happen till the date of these financial statements.

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**36. EVENTS AFTER THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DATE [continued]**

On 24 February 2015 the National Bank of Hungary announced to suspend the operational licence of Buda-Cash, a privately owned local broker house. MNB also sent regulatory commissioners to take-over the control over 4 small regional saving banks (DRB, ÉRB, DDRB, BRB) indirectly owned by the same private shareholders.

In March 2015 Quaestor Financial Hrvir - the bond issuer of Quaestor Broker, a Hungarian financial group - announced bankruptcy and the licence of Quaestor Broker were also suspended by MNB.

The brokerage firm failures had no significant effect on Erste Investment Group's financial position.

Approved by the Board of Directors on June 10, 2015 Budapest



Róbert Cselovszki, Zsolt Grebicsaj  
President General Director and Managing Director

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