



1H 2014 ČSOB Activity Report

Semi-Annual Report

as required by the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market

| | |
|------------------------------|---|
| Business name: | Československá obchodní banka, a. s. |
| Registered office: | Radlická 333/150, Praha 5, Postal Code 150 57, Czech Republic |
| Legal status: | Joint-stock company |
| Registration: | Registered in the Commercial Registry of the City Court in Prague, Section B XXXVI, Entry 46 |
| Date of registration: | 21 December 1964 |
| ID No.: | 00001350 |
| Tax registr. No.: | CZ699000761 (for VAT) CZ00001350 (for other taxes) |
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| Supervisory body: | Czech National Bank (CNB), Na Příkopě 28, Praha 1, Postal Code 115 03, Czech Republic |

The 1H 2014 ČSOB Activity Report (hereinafter referred to as Semi-Annual Report) **was published** on ČSOB's Internet website www.csob.cz **on 29 August 2014**. By publishing the Semi-Annual Report, ČSOB meets the information obligation under the Act No. 256/2004 Coll., Act on Business Activities on the Capital Market, as amended. The 1H 2014 results of the ČSOB group were published on 7 August 2014 in the form of a press release and a presentation which also contain definitions of terms and indicators used. In addition to the summary of information already published, the Semi-Annual Report contains the following: the interim consolidated financial statements of ČSOB as at 30 June 2014, the company profile, current information on ČSOB's managing and supervisory bodies, ČSOB's securities and other regulatory information.

All data and information contained in the Semi-Annual Report are as at 30 June 2014, unless stated otherwise.

This report has not been audited.

Summary

In 1H 2014, ČSOB group's net profit came in at CZK 7.2bn (+5% Y/Y). Loan portfolio (excl. ČMSS) further grew and reached CZK 456bn (+8% Y/Y), while the volume of deposits (excl. ČMSS and repo operations) increased to CZK 583bn (+8% Y/Y). The ČSOB group's total capital ratio (Basel III) stood at 17.4% and the (Core) Tier 1 ratio (Basel III) at 17.0% as of 30 June 2014. The loan / deposit ratio stood at 77.0% and the net stable funding ratio at 137.8% as of 30 June 2014.

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1. ČSOB GROUP'S ACTIVITIES IN 1H 2014¹

Measures of Sustainable Performance

Sound performance driven by business volumes growth and low credit costs

| ČSOB group key indicators | | 2011 | 2012 | 2013 | 1H 2013 | 1H 2014 |
|---------------------------|--------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Profitability | Net profit (CZK bn) | 11.2 | 15.3 | 13.7 | 6.9 | 7.2 |
| | Return on equity | 17.9% | 22.8% | 18.2% | 19.3% | 17.8% |
| Liquidity | Loan / deposit ratio | 72.7% | 75.2% | 76.5% | 76.6% | 77.0% |
| | Net stable funding ratio | 133.6% | 133.2% | 135.7% | 134.7% | 137.8% |
| Capital | Tier 1 ratio | 11.7% ¹ | 13.0% ¹ | 15.6% ¹ | 13.8% ¹ | 17.0% ² |
| Impairments | Credit cost ratio | 0.36% | 0.31% | 0.25% | 0.30% | 0.04% |
| Cost efficiency | Cost / income ratio | 46.7% | 45.9% | 47.5% | 46.7% | 47.1% |

¹ According to Basel II, ² According to Basel III

1H 2014 at a glance

Higher net profit driven by steady business volumes growth and significantly lower impairments

| | |
|---------------------------------|--|
| Business volumes | The loan portfolio (excl. ČMSS) maintained steady growth to CZK 456bn (+8% Y/Y), mainly thanks to mortgages, corporate/SME loans and leasing. Group deposits (excl. ČMSS and repo) grew to CZK 583bn (+8% Y/Y) thanks to increase across segments. |
| Operating income | Operating income declined to CZK 15.7bn in 1H 2014 (-1% Y/Y) and CZK 8.0bn in 2Q 2014 (-1% Y/Y) due to weaker revenues from financial operations not fully compensated by higher net interest income helped by business volumes growth and solid increase of net fee and commission income. |
| Operating expenses | Operating expenses reached CZK 7.4bn in 1H 2014 (flat Y/Y) and CZK 3.8bn in 2Q 2014 (+2% Y/Y) due to higher staff expenses. General administrative expenses decreased by 1% Y/Y. |
| Impairments | Credit cost ratio decreased to 4 bps (Ytd. annualized, -26bps Y/Y) due to improving quality of loan portfolio. |
| Net profit | As a result of above mentioned factors, the ČSOB net profit came in at CZK 7.2bn in 1H 2014 (+5% Y/Y) and CZK 3.6bn in 2Q 2014 (-1% Y/Y). |
| Liquidity & Capital | Loan / deposit ratio increased to 77.0% . Tier 1 ratio (Basel III) increased to 17.0% thanks to partial 2013 net profit retention of CZK 6.2bn. |
| Awards & Innovations | Euromoney awarded ČSOB as the Bank of the Year 2014 in the Czech Republic. Since April 2014, ČSOB as the first bank on the Czech market, offered merchants portable payment terminal "mPOS" connected to smartphone or tablet, enabling acceptance of payment cards . In the course of 2Q 2014 ČSOB extended portfolio of contactless payment solutions with introduction of contactless stickers . |

¹ All numbers in this part of the 1H 2013 ČSOB Activity Report are consolidated, unaudited, according to EU IFRS.

As of 1Q 2014, the consolidation method of ČMSS changed from proportional to equity, as required by IFRS 11. In consolidated profit and loss statement, results of ČMSS are reported in line "Share of profit of associates", while deposits and loans are no longer reported in consolidated balance sheet. In order to provide fully comparable figures, 2013 profit and loss statement, and balance sheet have been restated.

Ratios and other indicators

| Ratio / Indicator | 31. 12. 2011 | 31. 12. 2012 | 31.12.2013 | 30.6.2013 | 30.6.2014 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net interest margin (Ytd., annualized, %) | 3.39 | 3.21 | 3.20 (3.00) | 3.26 (3.06) | 3.22 |
| Cost / income ratio (%) | 46.7 | 45.9 | 47.5 (47.1) | 46.7 (46.3) | 47.1 |
| RoE (Ytd., %) | 17.9 | 22.8 | 18.2 | 19.3 | 17.8 |
| RoA (Ytd., %) | 1.23 | 1.63 | 1.42 | 1.47 | 1.42 |
| RoAC, BU Czech Republic (Ytd., %) | N/A | 35.1 | 40.0 (35.2) | 43.9 (34.4) | 40.1 |
| Credit cost ratio (% annualized) | 0.38 | 0.31 | 0.25 | 0.30 (0.30) | 0.04 |
| NPL ratio (%) | 3.88 | 3.57 | 3.34 (3.12) | 3.82 (3.53) | 3.30 |
| NPL ratio (ČNB definition, %) | 5.19 | 4.79 | 4.65 (4.39) | 5.14 (4.80) | 4.39 |
| NPL coverage ratio (%) | 73.5 | 71.7 | 75.7 (75.5) | 72.9 (72.6) | 71.1 |
| Core Tier 1 ratio (%) | 11.7 ¹ | 13.0 ¹ | 15.6 ¹ | 13.8 ¹ | 17.0 ² |
| Total capital ratio (%) | 15.5 ¹ | 15.2 ¹ | 15.6 ¹ | 15.8 ¹ | 17.4 ² |
| Solvency (Solvency I, %) | 213.0 | 224.0 | 217.0 | 213.0 | 214.7 |
| Leverage ratio (Basel III, %) | 3.98 | 4.73 | 5.46 | 4.99 | 4.56 |
| Net stable funding ratio (Basel III, %) | 133.6 | 133.2 | 135.7 | 134.7 | 137.8 |
| Liquidity coverage ratio (Basel III, %) | 220.4 | 336.1 | 225.6 | 339.5 | 220.4 |
| Loan to deposit ratio (%) | 72.7 | 75.2 | 76.5 (77.0) | 76.6 (78.7) | 77.0 |

2011 and 2012 have not been restated for methodological changes (ČMSS & NIM calculation), 2013 has been restated. Figures in brackets are before restatement.

¹ According to Basel II, ² According to Basel III

Consolidated Unaudited Financial Statements as at 30 June 2014

Consolidated P&L

| (CZK m) | 2Q 2013 | 1Q 2014 | 2Q 2014 | Y/Y | Q/Q | 1H 2013 | 1H 2014 | Y/Y |
|---|---------------|---------------|---------------|------------|------------|---------------|---------------|------------|
| Interest income | 6 943 | 6 838 | 6 863 | -1% | 0% | 13 800 | 13 701 | -1% |
| Interest expense | -1 169 | -1 043 | -1 033 | -12% | -1% | -2 370 | -2 076 | -12% |
| Net interest income | 5 774 | 5 795 | 5 830 | +1% | +1% | 11 430 | 11 625 | +2% |
| Net fee and commission income | 1 318 | 1 392 | 1 497 | +14% | +8% | 2 727 | 2 889 | +6% |
| Net gains from financial instruments at FVPL ¹ | 706 | 262 | 361 | -49% | +38% | 1 108 | 623 | -44% |
| Other operating income ² | 253 | 307 | 270 | +7% | -12% | 564 | 577 | +2% |
| Operating income | 8 051 | 7 756 | 7 958 | -1% | +3% | 15 829 | 15 714 | -1% |
| Staff expenses | -1 661 | -1 708 | -1 704 | +3% | 0% | -3 351 | -3 412 | +2% |
| General administrative expenses | -1 841 | -1 758 | -1 891 | +3% | +8% | -3 670 | -3 649 | -1% |
| Depreciation and amortisation | -188 | -184 | -161 | -14% | -13% | -375 | -345 | -8% |
| Operating expenses | -3 690 | -3 650 | -3 756 | +2% | +3% | -7 396 | -7 406 | 0% |
| Impairment losses | -199 | -39 | -46 | -77% | +18% | -710 | -85 | -88% |
| Impairment on loans and receivables | -200 | -42 | -52 | -74% | +24% | -706 | -94 | -87% |
| Impairment on other assets | 1 | 3 | 6 | >+100% | +100% | -4 | 9 | N/A |
| Share of profit of associates | 204 | 185 | 189 | -7% | +2% | 409 | 374 | -9% |
| Profit before tax | 4 366 | 4 252 | 4 345 | +0% | +2% | 8 132 | 8 597 | +6% |
| Income tax expense | -696 | -645 | -710 | +2% | +10% | -1 220 | -1 355 | +11% |
| Profit for the period | 3 670 | 3 607 | 3 635 | -1% | +1% | 6 912 | 7 242 | +5% |
| Attributable to: | | | | | | | | |
| Owners of the parent | 3 674 | 3 606 | 3 630 | -1% | +1% | 6 911 | 7 236 | +5% |
| Non-controlling interests | -4 | 1 | 5 | N/A | N/A | 1 | 6 | N/A |

¹ FVPL = fair value through profit and loss.

² Other operating income = Net realised gains on available-for-sale fin. assets, dividend income, other net income.

P&L Review

The **operating profit** declined by 1% Y/Y to CZK 15.7bn, as lower revenues from financial operations exceeded positive performance of net interest income and growth in net fee and commission income. The **net interest income** grew by 2% Y/Y, supported mainly by growing business volumes in all major segments. Thanks to higher fees volume in retail (card fees driven by higher number of transactions and fund management fees) and corporate segment (loan fees driven by higher volumes and foreign payments), the **net fee and commission income** increased by 6% Y/Y.

Operating expenses were flat Y/Y at CZK 7.4bn as lower general administrative expenses were offset by increase in staff expenses. **General administrative expenses** declined by 1% Y/Y driven mainly by savings in postage, professional fees and marketing, while ICT expenses were higher. **Staff expenses** increased by 2% Y/Y. Adjusted for the release of accruals in 2Q 2013, staff expenses would increase by 1% Y/Y due to annual wage adjustments.

The **impairments on loans and receivables** declined to CZK 94m, i.e. -87% Y/Y. The **credit cost ratio** decreased Y/Y to 4bps (Ytd.) mainly due to further improved quality of loan portfolio which led to lower new impairments both specific and portfolio ones.

Consolidated Balance Sheet – Assets

| (CZK m) | 30/6 2013 | 31/12 2013 | 30/6 2014 | Ytd. | |
|---|----------------|----------------|------------------|-------------|--|
| Cash and balances with central banks | 17 686 | 20 728 | 19 033 | -8% | |
| Financial assets held for trading | 150 899 | 204 729 | 66 392 | -68% | Decrease due to reclassification of reverse repo operations with CNB to Loans & Receivables. |
| Financial assets designated at fair value through P/L | 7 458 | 7 467 | 6 621 | -11% | |
| Available-for-sale financial assets | 74 239 | 75 843 | 84 127 | +11% | |
| Loans and receivables - net | 448 531 | 475 169 | 716 532 | +51% | |
| Loans and receivables to credit institutions - gross | 49 106 | 60 429 | 284 961 | >+100% | Increase due to reclassification of reverse repo operations with CNB from financial assets held for trading. |
| Loans and receivables to other than credit institutions - gross | 411 180 | 425 883 | 442 281 | +4% | |
| Allowance for impairment losses | -11 754 | -11 144 | -10 710 | -4% | |
| Held-to-maturity investments | 145 243 | 150 944 | 149 272 | -1% | |
| Fair value adjustments of the hedged items in portfolio hedge | 310 | 927 | 1 833 | +98% | |
| Derivatives used for hedging | 9 788 | 9 285 | 12 435 | +34% | |
| Current tax assets | 32 | 13 | 15 | +12% | |
| Deferred tax assets | 91 | 96 | 99 | +3% | |
| Investments in associate | 4 569 | 4 913 | 4 596 | -6% | |
| Investment property | 297 | 289 | 295 | +2% | |
| Property and equipment | 7 790 | 7 557 | 6 705 | -11% | |
| Goodwill and other intangible assets | 2 927 | 2 885 | 2 889 | 0% | |
| Non-current assets held-for-sale | 183 | 194 | 707 | >+100% | |
| Other assets | 2 147 | 1 915 | 2 493 | +30% | |
| Total assets | 872 191 | 962 954 | 1 074 044 | +12% | |

Consolidated Balance Sheet – Liabilities and Equity

| (CZK m) | 30/6 2013 | 31/12 2013 | 30/6 2014 | Ytd. | |
|---|----------------|----------------|------------------|-------------|---|
| Financial liabilities held for trading | 138 842 | 186 920 | 104 962 | -44% | Decrease due to reclassification of repo operation with institutional client to Deposits. |
| Financial liabilities at amortised cost | 632 215 | 672 601 | 855 906 | +27% | |
| of which Deposits received from central banks | 492 | 492 | 0 | -100% | Increase due to reclassification of repo operation with institutional client from Financial liabilities held for trading. |
| of which Deposits received from credit institutions | 53 494 | 64 318 | 76 986 | +20% | |
| of which Deposits received from other than credit institut. | 542 329 | 576 774 | 749 507 | +30% | |
| of which Debt securities in issue | 27 915 | 31 016 | 29 413 | -5% | |
| of which Subordinated liabilities | 7 986 | 0 | 0 | 0% | |
| Fair value adjustments of the hedged items in portfolio hedge | -167 | -57 | 3 134 | N/A | |
| Derivatives used for hedging | 8 323 | 9 507 | 12 553 | +32% | |
| Current tax liabilities | 588 | 913 | 379 | -58% | |
| Deferred tax liabilities | 2 143 | 1 913 | 2 160 | +13% | |
| Provisions | 856 | 876 | 743 | -15% | |
| Other liabilities | 23 700 | 9 828 | 13 222 | +35% | |
| Total liabilities | 806 500 | 882 501 | 993 059 | +13% | |
| Share capital | 5 855 | 5 855 | 5 855 | 0% | |
| Share premium account | 7 509 | 15 509 | 15 509 | 0% | |
| Statutory reserve | 18 687 | 18 687 | 18 687 | 0% | |
| Retained earnings | 26 203 | 32 949 | 32 076 | -3% | |
| Available-for-sale reserve | 5 024 | 4 700 | 5 265 | +12% | |
| Cash flow hedge reserve | 2 197 | 2 548 | 3 389 | +33% | |
| Foreign currency translation reserve | 1 | 2 | 2 | +1% | |
| Parent shareholders' equity | 65 475 | 80 249 | 80 783 | +1% | |
| Minority interest | 216 | 204 | 202 | -1% | |
| Total equity | 65 691 | 80 453 | 80 985 | +1% | |
| Total liabilities and equity | 872 191 | 962 954 | 1 074 044 | +12% | |

Balance Sheet Review

Loan portfolio (excl. ČMSS) maintained steady growth and reached CZK 456.0bn at the end of 2Q 2014 mainly thanks to mortgages, corporate/SME loans and leasing.

Mortgages increased by 8% to CZK 205.7bn, thanks to relatively stable real estate prices, interest rates at new record lows and partly refinancing building savings loans. In 1H 2014, ČSOB provided over 11 thousand of new mortgages in the total amount of CZK 19.8bn and further strengthened its leading market position. Portfolio of **building savings loans** declined by 2% Y/Y to CZK 66.9bn as new sales did not match maturing loans. In **consumer finance**, ČSOB newly offered cash loan with interest rate discount applicable in the second half of the repayment period. This helped to reach in May the highest monthly new sales since 2008 and to maintain strong sales also in June. Outstanding volumes slightly grew to CZK 19.3bn (+1% Y/Y).

ČSOB maintained **SME loan** (which include municipalities and housing cooperatives) growth 4% Y/Y to CZK 75.9bn, driven by mid-sized and micro companies while keeping the credit risk under control. **ČSOB Leasing** further maintained its leading market position. Outstanding volumes increased by 16 % Y/Y to CZK 25.3bn, driven by machinery and equipment asset financing. Moreover, in 1H 2014, ČSOB Leasing also strengthened its market position in car financing segment. Besides, cross selling activities with corporate/SME segment continued to support leasing sales. **Corporate loans** grew by 11% Y/Y to CZK 125.8bn driven by plain vanilla financing. The major Y/Y loan growth has been recorded in energy, telecommunications and retail sectors.

Group deposits (excl. ČMSS and repo operations) grew to CZK 583.3bn, thanks to increase across all business segments.

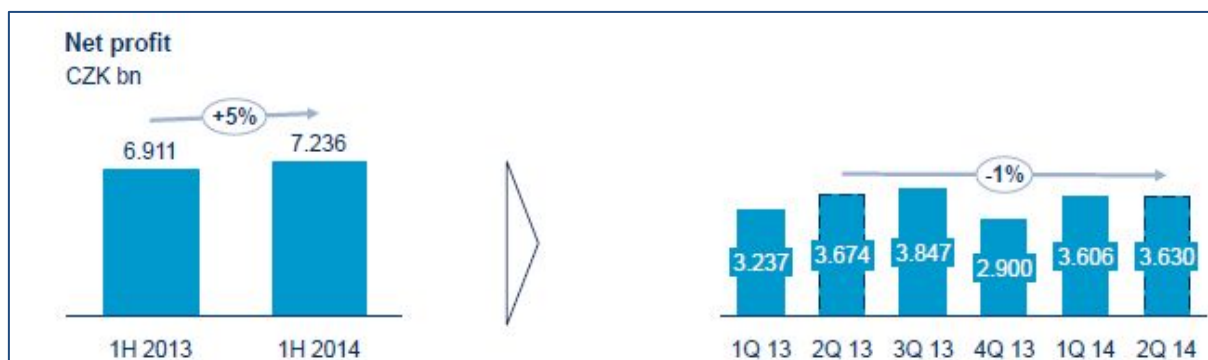
Within the total **client deposits**, current accounts reported the highest Y/Y growth, by 9%. Savings deposits grew by 8% Y/Y, while term deposits declined by 15% Y/Y, but from very low basis compared to the other two categories. The volumes of **building savings deposits** continued to slowly decline to CZK 82.7bn, i.e. -2% Y/Y. The 12% Y/Y increase of the **pension fund** to CZK 34.6bn was driven by increasing average monthly contribution. The portfolio of clients in transformed fund remained stable.

The ČSOB group is keeping its number 1 position in the funds market. **Asset under management (AUM)** increased by 7% Y/Y to CZK 125.4bn, of which capital protected and other mutual funds improved in total by 18% Y/Y thanks to lower volume of maturities and historically low interest rates. Clients continued to seek alternative investments to deposit products, which has been visible already for more than 1 year. In 2Q 2014, new sales of **mutual funds** (capital protected and other mutual funds) grew Q/Q, mainly thanks to open ended funds.

Details on the 1H 2014 ČSOB Group Results

Net Profit

Higher business volumes, demand for mutual funds coupled with low impairments contributed the most to the Y/Y growth in net profit



1H 2014 net profit increased to CZK 7.2bn (+5% Y/Y) helped by continuous growth in business volumes, card transactions and demand for investment products. Operating expenses remained flat Y/Y as a combination of slightly lower general administrative expenses and moderately higher staff expenses. Significantly lower impairments reflect the high quality of loan portfolio.

The **2Q 2014 net profit stands at CZK 3.6bn** (-1% Y/Y) due to a combination of moderately lower operating income and slightly higher operating expenses. Lower impairments were helped also by a recovery of a historical file.

The return on equity (ROE) reached **17.8%** in 1H 2014, down from 19.3% driven solely by higher equity.

Notes:

- 2Q 2013 one-off items (total of CZK 0.1bn) included in the results: Sale of a non-strategic stake in payment provider (CZK 0.1bn).
- 3Q 2013: one-off items (total of CZK 0.4bn) included in the results: recovery of already impaired bad debt from the past (CZK 0.2bn) and other income (CZK 0.2bn).
- 4Q 2013: one-off items (total of CZK -0.2bn) included in the results: impact of one-off adjustment of mortgage commission accruals (CZK -0.2bn).
- 2Q 2014: one-off items (total of CZK 0.3bn) included in the results: recovery of already impaired historical file (CZK 0.1bn), sale of ICT system to KBC ICT branch (CZK 0.2bn).

Business Results – Group Lending

Growth in mortgages, corporate/SME as well as in leasing

| Gross outstanding volumes, CZK bn | 30.6.2013 | 30.6.2014 | Y/Y |
|-------------------------------------|--------------|--------------|------------|
| Loan portfolio (excl. ČMSS) | 422.6 | 456.0 | +8% |
| Retail/SME Segment | | | |
| Mortgages ¹ | 190.1 | 205.7 | +8% |
| Consumer finance | 19.1 | 19.3 | +1% |
| SME loans | 73.2 | 75.9 | +4% |
| Leasing | 21.9 | 25.3 | +16% |
| Corporate Segment | | | |
| Corporate loans ² | 113.7 | 125.8 | +11% |
| Factoring | 4.0 | 4.0 | -1% |
| Head Office³ | | | |
| | 0.6 | 0.0 | -93% |
| <hr/> | | | |
| Building savings loans ⁴ | 68.0 | 66.9 | -2% |
| <hr/> | | | |
| Loan portfolio (incl. ČMSS) | 490.6 | 522.9 | +7% |

30.6.2014 (incl. ČMSS)

Nearly 60% of the total loan portfolio is in retail, out of which majority is used to finance housing needs.

| Category | Percentage |
|------------------------|------------|
| mortgages | 39% |
| corporate segment | 25% |
| SME loans | 15% |
| building savings loans | 13% |
| leasing | 5% |
| consumer finance | 4% |

¹ The ČSOB group mortgages are booked in the balance sheet of ČSOB's subsidiary Hypoteční banka.

² Including credit-replacing bonds.

³ Historic files.

⁴ The ČSOB group building savings loans are booked in the balance sheet of ČMSS building savings company, 55%-owned by ČSOB. Volumes reported in 55%, but are not included in the ČSOB's consolidated balance sheet.

Business Results – Group Deposits

8% Y/Y growth of client deposits thanks to strong growth across most deposit products

| Outstanding volumes, CZK bn | 30.6.2013 | 30.6.2014 | Y/Y |
|--|--------------|--------------|-------------|
| Group deposits | 542.3 | 583.3 | +8% |
| Client deposits | 504.1 | 543.2 | +8% |
| Current accounts | 278.4 | 303.6 | +9% |
| Savings deposits | 210.8 | 226.9 | +8% |
| Term deposits | 14.9 | 12.7 | -15% |
| Pension fund ¹ | 30.8 | 34.6 | +12% |
| Other ² | 7.4 | 5.5 | -25% |
| <hr/> | | | |
| Building savings deposits ³ | 83.9 | 82.7 | -1% |
| Repo operations ⁴ | 83.0 | 166.2 | +100% |
| <hr/> | | | |
| Group deposits (incl. ČMSS and repos) | 709.2 | 832.2 | +17% |

30.6.2014 (incl. ČMSS and excl. repos)

| Category | Percentage |
|---------------------------|------------|
| client deposits | 82% |
| building savings deposits | 12% |
| pension fund | 5% |
| other | 1% |

¹ Liabilities to pension fund policy holders.

² Repo operations with non-banking financial institutions and other.

³ The ČSOB group building savings deposits are in the balance sheet of ČMSS building savings company, 55%-owned by ČSOB. Volumes are reported in 55% but not included in the ČSOB's consolidated balance sheet.

⁴ Repo operations with institutional clients.

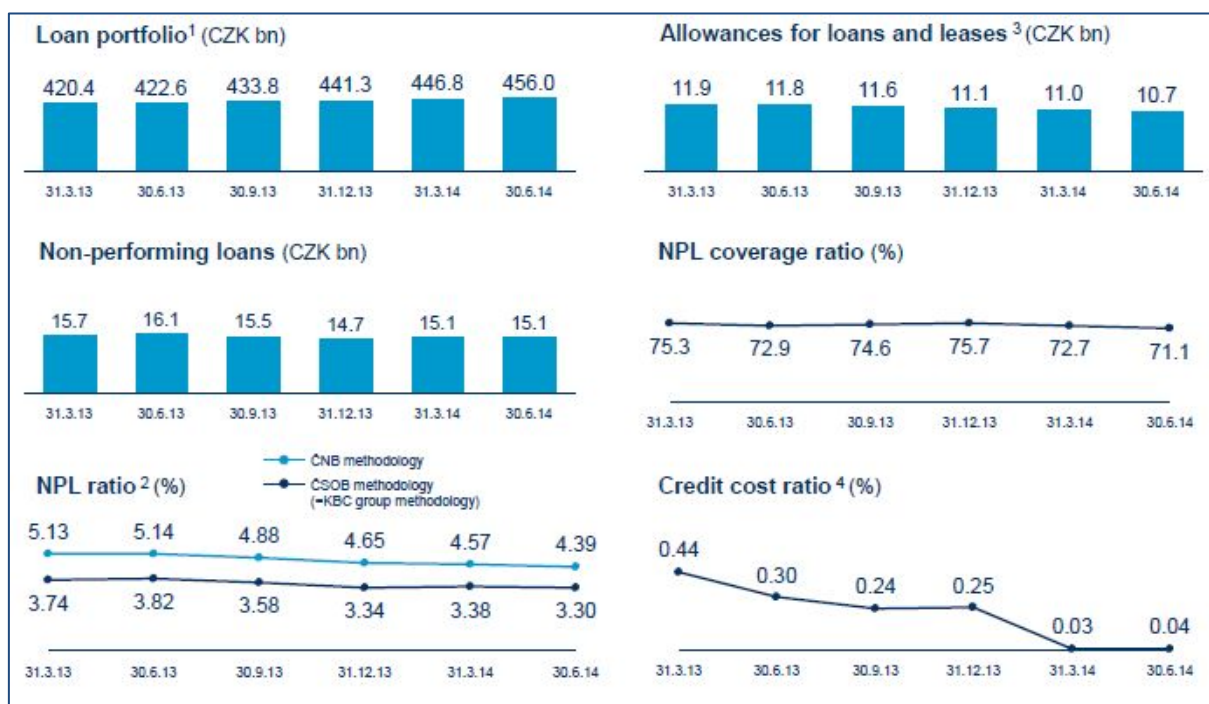
Risk Management Review

The **Tier 1 ratio** (Basel III) reached 17.0% as of 30 June 2014, compared to 13.8 % (Basel II) as of 30 June 2013, thanks 2013 profit retention and capital structure strengthening via KBC's capital increase in the course of 2013.

Liquidity remained ample; the loan / deposit ratio increased to 77.0% as of 30 June 2014 from 72.9% as of 30 June 2013.

Non-performing loans (more than 90 days overdue, according to the ČSOB methodology, in line with the KBC group methodology) decreased to 3.3% of gross loans as at 30 June 2014. The **credit cost ratio** (CCR) for 2Q 2014 stood at 0.04% compared to 0.30% for 2Q 2013.

Credit risk under kontrol



¹ Loans and receivables to other than credit institutions plus loans and receivables to credit institutions plus reverse repo operations with CNB minus exposure to banks from inter-bank transactions plus credit replacing bonds (in HTM, AFS and FVPL portfolios).

² ČSOB methodology in line with KBC group methodology.

³ Allowances for on-balance sheet items.

⁴ Ytd. annualized, including off-balance sheet items.

Impairments

- In 1H 2014, impairments on loans and receivables declined to CZK 94m (-87% Y/Y) and the credit cost ratio to 4 bps (Ytd., annualized) mainly due to good quality of loan portfolio which led to lower impairments Y/Y, both specific and portfolio ones.
- In addition, further decrease was caused by booking of all recoveries in impairments since 1Q 2014 (minor part booked in other net income till 4Q 2013) and recovery of a historical file (2Q 2014). Excluding these two items, the credit cost ratio would reach 11 bps (Ytd., annualized).
- CZK 52m of impairments were created in 2Q 2014 (-74% Y/Y). The Y/Y improvement was due to releases of impairments in the corporate area, leasing and head office, while keeping provisioning at appropriate levels. Impairments were lower in retail, mortgages, and factoring area as well.

Non-performing loans

- The NPL ratio decreased by 44 bps Y/Y to 3.3% at the end of 2Q 2014 with lower Y/Y NPL ratio being reported in all segments.
- In comparison with 1Q 2014, the NPL ratio was flat in corporate/SME, while it declined in consumer loans, mortgages as well as in leasing.

Coverage of non-performing loans

- The provision coverage of NPLs decreased by 4.2 pp Y/Y to 71.1%, largely due to lower coverage of NPL from corporate/SME loans.
- Mortgages representing almost half of the ČSOB group's loan portfolio (excl. ČMSS), require less provisioning given the fact they are largely secured by collateral. NPLs from the portfolio of consumer and corporate/SME loans are almost or fully covered by allowances, i.e. showing the coverage ratio around 100%.

Capital position

Capital position since 2013 year-end strengthened thanks to profit retention

| Consolidated, CZK m | 30.6.2013 ¹ | 31.12.2013 ¹ | 30.6.2014 ² |
|-------------------------------------|------------------------|-------------------------|------------------------|
| Total regulatory capital | 54,051 | 55,305 | 61,875 |
| - Tier 1 Capital | 47,325 | 55,245 | 60,316 |
| - Tier 2 Capital | 6,736 | 76 | 1,559 |
| - Deductions from Tier 1 and Tier 2 | -10 | -16 | - |
| Total capital requirement | 27,413 | 28,409 | 28,464 |
| - Credit risk | 21,126 | 22,475 | 22,102 |
| - Market risk | 1,764 | 1,410 | 1,791 |
| - Operational risk | 4,524 | 4,524 | 4,571 |
| Total RWA | 342,668 | 355,114 | 355,794 |
| Core Tier 1 ratio = Tier 1 ratio | 13.8% | 15.6% | 17.0% |
| Total capital ratio | 15.8% | 15.6% | 17.4% |

Tier 1 capital increased Y/Y thanks to retention of CZK 8.2bn from the 2013 net profit. Capital structure was further strengthened as the remaining subordinated debt (Tier 2) in the amount of CZK 8bn was repaid in the course of 2013 and the share capital (Tier 1) was increased by CZK 8bn.

Due to implementation of Basel III, surplus/shortfall in expected credit losses is reported on gross base since 1Q 2014, while it was reported on net base till 4Q 2013.

¹ According to Basel II, ² According to Basel III

RWA (risk weighted assets) = total capital requirement / 0.08

Tier 1 capital = share capital + share premium + legal reserve funds + retained earnings – goodwill – intangible assets

Tier 2 capital = subordinated debt weighted by regulatory coefficient + surplus in expected credit losses

Total regulatory capital = Tier 1 + Tier 2 – deductions

Tier 1 ratio = (Tier 1 capital – 0.5*deductions) / (total capital requirement / 0.08)

Selected ČSOB Group's Market Shares in the Czech Republic

Growing market share in total loans thanks to corporate/SME loans and building savings loans

| | | |
|------------|--|---------|
| 1st | Building savings loans ¹ | ↗ 45.9% |
| | Building savings deposits ¹ | ↗ 36.3% |
| | Mortgages ¹ | ↘ 29.8% |
| | Mutual funds ¹ | ↘ 28.1% |
| | Leasing ² | ↗ 14.6% |
| 2nd | Total Loans ¹ | ↗ 19.7% |
| | Total Deposits ¹ | ⇒ 19.4% |
| | Factoring ² | ↘ 18.5% |
| 3rd | Pension fund ³ | ⇒ 14.0% |
| | Corporate/SME loans ¹ | ↗ 15.2% |
| | Consumer lending ^{1,4} | ↗ 11.4% |

Arrows show Y/Y change.

Market shares as of 30 June 2014, except for pension fund and mutual funds, which are as of 31 March 2014.

The ranking is ČSOB's estimate.

¹ Outstanding at the given date (including ČMSS).

² New business in the year to the given date.

³ Number of clients at the given date.

⁴ Retail loans excluding mortgages and building savings loans.

| Insurance | Market shares | 2Q 2014 | Market position |
|-----------|--------------------|---------|-----------------|
| | Non-life insurance | ⇒ 6,4 % | 6 th |
| | Life insurance | ⇄ 6,0 % | 7 th |

Arrows show Y/Y change.

ČSOB's Credit Rating ČSOB (as at 27 August 2014)

| Rating agency | Moody's | | Fitch | |
|-----------------------|------------------|-------------------|------------------|------|
| | Long-term rating | A2 | Long-term rating | BBB+ |
| Outlook | negative | Outlook | stable | |
| Short-term rating | Prime-1 | Short-term rating | F2 | |
| Financial strenght | C- | Viability rating | bbb+ | |
| | | Support | 2 | |
| LT rating valid since | 20 June 2012 | | 3 February 2012 | |
| Last confirmation | 29 May 2014 | | 1 October 2013 | |

Awards for the ČSOB Group

ČSOB named the Best bank in the Czech Republic and Patria the Best Broker

| | |
|--|--|
| Euromoney: Bank of the Year 2014 Czech Republic | Euromoney awarded ČSOB as the Bank of the Year 2014 in the Czech Republic. |
| EMEA Finance: Best Bank Czech Republic 2013 | The UK's EMEA Finance named ČSOB the Best Bank in the Czech Republic for 2013 , based on market share, portfolio size and profitability and corporate strategy. |
| Global Finance: Best Bank 2014 Czech Republic | The US-based magazine Global Finance awarded ČSOB as the Best Bank 2014 Czech Republic (ČSOB won 13 out of 17 ever granted awards for the Czech Republic). |
| Global Finance: Best FX Bank 2014 | The US-based magazine Global Finance awarded ČSOB as the Best FX Bank for the eleventh time in a row . |
| The Zlatá koruna: Patria won the Best broker | In the Zlatá koruna contest: Patria won the Best Broker category and ČSOB Leasing won bronze in the Leasing for businessmen. |
| Internet Effectiveness Awards: 1st place for Era | In Internet Effectiveness Awards, ERA Helps the Regions CSR project won 1st place in the Non-profit Sector, Human Rights & Environment category. |
| Poštovní spořitelna named Friendliest bank | In Friendly bank contest organized by Bankovnipoplatky.com, Poštovní spořitelna was named The Friendliest bank for 1Q 2014. |

2. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Interim Consolidated Financial Statements of ČSOB as at 30 June 2014 prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (Unaudited) please refer to **Annex No. 1** of this Report.

3. COMPANY PROFILE

ČSOB and ČSOB's Group Profile

From ČSOB's History

| | |
|-------------|---|
| 1964 | ČSOB established by the state as a bank to provide foreign trade financing and convertible currency operations in the then Czechoslovak market. |
| 1993 | Continuation of ČSOB's activities in both Czech and Slovak market after the split of Czechoslovakia. |
| 1999 | ČSOB privatized – Belgium-based KBC Bank becoming the majority shareholder of ČSOB. |
| 2000 | Acquisition of Investiční a Poštovní banka (IPB). |
| 2007 | KBC Bank becoming ČSOB's sole shareholder after buying out all minority shareholders. |
| 2007 | New environmentally friendly building of ČSOB's headquarters in Prague – Radlice for 2,600 employees (Building of the Year 2007). |
| 2008 | As at 1 January, ČSOB's Slovak branch separated into a separate entity, fully controlled by KBC Bank via 100% of voting rights. |
| 2009 | In December, ČSOB sold remaining interest in the Slovak activities to KBC Bank. |
| 2013 | The establishment of the separate Business Unit Czech Republic within the KBC Group. |

ČSOB and ČSOB Group Profile

Československá obchodní banka, a. s. (hereinafter referred to as "ČSOB" or the "Bank") is operating in the Czech Republic as a universal bank. ČSOB is a wholly-owned subsidiary of Belgian KBC Bank NV (since 1999, since 2007 fully). KBC Bank is fully owned by an integrated bank-insurance group KBC Group NV.

ČSOB provides its services to all groups of clients, i.e. retail as well as SME, corporate and institutional clients. In retail banking in the Czech Republic, ČSOB is operating under main recognized brands – ČSOB (branches), Era (Financial centers) and Poštovní spořitelna (Postal Savings Bank – PSB; outlets of the Czech Post network).

ČSOB offers to its clients a wide range of banking products and services, including the products and services of the entire ČSOB group. The ČSOB group mainly consists of ČSOB (including Era and PSB), Hypoteční banka, ČMSS, ČSOB Penzijní společnost, ČSOB Leasing and ČSOB Factoring.

Effective as of 1 January 2013, KBC Group has organized its core markets activities into three business units – Belgium, Czech Republic (includes all KBC's business in the Czech Republic) and International Markets. In addition to the ČSOB group, Business Unit Czech Republic also includes ČSOB Pojišťovna, ČSOB Asset Management and Patria group.

The ČSOB group's (Business Unit Czech Republic) product portfolio includes next to standard banking services:

- financing housing needs (mortgages and building savings loans),
- insurance products,
- pension funds,
- collective investment products and asset management ,
- specialized services (leasing and factoring) and
- services related to trading equities on financial markets (Patria).

| ČSOB Group in Figures | 31.12.2013 | 30.6.2014 |
|---|-------------------|------------------|
| Employees (FTEs) | 7,553 | 7,625 |
| of which the Bank | 6,253 | 6,327 |
| Clients (the Bank; in millions) | 2.9 | 2.9 |
| Users of internet banking (the Bank; in millions) | 1.5 | 1.5 |
| Retail / SME branches and advisory centers | 556 | 556 |
| ČSOB retail / SME branches | 234 | 233 |
| Era Financial centers | 74 | 74 |
| ČMSS advisory centers | 136 | 133 |
| Hypoteční banka centers | 26 | 28 |
| ČSOB Pojišťovna branches | 86 | 88 |
| Leasing branches | 11 | 12 |
| ČSOB corporate branches | 11 | 11 |
| PSB outlets of the Czech Post network | ca. 3,100 | ca. 3,100 |
| ATMs (the Bank) | 1,006 | 1,022 |

Annual reports and other information about ČSOB and ČSOB's group are available at www.csob.cz

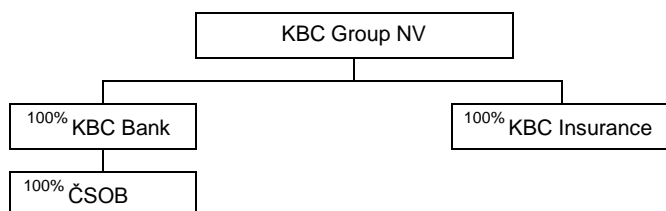
KBC Group Profile

ČSOB is a wholly-owned subsidiary of KBC Bank NV. KBC Bank is fully owned by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

KBC is an **integrated bank-insurance group**, catering mainly for retail, private banking, SME and mid-cap clients. Geographically, KBC focuses on its home markets of Belgium, the Czech Republic, Slovakia, Hungary and Bulgaria. In the rest of the world, KBC is present in Ireland and, to a limited extent, in several other countries to support corporate clients from its core markets.

As of the end of 2013, KBC Group served approximately 10 million clients in its five home markets and Ireland, and employed approximately 36,000 employees (FTEs).

The simplified scheme of the KBC Group as at 30 June 2014



KBC Group's shares are traded publicly on the Euronext Exchange in Brussels and on the Luxembourg Stock Exchange. KBC Group's core shareholders are: KBC Ancora, Cera, MRBB (a farmers association) and other core shareholders.

| KBC Group in Figures | | 31. 12. 2013 ¹ | 30. 6. 2014 |
|---|-------|---------------------------|-------------|
| Total assets | EURbn | 238.7 | 252.8 |
| Loans and advances to customers | EURbn | 120.4 | 124.7 |
| Deposits from customers and debt securities | EURbn | 161.1 | 166.4 |
| Net profit, group share | EURm | 1,015 | 714 |
| Common equity Tier 1 ratio (Basel III) | % | 12.8 | 12.9 |
| Cost / income ratio, banking (based on adjusted results) | % | 52 | 63 |

¹ The 2013 reference figures have been adjusted slightly following the application of the new IFRS 11 standard.

For more information please refer to the KBC's corporate website www.kbc.com.

ČSOB as a Controlled and Controlling Entity

Within the KBC group and the ČSOB group, ČSOB acts as both controlled entity and controlling entity as defined in the Commission Regulation (EC) No 809/2004.

ČSOB is a **controlled entity**. KBC Bank NV (identification number 90029371) is the sole shareholder of ČSOB. KBC Group NV (identification number 90031317) is the sole shareholder of KBC Bank. Both KBC Group and KBC Bank have their registered addresses at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium.

KBC Group and KBC Bank control ČSOB as they dispose with 100% of votes, based on the KBC Bank's ownership interest in ČSOB. ČSOB meticulously follows the legislation applicable on the territory of the Czech Republic to prevent any abuse of this control. ČSOB did not hold any shares of KBC or KBC Group between 1 January and 30 June 2014.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 30 June 2014 as defined by Section 79 of the Act No. 90/2012 Coll., the Corporations act, please refer to **Annex No. 2** of this Report.

ČSOB is not dependent on any entity in the concern into which ČSOB belongs.

4. MANAGING AND SUPERVISORY BODIES

ČSOB has a two-tier board system consisting of a **Board of Directors** and a **Supervisory Board**. The Board of Directors represents ČSOB in all matters and is assigned its management, while the Supervisory Board oversees the Board of Directors. ČSOB also has had the **Audit Committee** as an independent governing body of ČSOB since January 2010. The General Meeting is the supreme body of the Company.

ČSOB's Board of Directors and ČSOB's Top Management

ČSOB's Board of Directors operates as the Bank's statutory and supreme executive body. All of its members are also Senior Executive Officers.

ČSOB's Top Management reports directly to the Board of Directors. ČSOB's Top Management consists of the Bank's senior employees in the positions of Chief Executive Officer and Senior Executive Officers.

The composition of the Board of Directors and the Top Management is identical.

ČSOB's Board of Directors

| First Name and Surname | Position | Membership | | |
|----------------------------|-----------------------|------------|---|-----------|
| | | Since | The Beginning of the Member's Current Term of Office ¹ | Until |
| Pavel Kavánek | Chairman ² | 17.10.1990 | 20.5.2009 | 30.4.2014 |
| John Arthur Hollows | Chairman ³ | 1.5.2014 | 1.5.2014 | – |
| Petr Hutla | Member | 27.2.2008 | 28.2.2013 ⁴ | – |
| Marek Ditz | Member | 1.1.2013 | 1.1.2013 | – |
| Petr Knapp | Member | 20.5.1996 | 21.5.2014 ⁴ | – |
| Jan Lamser | Member | 26.5.1997 | 21.5.2014 ⁴ | 12.6.2014 |
| Bartel Puelinckx | Member | 8.12.2010 | 8.12.2010 | 30.6.2014 |
| Koen Wilmots | Member | 8.12.2010 | 8.12.2010 | – |
| Jiří Vévoda | Member | 8.12.2010 | 8.12.2010 | – |

¹ The term in office of the members elected prior to the amendment of ČSOB Articles in effect from 3 June 2011, lasts five years; in other cases it lasts four years.

² Chairman term since 20 May 2009.

³ Current chairman term since 2 May 2014.

⁴ Elected to a new term in office.

ČSOB's Top Management

| First Name and Surname | Position / Area of Responsibility | | |
|----------------------------|---|---|--|
| | From 1 January 2014 to 30 April 2014 | From 1 May 2014 to 30 June 2014 ¹ | Since 1 July 2014 ¹ |
| Pavel Kavánek | Chief Executive Officer (since 17 October 1990) | – | |
| John Arthur Hollows | – | Chief Executive Officer | |
| Petr Hutla | Senior Executive Officer, Specialized Banking and Insurance | | Senior Executive Officer, Convenient Retail Services |
| Marek Ditz | Senior Executive Officer, Customer Relationships | Senior Executive Officer, Investments & Markets | Senior Executive Officer, Insurance, Markets & Investments |
| Petr Knapp | Senior Executive Officer, Corporate Banking and Financial Markets | Senior Executive Officer, Relationship Services | |
| Jan Lamser | Senior Executive Officer, Convenience Services (until 12 June 2014) | | – |
| Bartel Puelinckx | Senior Executive Officer, Finance Management (until 30 June 2014) | | – |
| Koen Wilmots | Senior Executive Officer, Operations Management | Senior Executive Officer, Operations & Technologies | |
| Jiří Vévoda | Senior Executive Officer, Risk Management | | Senior Executive Officer, Finance Management |

¹ Changes in the ČSOB's Organisation Chart and areas of responsibility managed by ČSOB's Top Management.

For description of areas of responsibility managed by ČSOB's Top Management please refer to the ČSOB's Organisation Chart to **Annex No. 3** of this Report.

ČSOB's Supervisory Board

ČSOB's Supervisory Board supervises the exercising of the powers of the Board of Directors, the business of the Company and the manner in which it is conducted.

| First Name and Surname | Position | Membership | | |
|---|-----------------------|------------------------|---|-----------|
| | | Since | The Beginning of the Member's Current Term of Office ¹ | Until |
| Jan Švejnar | Chairman ² | 9.10.2003 ³ | 20.5.2009 | 20.5.2014 |
| Pavel Kavánek | Chairman ⁴ | 1.5.2014 | 1.5.2014 | – |
| Marko Voljč | Member | 29.6.2010 | 29.6.2010 | – |
| Patrick Roland Georges Zeno Vanden Avenue | Member | 22.4.2006 | 15.6.2011 | 31.5.2014 |
| Hendrik George Adolphe Gerard Soete | Member | 24.2.2007 ³ | 20.6.2012 ⁶ | – |
| Jan Gysels | Member | 14.2.2013 | 14.2.2013 | – |
| František Hupka | Member ⁵ | 23.6.2005 | 23.6.2010 | 31.5.2014 |
| Martina Kantová | Member ⁵ | 23.6.2010 | 23.6.2010 | 31.5.2014 |
| Ladislava Spielbergerová | Member ⁵ | 23.6.2010 | 23.6.2010 | 31.5.2014 |
| Franky Depickere | Member | 1.6.2014 | 1.6.2014 | – |
| Christine Van Rijseghem | Member | 1.6.2014 | 1.6.2014 | – |

¹ The term in office of the members elected prior to the amendment of ČSOB Articles in effect from 3 June 2011, lasts five years, in other cases it lasts four years.

² Chairman term since 3 June 2009.

³ Co-opted.

⁴ Current chairman term since 30 June 2014.

⁵ Elected by employees.

⁶ Elected to a new term in office.

The Audit Committee

ČSOB's Audit Committee acts as an independent body of ČSOB. Its members shall be elected and removed by the General Meeting of ČSOB's shareholders.

| First Name and Surname | Position | | Membership | |
|------------------------|--------------------|---|-----------------------|-----------|
| | | | Since | Until |
| Jan Švejnar | Member | Chairman of the ČSOB's Supervisory Board (until 20 June 2014) | 1.1.2010 ¹ | 20.5.2014 |
| Jan Gysels | Member | Member of the ČSOB's Supervisory Board | 5.4.2013 | – |
| Petr Šobotník | Independent member | Not a member of any ČSOB body | 1.2.2011 | – |
| Pavel Kavánek | Member | Chairman of the ČSOB's Supervisory Board (since 30 June 2014) | 1.6.2014 | – |
| Martin Jarolím | Member | Not a member of any ČSOB body | 1.6.2014 | – |

¹ From 23 February 2007 to 31 December 2009, he was a member of the Audit Committee, a body of the ČSOB's Supervisory Board.

Changes in the ČSOB's Managing and Supervisory Bodies in 1H 2014

On 28 April 2014, KBC Bank as the sole shareholder of ČSOB decided as follows:

- Pavel Kavánek was dismissed from the ČSOB's Board of Directors with effect from 30 April 2014.
- John Arthur Hollows was elected a member of the ČSOB's Board of Directors with effect from 1 May 2014.
- Pavel Kavánek was elected a member of the ČSOB's Supervisory Board with effect from 1 May 2014.

On 14 May 2014, KBC Bank as the sole shareholder of ČSOB decided as follows:

- Petr Knapp was re-elected a member of the ČSOB's Board of Directors with effect from 21 May 2014 (he has been a member of ČSOB's Board of Directors since May 1996).
- Jan Lamser was re-elected a member of the ČSOB's Board of Directors with effect from 21 May 2014 (he has been a member of ČSOB's Board of Directors since May 1997).

On 27 May 2014, KBC Bank as the sole shareholder of ČSOB decided as follows:

- Patrick Roland Georges Zeno Vanden Avenne was dismissed from the ČSOB's Supervisory Board with effect from 31 May 2014.
- František Hupka was dismissed from the ČSOB's Supervisory Board with effect from 31 May 2014.
- Martina Kantová was dismissed from the ČSOB's Supervisory Board with effect from 31 May 2014.
- Ladislava Spilebergerová was dismissed from the ČSOB's Supervisory Board with effect from 31 May 2014.
- Franky Depickere was elected a member of the ČSOB's Supervisory Board with effect from 1 June 2014.
- Christine Van Rijseghem was elected a member of the ČSOB's Supervisory Board with effect from 1 June 2014.
- Pavel Kavánek was elected a member of the ČSOB's Audit Committee with effect from 1 June 2014.
- Martin Jarolím was elected a member of the ČSOB's Audit Committee with effect from 1 June 2014.

On 12 June 2014, KBC Bank as the sole shareholder of ČSOB decided as follows:

- Jan Lamser was dismissed from the ČSOB's Board of Directors with effect from 12 June 2014.

On 19 June 2014, KBC Bank as the sole shareholder of ČSOB decided as follows:

- Bartel Puelinckx was dismissed from the ČSOB's Board of Directors with effect from 30 June 2014.

Introducing new members of Managing and Supervisory Bodies

John Arthur Hollows *(Born on 12 April 1956)*

He graduated from the Sidney Sussex College at the University in Cambridge with a degree in economics and law.

Upon graduation Mr. Hollows has followed a career in banking. He gained experience in the area of financial services at Barclays Bank in London and Taipei and at KBC in Hong Kong, Shanghai and Singapore. He held senior managerial positions in credit departments and in areas such as export finance, corporate and investment banking and treasury. He also focused on cost management. From August 2003 to April 2006, he was the Chief Executive Officer of K&H Bank (KBC Group) in Hungary. Between 2006 and 2009, Mr. Hollows served as the Senior General Manager of the Central and Eastern Europe Business Unit of KBC Group. From September 2009 to April 2010, he was the CEO of the KBC Group's Central and Eastern Europe and Russia Business Unit. Since September 2009 he has been a member of the Executive Committee of the KBC Group. From May 2010 to April 2014, he served as the Chief Risk Officer of the KBC Group. Between April 2006 and June 2009, Mr. Hollows was a member of ČSOB's Supervisory Board and the Chairman of its Audit Committee. Since 1 May 2014, he has been a member of the Board of Directors of ČSOB (and its Chairman since 2 May 2014) and ČSOB's Chief Executive Officer. Since 1 May 2014, Mr. Hollows has been the member of the Executive Committee of KBC Group responsible for the Business Unit Czech Republic.

Arthur Depickere *(Born on 28 January 1959)*

Franky Depickere studied commercial and financial sciences at the University of Antwerp (UFSIA; Belgium), and obtained a Master's degree in company financial management from the VLEKHO Business School (Belgium).

Following a short period at Gemeentekrediet bank, in 1982 Franky Depickere joined the CERA group, where he spent more than 17 years. Among other things he was an internal audit inspector at CERA Bank, financial director of CERA Lease Factors Autolease, chairman of the board of Nédée België-Luxemburg, a subsidiary of CERA Bank, a member of the Management Committee of CERA Investment Bank, and finally a Managing Director at KBC Securities. In 1999 he became managing director and chairman of the Management Committee of F. van Lanschot Bankiers België, as well as group director of F. van Lanschot Bankiers Nederland. From 2005 he was also a member of the Strategic Committee of F. van Lanschot Bankiers Nederland. Since 15 September 2006, he has been a member of Cera's Day-to-Day Management Committee and Managing Director of Cera Société de gestion and Almacora Société de gestion. Franky Depickere is a member of the Board of Directors of the KBC Group (a non-executive director). Since 1 June 2014, he has been a member of ČSOB's Supervisory Board.

Christine Van Rijseghem *(Born on 24 October 1962)*

She graduated in 1985 from the Faculty of Law at the University of Ghent (Belgium). Subsequently she completed an MBA in Financial Sciences at Vlerick Management School in Ghent (Belgium).

Ms. Van Rijseghem started her career at KBC (formerly Kredietbank) in 1987 at the Central Foreign Entities Department. Initially she was responsible for risk management and controlling and international acquisition strategy, and later on became head of that department. In 1994 she was appointed Head of the Credit Department of KBC's Irish subsidiary, Irish Intercontinental Bank. In 1996, she became CEO of KBC France and in 1999 of KBC's London branch. From 2000 to 2003, she was Senior General Manager of the Securities & Derivatives Processing Directorate of KBC Group. From 2003 to 30 April 2014, she was Senior General Manager of KBC Group Finance. Since 1 May 2014, Christine Van Rijseghem has been a member of the KBC Group Executive Committee and KBC Group Chief Risk Officer. Since 1 June 2014, she has been a member of ČSOB's Supervisory Board.

Martin Jarolím *(Born on 16 March 1972)*

He graduated from Charles University in Prague, Mathematics and Physics Department, where he studied from 1990 to 1995 specializing in Optimisation and Mathematical Economics, and then from 1995 to 2000 studied at Charles University in Prague, Centre for Economic Research and Graduate Education (CERGE-EI), – Ph.D. with the thesis Direct Foreign Investment and Foreign Trade. He has also attended various specialist and managerial courses.

Martin Jarolím has worked at ČSOB since 2000 in various specialized and management positions mainly in retail; worked as Executive Director of ČSOB Retail Branch Network from 2011 and from February 2014 works as Senior General Manager, Core Communities Banking in KBC Group NV, Business Unit International Product Factories. Since 1 June 2014, he has been a member of ČSOB's Audit Committee.

5. INFORMATION ABOUT ČSOB SECURITIES

Shares

| | | As at 30 June 2014 |
|----------------------|-------------------------|---------------------|
| ČSOB's shares | ISIN | CZ0008000288 |
| | Class | Ordinary shares |
| | Type | Bearer shares |
| | Edition | Book-entered |
| | Number of shares | 292,750,001 |
| | Nominal value | CZK 20 |
| | Total issue volume | CZK 5,855,000,020 |
| | Amount of share capital | |
| | | Paid up 100% |

KBC Bank NV, with its registered address at: Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek), Belgium, **is the sole shareholder of ČSOB**.

ČSOB shares are not publicly tradable on any official regulated market in either an EU member state, or an EEC member state.

ČSOB has not issued any convertible bonds or priority bonds as defined by Section 286 of the Act No. 90/2012 Coll., the Corporations act. In 1H 2014, ČSOB neither held any own shares, nor issued stock certificates.

Bonds (outstanding)

In the Czech Republic, ČSOB is an issuer of bonds and mortgage bonds issued under the ČSOB's bond issuance program. The program was approved by the Securities Commission in November 2003 (including joint issue terms for a previously non-determined number of bond issues) with a maximum amount of CZK 30bn of outstanding bonds and 10-year tenure.

By 30 June 2014, ČSOB issued the following **bond issues** under the bond issuance program in the Czech Republic:

| Issue Name | ISIN | Issue Date | Volume of Bonds Issued (Nominal Value) | |
|---|--------------|------------|---|-------|
| | | | CZKm | |
| Mortgage bond ČSOB 4.60%/2015 | CZ0002000706 | 15.11.2005 | CZKm | 1,300 |
| Bond ČSOB VAR/2018 | CZ0003701799 | 22.12.2008 | CZKm | 10 |
| Bond ČSOB Inface I/2015 (Tranche no. 1) | CZ0003702292 | 10.3.2010 | CZKm | 170 |
| Bond ČSOB koš akcií/2015 (Tranche no. 1) | CZ0003702441 | 27.10.2010 | CZKm | 121.7 |
| Bond ČSOB 3M PRIBOR/2016 (Tranche no. 1) | CZ0003702540 | 2.3.2011 | CZKm | 149 |
| Bond ČSOB Inface II/2016 (2 Tranches) | CZ0003702789 | 17.3.2011 | CZKm | 630 |
| Bond ČSOB Měny II/2016 (Tranche no. 1) | CZ0003702821 | 5.5.2011 | CZKm | 280 |
| Bond ČSOB koš akcií II/2016 (Tranche no. 1) | CZ0003702839 | 9.6.2011 | CZKm | 111.3 |
| Bond ČSOB likvidní IV/2017 (3 Tranches) | CZ0003703050 | 2.2.2012 | CZKm | 2,400 |
| Bond ČSOB 3M PRIBOR II/2017 (Tranche no. 1) | CZ0003703183 | 29.3.2012 | CZKm | 210 |
| Bond ČSOB likvidní VI/2017 (2 Tranches) | CZ0003703472 | 6.8.2012 | CZKm | 2,000 |

The bond issuance program was closed. Any issue of bonds or any bond programme are not currently prepared.

By 30 June 2014, ČSOB issued the following **investment certificate issues** under the certificate issuance program (public or non public) in the Czech Republic:

| Issue Name | ISIN | Issue Date | Volume of Investment Certificates Issued (Nominal Value) | |
|---|--------------|------------|--|-------|
| | | | CZKm | EURm |
| ČSOB Investment certificate II. (Tranche no. 1) | CZ0000300207 | 29.8.2013 | 167.75 | |
| ČSOB Investment certificate III. (Tranche no. 1) | CZ0000300215 | 19.9.2013 | 209.74 | |
| ČSOB Investment certificate V. (Tranche no. 1) | CZ0000300256 | 25.10.2013 | 59.3 | |
| ČSOB Investment certificate VI. (Tranche no. 1) | CZ0000300264 | 30.10.2013 | | 4.121 |
| ČSOB Investment certificate IV. credit | CZ0000300249 | 1.11.2013 | 500.00 | |
| ČSOB Investment certificate VII. (Tranche no. 1) | CZ0000300280 | 4.12.2013 | 154.12 | |
| ČSOB Investment certificate VIII. (Tranche no. 1) | CZ0000300298 | 16.12.2013 | 189.65 | |
| ČSOB Investment certificate IX. (Tranche no. 1) | CZ0000300306 | 19.2.2014 | 135.61 | |
| ČSOB Investment certificate X. (Tranche no. 1) | CZ0000300314 | 12.3.2014 | 4.983 | |
| ČSOB Investment certificate XI. (Tranche no. 1) | CZ0000300322 | 19.3.2014 | 134.5 | |
| ČSOB Investment certificate XII. (Tranche no. 1) | CZ0000300330 | 16.4.2014 | 175.47 | |
| ČSOB Investment certificate XIII. (Tranche no. 1) | CZ0000300348 | 16.4.2014 | 124.92 | |
| ČSOB Investment certificate XIV. (Tranche no. 1) | CZ0000300355 | 28.5.2014 | 134.45 | |
| ČSOB Investment certificate XV. (Tranche no. 1) | CZ0000300363 | 28.5.2014 | 75.10 | |
| ČSOB Investment certificate XVI. (Tranche no. 1) | CZ0000300371 | 25.6.2014 | 107.55 | |
| ČSOB Investment certificate XVII. (Tranche no.1) | CZ0000300389 | 25.6.2014 | 93.05 | |

In August 2014, ČSOB issued the following **investment certificates issues** under the certificate issuance program (non public) in the Czech Republic:

| Issue Name | ISIN | Issue Date | Volume of Investment Certificates Issued (Nominal Value) | |
|---|--------------|------------|--|------|
| | | | CZKm | EURm |
| ČSOB Investment certificate XVIII. (Tranche no.1) | CZ0000300397 | 20.8.2014 | 129.34 | |
| ČSOB Investment certificate XIX. (Tranche no.1) | CZ0000300405 | 20.8.2014 | 131.80 | |

The Bond ČSOB VAR/2018 bond is listed at the Regulated Market of the Prague Stock Exchange; trading started on 22 December 2008. The remaining bonds, mortgage bonds and investment certificates are unlisted.

The purpose of the issuance of bonds and of investment certificates by ČSOB is mainly to enlarge the offer of investment products for the Bank's clients.

The bond issuance program's prospectus, amendments thereto and pricing supplements as well as the prospectus of the Bond ČSOB VAR/2018 are available at ČSOB's website www.csob.cz.

6. ADDITIONAL INFORMATION

Decision of Sole Shareholder in Exercising the Powers of the General Meeting

in accordance with Section 12 of the Act No. 90/2012 Coll., the Corporations act

On 14 April 2014, KBC Bank NV as ČSOB's sole shareholder:

Approved Separate Financial Statements of ČSOB as at 31 December 2013 and Consolidated Financial Statements of ČSOB and its subsidiaries as at 31 December 2013 prepared in accordance EU IFRS.

Approved distribution of the non-consolidated net profit for the year 2013 in the total amount of CZK 14,333,811 ths as follows:

- The part of ČSOB's non-consolidated net profit for the year 2013 in the amount of CZK 8,109,175 ths was distributed to the shareholders. The dividend per share was CZK 27.70. Dividends were paid in May 2014.
- The part of ČSOB's non-consolidated net profit for the year 2013 in the amount of CZK 6,224,636 ths was allocated to the account retained earnings from the previous years.

Information on Court Disputes

The most significant ČSOB's court dispute as at 30 June 2014, is shown in the following table including the dispute amount (without accessories).

| Counterparty of the Dispute | | Liability (CZKm) |
|-----------------------------|--------------------|------------------|
| 1 | ICEC-HOLDING, a.s. | 11,893 |

According to the Bank, this legal dispute does not constitute any risk, given its absolute unreasonableness. In addition, legal dispute has the risk of any potential defeat covered by the CNB's indemnity issued in connection with the sale of the IPB enterprise, according to the Bank.

Note: Other legal disputes shown in the ČSOB Annual Report 2013 on page 268 were closed in the first half of 2014.

Corporate Social Responsibility Related Events in 1H 2014

ČSOB continues to invest into society and its community

| | |
|----------------------|---|
| Responsible Business | <p>Service eScribe (online speech transcription services provided to our clients with hearing impairment) is now available at all specialized Czech Post outlets in South Bohemia region.</p> <p>In April, a pilot workshop for branch network employees with the topic communication with visually and hearing impaired people took place. Since September the workshop will become a standard part of client relationship employees' training. Also Financial centre's employees were trained in communication with hearing impaired clients.</p> |
| Education | <p>We supported 21 projects focused on financial literacy and education from ČSOB Education Programme.</p> <p>We supported another 10 students with health or social handicap from the Education Fund. It is a joint cooperation between ČSOB and the Committee of Good Will – the Olga Havlová Foundation.</p> |
| Diversity | <p>In 2014 ČSOB is general partner of “Světluška”; the project of Czech radio foundation. It is trying to enable to live independent and meaningful life to visually impaired people and also to connect the worlds of eyeless and sighted.</p> |
| Regions | <p>Regional development fund of Poštovní spořitelna (Postal Savings Bank) supported 22 projects in this year's first round. This years main topic is improvement of relations between neighbors.</p> |

Events after 30 June 2014

| Chapter | Part |
|---|---|
| Interim Consolidated Financial Statements | Note 38 |
| Managing and Supervisory Bodies | ČSOB's Board of Directors and ČSOB's Top Management Annex No.3 ČSOB's Organisation Chart |
| Information about ČSOB Securities | Investment certificates issues |

7. EXPECTED DEVELOPMENT

Expected Economic and Financial Situation of the ČSOB Group in 2H 2014

During the first six months of the year, the **Czech economy** saw recovery as the 1Q 2014 the gross domestic product (GDP) increased by 2.9% Y/Y and 2Q 2014 GDP increased by 2.6% Y/Y, according to the preliminary estimate of the Czech Statistical Office. Recovery of the Czech economy was driven by both domestic and foreign demand. According to the ČSOB Group's macroeconomic outlook, the GDP for the entire year of 2014 is expected to grow by 2.5% Y/Y.

In low interest rate environment, ČSOB group reported during the first half of 2014, higher profitability driven largely by growing business volumes and low credit costs. In addition it kept high asset quality, levels of capitalization and liquidity. ČSOB's sole shareholder decided to retain CZK 6.2bn of 2013 net profit in ČSOB to further strengthen its capital position.

For the second half of 2014, the ČSOB group will continue to focus on providing high quality financial service to its client. As in the past, ČSOB group's main aim continues to better serve the needs of its clients and further lift the core capabilities to sustainably differentiate the ČSOB group over long term. Servicing the retail and SME segments continues to be core to the business of the ČSOB group also in the second half of 2014. In addition, the ČSOB group will aim to continue accommodating the needs of its corporate clients in recovering economy environment. The ČSOB group will further endeavor to maintain solid profitability via business volumes growth and efficient cost control while sticking to its focus on asset quality. Further improved already strong capital and liquidity positions of the ČSOB group allow growing the credit portfolio faster than its group deposits. The Board of Directors expects that low credit costs seen in 1H 2014 are not sustainable and expects them to increase but still to remain below through-the-cycle levels in 2H 2014. The Board of Directors expects that low interest rate environment prevails also in 2H2014 and thus negatively affect operating profitability. Besides, low interest credit costs seen in 1H 2014 are not sustainable and the Board of Directors expects them to increase but still to remain below through-the-cycle levels in 2H 2014.

8. SWORN STATEMENT

Persons Responsible for the 1H 2014 ČSOB Activity Report

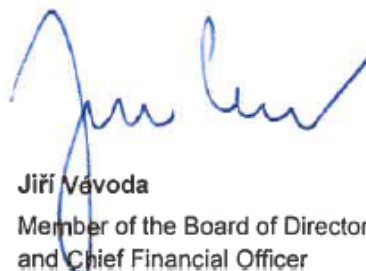
hereby declare that, to their best knowledge, the **1H 2014 ČSOB Activity Report** gives a true and fair account of ČSOB and its consolidation unit's financial situation, business activities and business results achieved in the first half of 2014 as well as ČSOB and its consolidation unit's outlook for the future trends in the financial situation, business activities and business results.

In Prague, 27 August 2014

Československá obchodní banka, a. s.



John Arthur Hollows
Chairman of the Board of Directors
and Chief Executive Officer



Jiří Vávoda
Member of the Board of Directors
and Chief Financial Officer

9. ANNEXES to the 1H 2014 ČSOB Activity Report

No. 1 Interim Consolidated Financial Statements of ČSOB as at 30 June 2014

No. 2 Companies of the ČSOB Group

No. 3 ČSOB's Organisation Chart

Contact:

Investor Relations

Československá obchodní banka, a. s.

Radlická 333/150

150 57 Praha 5

E-mail: investor.relations@csob.cz

Annex No. 1 to 1H 2014 ČSOB Activity Report

Československá obchodní banka, a. s.

Interim Consolidated Financial Statements

Half-year ended 30 June 2014

Prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union (Unaudited)

CONSOLIDATED STATEMENT OF INCOME FOR THE 6 MONTHS ENDED 30 JUNE 2014

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

| (CZKm) | Note | 1H 2014 | Restated 1H 2013 |
|--|--------|----------------|---------------------|
| Interest income | 5 | 13,701 | 13,800 |
| Interest expense | 6 | <u>(2,076)</u> | <u>(2,370)</u> |
| Net interest income | | 11,625 | 11,430 |
| Fee and commission income | | 4,398 | 4,174 |
| Fee and commission expense | | <u>(1,509)</u> | <u>(1,447)</u> |
| Net fee and commission income | 7 | 2,889 | 2,727 |
| Dividend income | | 7 | 7 |
| Net gains from financial instruments at fair value through profit or loss and foreign exchange | 8 | 623 | 1,108 |
| Net realised gains on available-for-sale financial assets | | 213 | 310 |
| Other net income | 9 | <u>357</u> | <u>247</u> |
| Operating income | | 15,714 | 15,829 |
| Staff expenses | 10 | (3,412) | (3,351) |
| General administrative expenses | 11 | (3,649) | (3,670) |
| Depreciation and amortisation | 22, 23 | <u>(345)</u> | <u>(375)</u> |
| Operating expenses | | (7,406) | (7,396) |
| Impairment losses | 12 | (85) | (710) |
| Share of profit of associates | 19 | <u>374</u> | <u>409</u> |
| Profit before tax | | 8,597 | 8,132 |
| Income tax expense | 13 | <u>(1,355)</u> | <u>(1,220)</u> |
| Profit for the period | | 7,242 | 6,912 |
| Attributable to: | | | |
| Owners of the parent | | 7,236 | 6,911 |
| Non-controlling interests | | 6 | 1 |

The accompanying notes are an integral part of these interim consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6 MONTHS ENDED 30 JUNE 2014

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

| (CZKm) | Note | 1H 2014 | 1H 2013 |
|---|------|--------------|----------------|
| Profit for the period | | 7,242 | 6,912 |
| Exchange differences on translating foreign operation | | - | 1 |
| Net gain / (loss) on cash flow hedges | | 1,029 | (1,684) |
| Net gain / (loss) on available-for-sale financial assets | | 535 | (773) |
| Income tax (expense) / benefit relating to components of other comprehensive income | | (165) | 414 |
| Other comprehensive income for the period, net of tax | 31 | 1,399 | (2,042) |
| Total comprehensive income for the period, net of tax | | 8,641 | 4,870 |
| Attributable to: | | | |
| Owners of the parent | | 8,643 | 4,865 |
| Non-controlling interests | | (2) | 5 |

The accompanying notes are an integral part of these interim consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

| (CZKm) | Note | 30-06-2014 | Restated 31-12-2013 | Restated 31-12-2012 |
|--|------|------------------|------------------------|------------------------|
| ASSETS | | | | |
| Cash and balances with central banks | 15 | 19,033 | 20,728 | 19,605 |
| Financial assets held for trading | 16 | 66,392 | 204,729 | 162,265 |
| Financial assets designated at fair value through profit or loss | 16 | 6,621 | 7,467 | 7,352 |
| Available-for-sale financial assets | 17 | 84,127 | 75,843 | 85,016 |
| Held-to-maturity investments | 17 | 149,272 | 150,944 | 138,437 |
| Loans and receivables | 18 | 716,532 | 475,169 | 418,379 |
| Fair value adjustments of the hedged items in portfolio hedge | | 1,833 | 927 | 1,030 |
| Derivatives used for hedging | 20 | 12,435 | 9,285 | 14,453 |
| Current tax assets | | 15 | 13 | 17 |
| Deferred tax assets | 13 | 99 | 96 | 88 |
| Investment in associate | 19 | 4,596 | 4,913 | 5,274 |
| Investment property | 21 | 295 | 289 | 430 |
| Property and equipment | 22 | 6,705 | 7,557 | 7,799 |
| Goodwill and other intangible assets | 23 | 2,889 | 2,885 | 2,928 |
| Non-current assets held-for-sale | 24 | 707 | 194 | 85 |
| Other assets | 25 | 2,493 | 1,915 | 1,907 |
| Total assets | | 1,074,044 | 962,954 | 865,065 |
| LIABILITIES AND EQUITY | | | | |
| Financial liabilities held for trading | 26 | 104,962 | 186,920 | 133,587 |
| Financial liabilities at amortised cost | 27 | 855,906 | 672,601 | 632,955 |
| Fair value adjustments of the hedged items in portfolio hedge | | 3,134 | (57) | 1,741 |
| Derivatives used for hedging | 20 | 12,553 | 9,507 | 9,166 |
| Current tax liabilities | | 379 | 913 | 752 |
| Deferred tax liabilities | 13 | 2,160 | 1,913 | 2,387 |
| Other liabilities | 28 | 13,222 | 9,828 | 9,415 |
| Provisions | 29 | 743 | 876 | 921 |
| Total liabilities | | 993,059 | 882,501 | 790,924 |
| Share capital | 30 | 5,855 | 5,855 | 5,855 |
| Share premium | | 15,509 | 15,509 | 7,509 |
| Statutory reserve | | 18,687 | 18,687 | 18,687 |
| Retained earnings | | 32,076 | 32,949 | 32,611 |
| Available-for-sale reserve | 30 | 5,265 | 4,699 | 5,701 |
| Cash flow hedge reserve | 30 | 3,389 | 2,548 | 3,567 |
| Foreign currency translation reserve | 30 | 2 | 2 | - |
| Shareholders' equity | | 80,783 | 80,249 | 73,930 |
| Non-controlling interests, presented within equity | | 202 | 204 | 211 |
| Total equity | | 80,985 | 80,453 | 74,141 |
| Total liabilities and equity | | 1,074,044 | 962,954 | 865,065 |

The accompanying notes are an integral part of these interim consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6 MONTHS ENDED 30 JUNE 2014

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

| (CZKm) | Attributable to equity holders of the Bank | | | | | Non- controlling interest | Total Equity |
|--|--|------------------|------------------------------------|----------------------|-------------------------------------|---------------------------------|-----------------|
| | Share capital (Note: 30) | Share premium | Statutory reserve ¹⁾ | Retained earnings | Other reserves (Note: 30, 31) | | |
| At 1 January 2013 | 5,855 | 7,509 | 18,687 | 32,611 | 9,268 | 211 | 74,141 |
| Total comprehensive income for the period | - | - | - | 6,911 | (2,046) | 5 | 4,870 |
| Dividends paid (Note: 14) | - | - | - | (13,320) | - | - | (13,320) |
| At 30 June 2013 | 5,855 | 7,509 | 18,687 | 26,202 | 7,222 | 216 | 65,691 |
| At 1 January 2014 | 5,855 | 15,509 | 18,687 | 32,949 | 7,249 | 204 | 80,453 |
| Total comprehensive income for the period | - | - | - | 7,236 | 1,407 | (2) | 8,641 |
| Dividends paid (Note: 14) | - | - | - | (8,109) | - | - | (8,109) |
| At 30 June 2014 | 5,855 | 15,509 | 18,687 | 32,076 | 8,656 | 202 | 80,985 |

⁽¹⁾ The statutory reserve represents accumulated transfers from retained earnings in compliance with the Statutes of the Bank. This reserve is not distributable.

The accompanying notes are an integral part of these interim consolidated financial statements.

These interim consolidated financial statements were approved for issue by the Board of Directors on 13 August 2014 and signed on its behalf by:

These interim consolidated financial statements were approved for issue by the Board of Directors on 13 August 2014 and signed on its behalf by:



John Hollows
Chairman of the Board of Directors
and Chief Executive Officer



Jiří Vévoda
Member of the Board of Directors
and Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6 MONTHS ENDED 30 JUNE 2014

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

| (CZKm) | Note | 1H 2014 | Restated 1H 2013 |
|---|------|----------------|---------------------|
| OPERATING ACTIVITIES | | | |
| Profit before tax | | 8,596 | 8,132 |
| Adjustments | | 42,858 | (8,032) |
| Net cash flows from / (used in) operating activities | | 51,454 | 100 |
| INVESTING ACTIVITIES | | | |
| Net cash flows from / (used in) investing activities | | 405 | 5,051 |
| FINANCING ACTIVITIES | | | |
| Net cash flows from / (used in) financing activities | | (6,851) | 1,979 |
| Net increase / (decrease) in cash and cash equivalents | | 45,008 | 7,130 |
| Cash and cash equivalents at the beginning of the year | 33 | 19,633 | 9,553 |
| Net increase / (decrease) in cash and cash equivalents | | 45,008 | 7,130 |
| Cash and cash equivalents at the end of the period | 33 | 64,641 | 16,683 |
| Additional information | | | |
| Interest paid | | (2,458) | (3,490) |
| Interest received | | 14,083 | 15,745 |
| Dividends received | | 7 | 8 |

The accompanying notes are an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2014

Prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union

Provided below is a selection of notes to the accounts. The numbers and titles of the notes that only appear in the annual report, but not in the half-yearly reports, are shown below solely to ensure that there is a link with the annual report.

1. CORPORATE INFORMATION

Československá obchodní banka, a. s. (the Bank or ČSOB) is a Czech joint-stock company with its registered office at Radlická 333/150, Prague 5, Czech Republic; the corporate ID is 00001350. ČSOB is a universal bank having its operations in the Czech Republic and offering its domestic and foreign customers a wide range of financial services and products in Czech Crowns and foreign currencies. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by KBC Group NV (KBC Group).

Furthermore, the ČSOB group (Group) (Note: 3) provides its clients with financial services in the following areas: building savings and mortgages, asset management, collective investment, pension insurance, leasing, factoring and distribution of life and non-life insurance products.

2. ACCOUNTING POLICIES

The interim consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013.

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements as at 31 December 2013, except for the adoption of new standards and interpretations for the year 2014 (Note: 2.3).

2.1 Basis of preparation

The interim consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts that have been measured at fair value. The interim consolidated financial statements are presented in millions of Czech Crowns (CZK), which is the presentation currency of the Group.

Statement of compliance

The Group interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union (EU IFRS).

Basis of consolidation

The interim consolidated financial statements include the Bank, all subsidiary companies that are controlled by the Bank (subsidiaries), all companies jointly controlled by the Bank (joint ventures) and all companies over which the Bank has significant influence (associates). The accounting policies of subsidiaries and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and gains and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity.

Joint ventures included in the Group consolidation are accounted for using equity method of consolidation. A venturer's share of assets, liabilities, income and expenses in the joint venture is expressed in one line of the consolidated statement of income and of the consolidated statement of the financial position on a net basis. Joint control exists when two or more venturers are bound by a contractual arrangement whereby joint control is established.

2.2 Significant accounting judgements and estimates

While applying the Group accounting policies, the management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques which include the application of mathematical models. If possible, the input to these models is taken from observable markets; if not, a degree of judgement is required to establish fair values. The judgements include considerations of credit, liquidity and model inputs such as correlation and volatility for longer-dated financial instruments.

Impairment losses on financial instruments

The Group reviews its financial instruments at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, management judgement is required to estimate the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances, the Group also makes a collective impairment allowance against exposures which, although not individually identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Management judgement is required to assess the fair value of collateral, which has a significant effect on the impairment allowance.

Goodwill impairment

Goodwill is tested annually for impairment. For this purpose, goodwill acquired in a business combination is allocated to the cash-generating unit which is expected to benefit from the synergies of the combination. A cash-generating unit represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Classification of leases

Classification of leases into either finance leases or operating leases is based on the extent to which the risks and rewards from the asset ownership have been transferred from a lessor to a lessee.

If a substantial number of all the risks and rewards incidental to ownership have been transferred to the lessee the lease is classified as a finance lease. Management judgement is needed to assess the extent to which the risks and rewards have been transferred.

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.

Provisions

Provisions are recognised when a current obligation exists as a result of past events. It is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount will be made. Judgements are applied to evaluate whether the current obligation exists taking into account all available evidence and whether the event is more likely to occur than not. Estimates of the amount of the obligation also require management judgement.

2.3 Changes in accounting policies

Effective from 1 January 2014

The accounting policies adopted in the preparation of the Group interim consolidated financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of the following standards, amendments and interpretations. The adoption of them did not have any effect on the financial performance or position of the Group, unless otherwise described below.

IFRS 10 Consolidated Financial Statements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces the part relating to the consolidated portion of IAS 27 Consolidated and Separate Financial Statements. A new definition of control is included and a single control model that applies to all entities is introduced. The model has been applied to the Group.

IFRS 11 Joint Arrangements is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. The standard has an impact on the consolidated financial statements of the Group. The proportionate method of consolidation is disallowed. Each line of financial statements is reduced by amounts contributed by Českomoravská stavební spořitelna, a.s. (ČMSS) and the resulting interest in the joint venture is presented in one line in the caption Investment in associates and joint ventures in the statement of financial position. In the statement of income, (respectively statement of other comprehensive income), one line item is presented in the caption Share of profit of associates and joint ventures, and Share of other comprehensive income of associates and joint ventures respectively.

IFRS 12 Disclosure of Interest in Other Entities is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard includes all of the disclosure requirements that were included in IAS 27, IAS 28 and IAS 31. The entity is required to disclose judgements made to determine whether it controls an entity.

IFRS 10, 11, 12 Transition Guidance (Amendments) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The amendments change the transition guidance to provide further relief from full retrospective application. The amendments clarify that an entity is not required to make adjustments to the previous accounting for its involvement with entities if the consolidation conclusion reached at the date of initial application is the same when applying IAS 27/SIC-12 and when applying IFRS 10.

Investment Entities (Amendments to IFRS 10, 12 and IAS 27) is effective for periods beginning on or after 1 January 2014. The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

IAS 27 Separate Financial Statements (Amendment) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (Amendment) is effective for periods beginning on or after 1 January 2013. The standard was endorsed by the European Commission for use on or after 1 January 2014 with a possible early application. The standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IAS 32 Offsetting Financial Assets and Financial Liabilities (Amendments) is effective for periods beginning on or after 1 January 2014. These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) is effective for periods beginning on or after 1 January 2014. The amendments provide relief from discontinuing hedge accounting when the novation of a derivative designated as a hedging instrument meets certain criteria. Similar relief will be included in IFRS 9 *Financial Instruments*.

Recoverable Amount Disclosures for Non-financial Assets (Amendments to IAS 36) is effective for periods beginning on or after 1 January 2014. The amendment clarifies the disclosure requirements of IAS 36 in relation to the standard IFRS 13 *Fair value measurement*.

IFRIC 21 Levies is effective for periods beginning on or after 1 January 2014. IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

Annual Improvements to IFRSs (2009-2011 Cycle), issued in May 2012 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. None of these have a significant impact on the accounting policies, financial position or performance of the Group.

Effective after 1 January 2014

The following standards, amendments and interpretations have been issued and are effective after 1 January 2014. The Group has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Group financial statements.

IFRS 9 Financial Instruments (2013) is available for application, however, it does not set the mandatory effective date. The uncertainty is due to the fact that the project on impairment of financial assets is still in progress. The previous effective date of 2015 has been removed from the standard until the impairment phase of the project is completed. The standard has not been endorsed by the European Commission to date.

The project to replace the current IAS 39 *Financial Instruments: Recognition and Measurement* has been divided into three phases. The first phase focuses on classification and measurement of financial instruments.

The new standard has reduced the number of asset measurement categories from four to two. Debt instruments are classified at amortised cost or fair value on the basis of both:

- The entity’s business model for managing financial assets; and
- The contractual cash flow characteristics of the financial asset.

Debt instruments may be measured at amortised cost if both conditions are met:

- The asset is held within the business model whose objective is to hold the assets to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Reclassifications between the two asset categories are required when the entity changes its business model. IFRS 9 retains a fair value option. At initial recognition entities can elect to measure financial assets at fair value, although they would otherwise qualify for amortised cost measurement. IFRS 9 removes the separation of embedded derivatives and the instrument is assessed in its entirety as to whether it fulfils the above two conditions.

All equity instruments are measured at fair value either through other comprehensive income or profit or loss.

Financial liabilities are classified and measured either at amortised cost or at fair value through profit or loss. A financial liability can be designated as measured at fair value through profit or loss if doing so results in more relevant information, because either:

- It eliminates or reduces a measurement or recognition inconsistency;
- A group of financial liabilities is managed and its performance is evaluated on a fair value basis.

IFRS 9 requires that changes in the fair value of an entity's own debt caused by changes in its own credit quality are recognised in other comprehensive income rather than in the statement of income. The entity can choose to apply this policy without applying other IFRS 9 requirements at the same time. Original requirements related to derecognition of financial assets and financial liabilities are carried forward unchanged from IAS 39 to IFRS 9.

The standard will have a significant impact on the Group financial statements, however due to the uncertainties about the second, impairment phase, and the macro hedging project, the impact of the IFRS 9 is not reasonably estimable.

The third phase, micro hedge accounting, aligns more closely the hedge accounting and risk management. In practice, more hedging strategies used for risk management will qualify for hedge accounting. The three types of hedge accounting (cash flow, fair value and net investment hedges) have been carried forward from IAS 39. The hedging relationship has to be effective at inception and on an ongoing basis and will be subject to a qualitative or quantitative forward-looking effectiveness assessment. The hedge effectiveness range of 80-125% is replaced by an objective-based test. If the hedging relationship meets risk management objectives it cannot be voluntarily terminated, rather, the quantities of hedged item or a hedging instrument have to be adjusted and hedged ratio rebalanced to comply with hedge effectiveness requirement.

Non-derivative financial assets and liabilities with fair value through profit or loss can be designated as hedging instruments in hedging relationships of any risk, not just foreign currency risk. They have to be designated in their entirety or as a proportion of their nominal amount.

The hedge accounting model extends the eligibility of risk components to include non-financial items, provided the component is separately identifiable and can be reliably measured.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) is effective for periods beginning on or after 1 January 2016. The amendment requires an acquirer of an interest in a joint operation to apply all of the principles on business combinations (IFRS 3) except for those that conflict with the guidance in this amendment.

IFRS 14 Regulatory Deferral Accounts is effective for periods beginning on or after 1 January 2016. The standard is limited to first-time adopters that recognise regulatory deferral account balances in accordance with their previous GAAP.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2017. The key concept of the new standard is identifying separate Performance Obligations. Entities will follow a five-step model for revenue recognition:

1. Identify the contract with the customer (a contract exists only when it is 'probable' that the entity will collect the consideration)
2. Identify separate Performance Obligations in the contract (a promise to transfer good or service)
3. Determine the transaction price (only an amount not subject to subsequent future reversals)
4. Allocate the transaction price to each Performance Obligation
5. Recognise revenue when or as each Performance Obligation is satisfied

As the standard is not applicable to insurance contracts, financial instruments or lease contracts, the impacts on the Group will be limited.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) is effective for periods beginning on or after 1 January 2016. The amendment clarifies the use of a revenue-based method for depreciating an asset.

Defined Benefit Plans: Employees Contributions (Amendments to IAS 19) is effective for periods beginning on or after 1 July 2014. The amendment brings clarification of the accounting requirements for contributions from employees or third parties to a defined benefit plan. It specifies conditions under which the contributions can be accounted for as a reduction of service costs.

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) is effective for periods beginning on or after 1 January 2016. The amendments define a bearer plant and include bearer plants within the scope of IAS 16.

Annual Improvements to IFRSs (2010-2013 Cycle, 2011-2013 Cycle), issued in December 2013 with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard, all of which are applicable on or after 1 July 2014.

2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these interim consolidated financial statements are provided in the annual report. In 1H 2014, no changes in content were made in the accounting policies that had a material impact on the result.

2.5 Comparative balances

Restatement

A new standard IFRS 11 is effective for use from 1 January 2014 with the retrospective application. According to the standard, the proportional method of consolidation is disallowed and joint ventures are to be included into the consolidated financial statements using equity method of consolidation from 2014 onwards. Accordingly, financial statements of the Group for the year ended 31 December 2012 and 2013, including notes, were revised to reflect change of the consolidation of Českomoravská stavební spořitelna, a.s. (ČMSS). Each line of the financial statements has been reduced by amounts contributed by ČMSS and the resulting interest in the joint venture is presented in one line in the caption Investment in associates and joint ventures in the statement of financial position. In the statement of income, (respectively statement of other comprehensive income), one line item is presented in the caption Share of profit of associates and joint ventures, and Share of other comprehensive income of associates and joint ventures respectively.

Reclassifications

Since the Group is a part of the consolidation scope of the KBC Bank, which prepares financial statements according to EU IFRS, the Group has decided to use the same structure for its financial statements and presentation of items within this structure consistent with KBC Bank and to be further aligned with the requirements of the EU IFRS. Therefore certain items are presented differently in the financial statements at 30 June 2014 from the presentation applied in the financial statements at 31 December 2013. To conform to the changes in presentation in the current period, certain items in the comparative balances have been reclassified

A reconciliation of the consolidated statement of income for the half year ended 30 June 2013 is provided below:

| (CZKm) | 1H 2013 As reported | Restatement due to IFRS 11 | 1H 2013 Restated |
|--|------------------------|-------------------------------|---------------------|
| Interest income | 15,402 | (1,602) | 13,800 |
| Interest expense | (3,249) | 879 | (2,370) |
| Net interest income | 12,153 | (723) | 11,430 |
| Fee and commission income | 4,434 | (260) | 4,174 |
| Fee and commission expense | (1,529) | 82 | (1,447) |
| Net fee and commission income | 2,905 | (178) | 2,727 |
| Dividend income | 7 | - | 7 |
| Net gains from financial instruments at fair value through profit or loss and foreign exchange | 1,108 | - | 1,108 |
| Net realised gains on available-for-sale financial assets | 310 | - | 310 |
| Other net income | 252 | (5) | 247 |
| Operating income | 16,735 | (906) | 15,829 |
| Staff expenses | (3,499) | 148 | (3,351) |
| General administrative expenses | (3,826) | 156 | (3,670) |
| Depreciation and amortisation | (418) | 43 | (375) |
| Operating expenses | (7,743) | 347 | (7,396) |
| Impairment losses | (795) | 85 | (710) |
| Share of profit of associates | 25 | 384 | 409 |
| Profit before tax | 8,222 | (90) | 8,132 |
| Income tax expense | (1,310) | 90 | (1,220) |
| Profit for the year | 6,912 | - | 6,912 |
| Attributable to: | | | |
| Owners of the parent | 6,911 | - | 6,911 |
| Non-controlling interests | 1 | - | 1 |

A reconciliation of the statement of financial position as at 31 December 2013 is provided below:

| (CZKm) | 31-12-2013 As reported | Restatement and reclassification | | 31-12-2013 Restated |
|---|---------------------------|-------------------------------------|----------|------------------------|
| | | A | B | |
| ASSETS | | | | |
| Cash and balances with central banks | 55,036 | (2,308) | (32,000) | 20,728 |
| Financial assets held for trading | 204,729 | - | | 204,729 |
| Financial assets designated at fair value through profit or loss | 7,467 | - | | 7,467 |
| Available-for-sale financial assets | 83,340 | (7,497) | | 75,843 |
| Held-to-maturity investments | 150,944 | - | | 150,944 |
| Loans and receivables | 509,256 | (66,087) | 32,000 | 475,169 |
| Fair value adjustments of the hedged items in portfolio hedge | 927 | - | | 927 |
| Derivatives used for hedging | 9,285 | - | | 9,285 |
| Current tax assets | 99 | (86) | | 13 |
| Deferred tax assets | 96 | - | | 96 |
| Investment in associates and joint ventures | 124 | 4,789 | | 4,913 |
| Investment property | 289 | - | | 289 |
| Property and equipment | 7,787 | (230) | | 7,557 |
| Goodwill and other intangible assets | 3,234 | (349) | | 2,885 |
| Non-current assets held-for-sale | 194 | - | | 194 |
| Other assets | 2,023 | (108) | | 1,915 |
| Total assets | 1,034,830 | (71,876) | - | 962,954 |
| LIABILITIES AND EQUITY | | | | |
| Financial liabilities held for trading | 186,920 | - | | 186,920 |
| Financial liabilities at amortised cost | 743,165 | (70,564) | | 672,601 |
| Fair value adjustments of the hedged items in portfolio hedge | (57) | - | | (57) |
| Derivatives used for hedging | 9,507 | - | | 9,507 |
| Current tax liabilities | 913 | - | | 913 |
| Deferred tax liabilities | 2,057 | (144) | | 1,913 |
| Other liabilities | 10,985 | (1,157) | | 9,828 |
| Provisions | 887 | (11) | | 876 |
| Total liabilities | 954,377 | (71,876) | - | 882,501 |
| Share capital | 5,855 | - | | 5,855 |
| Share premium | 15,509 | - | | 15,509 |
| Statutory reserve | 18,687 | - | | 18,687 |
| Retained earnings | 32,949 | - | | 32,949 |
| Available-for-sale reserve | 4,699 | - | | 4,699 |
| Cash flow hedge reserve | 2,548 | - | | 2,548 |
| Foreign currency translation reserve | 2 | - | | 2 |
| Shareholders' equity | 80,249 | - | - | 80,249 |
| Non-controlling interests, presented within equity | 204 | - | - | 204 |
| Total equity | 80,453 | - | - | 80,453 |
| Total liabilities and equity | 1,034,830 | (71,876) | - | 962,954 |

The explanation for the restating and reclassifying adjustments is as follows:

A/ Impact of the IFRS 11

Following the change of the consolidation method of joint venture according to the IFRS 11, each line of the statement of financial position (except of equity) has been reduced by amounts contributed by ČMSS and the total net assets value of the ČMSS has been recorded in Investment in associates and joint ventures.

B/ Reverse repo operations

Loans provided to the Czech National Bank under the reverse repo operations which are not classified as held for trading and therefore measured at amortised cost have been reclassified from Cash balances with central banks to the Loans and receivables, so that their presentation in the consolidated statement of financial position is consistent with the financial statements of the parent company.

3. SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

The scope of the consolidation includes 26 companies. Ownership of the Group (%) in significant companies was as follows:

| Name | Abbreviation | Country of incorporation | % | |
|---|--------------------|--------------------------|------------|------------|
| | | | 30-06-2014 | 31-12-2013 |
| Subsidiaries | | | | |
| Bankovní informační technologie, s.r.o. | BANIT | Czech Republic | 100.00 | 100.00 |
| Centrum Radlická, a.s. | Centrum Radlická | Czech Republic | 100.00 | 100.00 |
| ČSOB Advisory, a.s. | ČSOB Advisory | Czech Republic | 100.00 | 100.00 |
| ČSOB Factoring, a.s. | ČSOB Factoring | Czech Republic | 100.00 | 100.00 |
| ČSOB Leasing, a.s. | ČSOB Leasing | Czech Republic | 100.00 | 100.00 |
| ČSOB Leasing pojišťovací makléř, s.r.o. | pojišťovací makléř | Czech Republic | 100.00 | 100.00 |
| ČSOB Penzijní společnost, a. s., a member of the ČSOB group | ČSOB PS | Czech Republic | 100.00 | 100.00 |
| Transformovaný fond Stabilita ČSOB Penzijní společnosti, a.s., a member of the ČSOB Group | Transformed fund | Czech Republic | 100.00 | 100.00 |
| ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group | ČSOB Property fund | Czech Republic | 61.61 | 61.61 |
| Hypoteční banka, a.s. | Hypoteční banka | Czech Republic | 100.00 | 100.00 |
| Merrion properties, s.r.o. | Merrion properties | Czech Republic | 61.61 | 61.61 |
| Property LM, s.r.o. | Property LM | Slovak Republic | 61.61 | 61.61 |
| Property Skalica, s.r.o. | Property Skalica | Slovak Republic | 61.61 | 61.61 |
| Joint venture | | | | |
| Českomoravská stavební spořitelna, a.s. | ČMSS | Czech Republic | 55.00 | 55.00 |
| Associates | | | | |
| ČSOB Asset Management, a.s., investment company | ČSOB AM/IS | Czech Republic | 40.08 | 40.08 |
| ČSOB Pojišťovna, a.s., a member of the ČSOB holding | ČSOB Pojišťovna | Czech Republic | 0.24 | 0.24 |

More information regarding the scope of consolidation is available in the 2013 annual report.

4. SEGMENT INFORMATION

The Group's primary segment reporting is by customer segment.

The Group has four reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting (controlling) structure. For each of the strategic business units, the Group management reviews internal management reports on quarterly/monthly basis.

Management monitors the operating result of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the separate financial statements. Income tax is allocated to operating segments, but is managed on the Group basis.

Definitions of customer operating segments:

Retail / SME: Private individuals and entrepreneurs and companies with a turnover of less than CZK 300 m. This segment contains customers' deposits, consumer loans, building savings, pension funds, overdrafts, credit cards facilities, mortgages, building savings loans, leasing, funds transfer facilities and other transactions and balances with retail and SME customers, mutual funds, asset management. Margin income from the operations with retail and SME clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Corporate: Companies with a turnover of greater than CZK 300 m and non-banking financial institutions. This segment contains customers' deposits, loans, overdrafts, credit cards facilities, funds transfer facilities and other transactions and balances with corporate customers. Margin income from the operations with corporate clients on the financial market is also allocated to this segment (i.e. a margin from spot operations, hedging of foreign currency transactions and trading with bonds).

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services.

Group Centre: The Group Centre segment consists of the Group's yield on real equity consisting of an interest charge on capital provided to subsidiaries which are a part of the Corporate, Retail and SME segments, the results of the reinvestment of free equity of ČSOB, the results of operations of non-banking subsidiaries, Asset Liability Management (ALM), income and expenses not directly attributable to other segments and eliminations.

Segment reporting information by customer segments for 2014

| (CZKm) | Retail / SME | Corporate | Financial markets | Group Centre | Total |
|--|-----------------|--------------|----------------------|-----------------|----------------|
| Statement of income for the 1H 2014 | | | | | |
| Net interest income | 8,745 | 1,575 | 242 | 1,063 | 11,625 |
| Net fee and commission income | 2,156 | 518 | 151 | 64 | 2,889 |
| Dividend income | 2 | - | - | 5 | 7 |
| Net gains / (losses) from financial instruments at fair value through profit or loss | 522 | 338 | 102 | (339) | 623 |
| Net realised gains on available-for-sale financial assets | - | - | - | 213 | 213 |
| Other net income | (28) | (4) | - | 389 | 357 |
| Operating income | 11,397 | 2,427 | 495 | 1,395 | 15,714 |
| <i>of which:</i> | | | | | |
| <i>External operating income</i> | 8,753 | 2,339 | 495 | 4,127 | 15,714 |
| <i>Internal operating income</i> | 2,644 | 88 | - | (2,732) | - |
| Depreciation and amortisation | (100) | (2) | - | (243) | (345) |
| Other operating expenses | (5,732) | (785) | (179) | (365) | (7,061) |
| Operating expenses | (5,832) | (787) | (179) | (608) | (7,406) |
| Impairment losses | (221) | 52 | - | 84 | (85) |
| Share of profit of associates and joint ventures | - | - | - | 374 | 374 |
| Profit before tax | 5,344 | 1,692 | 316 | 1,245 | 8,597 |
| Income tax benefit / (expense) | (1,023) | (322) | (60) | 50 | (1,355) |
| Segment profit | 4,321 | 1,370 | 256 | 1,295 | 7,242 |
| Attributable to: | | | | | |
| Owners of the parent | 4,321 | 1,370 | 256 | 1,289 | 7,236 |
| Non-controlling interest | - | - | - | 6 | 6 |

Segment reporting information by customer segments for 2013

| (CZKm) | Retail / SME | Corporate | Financial markets | Group Centre | Total |
|--|-----------------|--------------|----------------------|-----------------|----------------|
| Statement of income for the 1H 2013 | | | | | |
| Net interest income | 8,773 | 1,420 | 355 | 882 | 11,430 |
| Net fee and commission income | 2,089 | 475 | 154 | 9 | 2,727 |
| Dividend income | 2 | - | - | 5 | 7 |
| Net gains / (losses) from financial instruments at fair value through profit or loss | 539 | 332 | 30 | 207 | 1,108 |
| Net realised gains on available-for-sale financial assets | 28 | - | - | 282 | 310 |
| Other net income | 19 | 22 | - | 206 | 247 |
| Operating income | 11,450 | 2,249 | 539 | 1,591 | 15,829 |
| <i>of which:</i> | | | | | |
| <i>External operating income</i> | 8,836 | 2,062 | 539 | 4,392 | 15,829 |
| <i>Internal operating income</i> | 2,614 | 187 | - | (2,801) | - |
| Depreciation and amortisation | (104) | (1) | - | (270) | (375) |
| Other operating expenses | (5,796) | (772) | (163) | (290) | (7,021) |
| Operating expenses | (5,900) | (773) | (163) | (560) | (7,396) |
| Impairment losses | (772) | 38 | - | 24 | (710) |
| Share of profit of associates and joint ventures | - | - | - | 409 | 409 |
| Profit before tax | 4,778 | 1,514 | 376 | 1,464 | 8,132 |
| Income tax benefit / (expense) | (948) | (290) | (71) | 89 | (1,220) |
| Segment profit | 3,830 | 1,224 | 305 | 1,553 | 6,912 |
| Attributable to: | | | | | |
| Owners of the parent | 3,830 | 1,224 | 305 | 1,552 | 6,911 |
| Non-controlling interest | - | - | - | 1 | 1 |

Interest income and interest expense are not presented separately since the Group assesses the performance of the segments primarily on the basis of the net interest income.

Intersegment transactions are transactions conducted between the different primary segments on an arm's length basis.

The Group operates predominantly in the Czech Republic.

5. INTEREST INCOME

| (CZKm) | 1H 2014 | 1H 2013 |
|--|---------------|---------------|
| Cash balances with central banks | 3 | 6 |
| Loans and receivables | | |
| Credit institutions | 227 | 223 |
| Other than credit institutions | 8,362 | 8,474 |
| Available-for-sale financial assets | 1,138 | 1,260 |
| Held-to-maturity investments | 3,041 | 2,887 |
| Financial assets held for trading | 361 | 391 |
| Financial assets designated at fair value through profit or loss | 115 | 130 |
| Derivatives used as economic hedges | 23 | 133 |
| Derivatives used for hedging | 431 | 296 |
| | 13,701 | 13,800 |

6. INTEREST EXPENSE

| (CZKm) | 1H 2014 | 1H 2013 |
|--|--------------|--------------|
| Financial liabilities at amortised cost | | |
| Central banks | - | 2 |
| Credit institutions | 172 | 172 |
| Other than credit institutions | 1,057 | 1,233 |
| Debt instruments in issue | 180 | 215 |
| Subordinated liabilities | - | 45 |
| Discount amortisation on other provisions (Note: 29) | 2 | 2 |
| Financial liabilities held for trading | 140 | 48 |
| Derivatives used as economic hedges | 114 | 292 |
| Derivatives used for hedging | 411 | 361 |
| | 2,076 | 2,370 |

7. NET FEE AND COMMISSION INCOME

| (CZKm) | 1H 2014 | 1H 2013 |
|--------------------------------------|--------------|--------------|
| Fee and commission income | | |
| Payment services | 2,620 | 2,538 |
| Administration of credits | 920 | 941 |
| Collective investments | 341 | 302 |
| Custody | 77 | 73 |
| Securities | 111 | 54 |
| Asset management | 32 | 22 |
| Other | 297 | 244 |
| | 4,398 | 4,174 |
| Fee and commission expense | | |
| Retail service fees | 520 | 593 |
| Payment services | 673 | 553 |
| Commissions to agents | 62 | 52 |
| Other | 254 | 249 |
| | 1,509 | 1,447 |
| Net fee and commission income | 2,889 | 2,727 |

8. NET GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FOREIGN EXCHANGE

Net gains from financial instruments at fair value through profit or loss and foreign exchange, as reported in the statement of income, do not include net interest income recognised on financial assets and financial liabilities at fair value through profit or loss. Net gains from financial instruments at fair value through profit or loss and foreign exchange and the related net interest income are set out in the table below to provide a fuller presentation of the net result from financial instruments at fair value through profit or loss of the Group:

| (CZKm) | 1H 2014 | 1H 2013 |
|---|------------|--------------|
| Net gains from financial instruments at fair value through profit or loss and foreign exchange - as reported | 623 | 1,108 |
| Net interest income (Notes: 5, 6) | 265 | 249 |
| | 888 | 1,357 |
| Financial instruments held for trading | | |
| Interest rate contracts | (47) | 397 |
| Foreign exchange | 367 | (2,192) |
| Commodity contracts | 10 | 7 |
| | 330 | (1,788) |
| Financial instruments designated at fair value through profit or loss | | |
| Financial assets designated at fair value through profit or loss | 31 | 118 |
| | 31 | 118 |
| Exchange differences revaluations | 527 | 3,027 |
| Financial instruments at fair value through profit or loss and foreign exchange | 888 | 1,357 |

9. OTHER NET INCOME

| (CZKm) | 1H 2014 | 1H 2013 |
|--|------------|------------|
| Net gain on disposal of intangible assets | 231 | - |
| Net operating leasing and rental income | 187 | 172 |
| Services provided to the parent and to entities under common control | 68 | 68 |
| Net increase in provisions for legal issues | 28 | (1) |
| Other services provided by ČSOB Leasing | 21 | 28 |
| Net gain on disposal of property and equipment | 13 | 16 |
| Net loss on disposal of Held-to-maturity investments | - | 10 |
| Contributions to pension fund clients | (234) | (259) |
| Other | 43 | 213 |
| | 357 | 247 |

10. STAFF EXPENSES

| (CZKm) | 1H 2014 | 1H 2013 |
|---|--------------|--------------|
| Wages and salaries | 2,405 | 2,364 |
| Salaries and other short-term benefits of senior management | 62 | 55 |
| Social security charges | 794 | 793 |
| Pension and similar expense | 88 | 75 |
| Restructuring programme | - | (1) |
| Other | 63 | 65 |
| | 3,412 | 3,351 |

More information is available in the 2013 annual report.

11. GENERAL ADMINISTRATIVE EXPENSES

| (CZKm) | 1H 2014 | 1H 2013 |
|---|--------------|--------------|
| Rental expenses on information technologies - minimum lease | 868 | 828 |
| Information technologies | 755 | 744 |
| Deposit Insurance Premium and contribution to the Securities Traders Guarantee fund | 434 | 409 |
| Rental expenses on land and buildings - minimum lease payments | 263 | 258 |
| Other building expenses | 248 | 262 |
| Marketing | 211 | 235 |
| Professional fees | 180 | 184 |
| Communication | 144 | 164 |
| Retail service fees | 72 | 76 |
| Travel and transportation | 66 | 55 |
| Administration | 65 | 68 |
| Payment cards and electronic banking | 61 | 52 |
| Training | 40 | 33 |
| Insurance | 20 | 20 |
| Car expenses | 18 | 17 |
| Other | 204 | 265 |
| | 3,649 | 3,670 |

12. IMPAIRMENT LOSSES

| (CZKm) | 1H 2014 | 1H 2013 |
|--|-------------|--------------|
| Impairment of loans and receivables (Note: 18) | (165) | (746) |
| Provisions for loan commitments and guarantees | 71 | 40 |
| Impairment of investment property | - | (4) |
| Impairment of property, plant and equipment | 6 | - |
| Impairment of other assets | 3 | - |
| | (85) | (710) |

13. TAXATION

The components of income tax expense for the periods ended 30 June 2014 and 2013 are as follows:

| (CZKm) | 1H 2014 | 1H 2013 |
|--|--------------|--------------|
| Current tax expense | 1,205 | 1,110 |
| Previous year under / (over) accrual | 39 | (33) |
| Deferred tax expense relating to the origination and reversal of temporary differences | 111 | 143 |
| | 1,355 | 1,220 |

More information is available in the 2013 annual report.

14. DIVIDENDS PAID

Dividends are not accounted for until they have been ratified by a Resolution of the sole shareholder on a profit distribution.

Based on a sole shareholder decision from 14 April 2014, a dividend of CZK 27.70 per share was paid for 2013, representing a total dividend of CZK 8,109 m.

Based on a sole shareholder decision from 28 June 2013, a dividend of CZK 45.50 per share was paid for 2012, representing a total dividend of CZK 13,320 m.

15. CASH AND BALANCES WITH CENTRAL BANKS

Note available in the annual report only.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| (CZKm) | 30-06-2014 | 31-12-2013 |
|---|---------------|----------------|
| Financial assets held for trading | | |
| Loans and advances | | |
| Reverse repo transactions (Note: 36) | 13,242 | 139,864 |
| Money market placements | 498 | 19,567 |
| Debt instruments | | |
| General government | 34,443 | 27,886 |
| Credit institutions | 4,523 | 5,190 |
| Corporate | 585 | 329 |
| Derivative contracts (Note: 20) | | |
| Trading derivatives | 12,801 | 11,508 |
| Derivatives used as economic hedges | 300 | 385 |
| | 66,392 | 204,729 |
| | | |
| Financial assets designated at fair value through profit or loss | | |
| Debt instruments | | |
| General government | 1,827 | 1,821 |
| Credit institutions | 4,794 | 5,646 |
| | 6,621 | 7,467 |
| | | |
| Financial assets at fair value through profit or loss | 73,013 | 212,196 |

Included within Financial assets at fair value through profit or loss are debt securities of CZK 16,494 m (2013: CZK 9,163 m) pledged as collateral in repo transactions.

Included in Financial assets designated at fair value through profit or loss are debt securities recorded at fair value to reduce the accounting mismatch that would otherwise arise from measuring these assets or recognising the gains and losses from them on a different bases.

Since April 2014 the Group changed its investment policy and process of concluding deals with CNB and Ministry of Finance. The deals are concluded to the banking book and are classified as Loans and receivables (Note: 18), while as at 31 December 2013 they were recognized as financial assets held for trading (31 December 2013: CZK 150,000 m).

Similar treatment is adopted for repo transactions with Ministry of Finance, which are being booked as Financial liabilities at amortised cost (Note: 27) (Financial liabilities held for trading as at 31 December 2013 in the volume of CZK 90,927 m).

17. FINANCIAL INVESTMENTS

| (CZKm) | 30-06-2014 | 31-12-2013 |
|--|----------------|----------------|
| Available-for-sale financial assets | | |
| Debt securities | | |
| General government | 60,817 | 50,828 |
| Credit institutions | 22,590 | 22,127 |
| Corporate | 11 | 2,179 |
| Equity securities | | |
| Corporate | 709 | 709 |
| | 84,127 | 75,843 |
| Held-to-maturity investments | | |
| Debt securities | | |
| General government | 147,684 | 149,335 |
| Credit institutions | 1,394 | 1,417 |
| Corporate | 194 | 192 |
| | 149,272 | 150,944 |
| Financial investments | 233,399 | 226,787 |

Included within Financial investments are debt securities of CZK 28,772 m (2013: CZK 31,501 m) pledged as collateral in repo transactions and debt securities of CZK 5,186 m (2013: CZK 5,330 m) pledged as collateral of term deposits and financial guarantees.

In June 2013, a part of the portfolio of debt sovereign bonds was transferred from the Available-for-sale financial assets to the portfolio of Held-to-maturity investments in the fair value of CZK 14,513 m. Unrealised gains from the bonds in the amount of CZK 1,224 m at the date of the transfer remained a part of the Available-for-sale reserve and will be amortised to the interest income over the remaining maturity of the bonds.

Set out below is a set of information relating to the Group's financial instruments reclassified from the Available-for-sale financial assets to the Held-to-maturity investments:

| (CZKm) | 2014 | 2013 |
|--|--------|--------|
| Carrying value as at the reporting date | 13,718 | 14,001 |
| Fair value as at the reporting date | 14,640 | 14,675 |
| Net gain (before tax) that would have been recognised during 1H 2014 and 2013 in the Statement of comprehensive income after the date of reclassification if the Group had not reclassified the assets | 249 | (46) |
| Interest income (before tax) recorded on reclassified assets in 1H 2014 and 2013 after date of reclassification | 240 | 14 |
| Expected undiscounted cash recoveries, as assessed at the date of reclassification | 15,135 | 15,135 |
| Anticipated average EIR over the remaining life of the assets | 3.5% | 3.5% |

More information is available in the 2013 annual report.

The following table shows a reconciliation of the cumulative impairment losses on financial investments for 2014 and 2013:

| (CZKm) | Available-for-sale financial assets | | Held-to maturity investments | Total |
|--------------------------|-------------------------------------|-------------------|------------------------------|------------|
| | Debt securities | Equity securities | Debt securities | |
| At 1 January 2013 | - | 178 | - | 178 |
| Net increase (Note: 12) | - | - | - | - |
| At 30 June 2013 | - | 178 | - | 178 |
| At 1 January 2014 | - | 141 | - | 141 |
| Net increase (Note: 12) | - | - | - | - |
| At 30 June 2014 | - | 141 | - | 141 |

18. LOANS AND RECEIVABLES

| (CZKm) | 30-06-2014 | 31-12-2013 |
|---|-----------------|-----------------|
| Analysed by category of borrower | | |
| Central banks | 255,903 | 32,000 |
| General government | 7,593 | 8,058 |
| Credit institutions | 29,058 | 28,430 |
| Other legal entities | 178,764 | 167,645 |
| Private individuals | <u>255,924</u> | <u>250,180</u> |
| Gross loans | 727,242 | 486,313 |
| Allowance for impairment losses | <u>(10,710)</u> | <u>(11,144)</u> |
| | 716,532 | 475,169 |

Increase of the balance of the loans to central banks in the first half of 2014 is related to the revision of the transactions split between banking and trading book of the Group (Note: 16).

As at 30 June 2014, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 35 m (2013: CZK 52 m), which the Group is in the process of selling.

19. INVESTMENT IN ASSOCIATE AND JOINT VENTURE

Note available in the annual report only.

20. DERIVATIVE FINANCIAL INSTRUMENTS

Note available in the annual report only.

21. INVESTMENT PROPERTY

Note available in the annual report only.

22. PROPERTY AND EQUIPMENT

Note available in the annual report only.

23. GOODWILL AND OTHER INTANGIBLE ASSETS

Note available in the annual report only.

24. NON-CURRENT ASSETS HELD-FOR-SALE

Note available in the annual report only.

25. OTHER ASSETS

Note available in the annual report only.

26. FINANCIAL LIABILITIES HELD FOR TRADING

| (CZKm) | 30-06-2014 | 31-12-2013 |
|---|----------------|----------------|
| Short positions | 7,516 | 5,546 |
| Derivative contracts (Note: 20) | | |
| Trading derivatives | 15,752 | 13,116 |
| Derivatives used as economic hedges | 1,161 | 1,288 |
| Term deposits | 55,671 | 59,617 |
| Repo transactions | 18,421 | 102,297 |
| Promissory notes | 475 | 80 |
| Bonds issued | 5,966 | 4,976 |
| Financial liabilities held for trading | 104,962 | 186,920 |

Decrease of the balance of the repo transactions in the first half of 2014 is related to the revision of the transactions split between banking and trading book of the Group (Note: 16).

27. FINANCIAL LIABILITIES AT AMORTISED COST

| (CZKm) | 30-06-2014 | 31-12-2013 |
|--|----------------|----------------|
| Deposits received from central banks | | |
| Term deposits | 492 | 492 |
| Deposits received from credit institutions | | |
| Current accounts | 13,909 | 18,521 |
| Term deposits | 29,227 | 24,773 |
| Repo transactions | 33,358 | 21,025 |
| | 76,494 | 64,319 |
| Deposits received from other than credit institutions | | |
| Current accounts | 303,616 | 295,418 |
| Term deposits | 12,676 | 18,212 |
| Savings deposits | 226,862 | 216,260 |
| Pension funds clients deposits | 34,647 | 32,479 |
| Repo transactions | 166,176 | 10,533 |
| Other deposits | 5,529 | 3,872 |
| | 749,506 | 576,774 |
| Debt securities in issue | | |
| Bonds issued | 10,517 | 18,464 |
| Promissory notes | 18,896 | 12,552 |
| | 29,414 | 31,016 |
| Financial liabilities at amortised cost | 855,906 | 672,601 |

Increase of the balance of repo transactions with entities other than credit institutions in the first half of 2014 is related to the revision of the transactions split between banking and trading book of the Group (Note: 16).

28. OTHER LIABILITIES

Note available in the annual report only.

29. PROVISIONS

Note available in the annual report only.

30. SHARE CAPITAL AND OTHER RESERVES

As at 30 June 2014, the total authorised share capital was CZK 5,855 m (31 December 2013: CZK 5,855 m) and comprised of 292,750,001 ordinary shares with a nominal value of CZK 20 each (31 December 2013: 292,750,001 ordinary shares with a nominal value of CZK 20 each) and is fully paid up.

No Treasury shares were held by the Group at 30 June 2014 and 31 December 2013.

On 30 June 2014, the Bank was directly controlled by KBC Bank whose ownership interest in ČSOB was 100 % (31 December 2013: 100%). On the same date, KBC Bank was controlled by the KBC Group and therefore KBC Group was the company indirectly exercising ultimate control over the Bank.

Other reserves

The movement of Other reserves in 2014 and 2013 are as follows:

| (CZKm) | Available- for-sale reserve | Cash flow hedge reserve | Foreign currency translation reserve | Total |
|---------------------------------------|-----------------------------------|-------------------------------|---|----------------|
| At 1 January 2013 | 5,701 | 3,567 | - | 9,268 |
| Other comprehensive income (Note: 31) | <u>(677)</u> | <u>(1,370)</u> | <u>1</u> | <u>(2,046)</u> |
| At 30 June 2013 | 5,024 | 2,197 | 1 | 7,222 |
| At 1 January 2014 | 4,699 | 2,548 | 2 | 7,249 |
| Other comprehensive income (Note: 31) | <u>566</u> | <u>841</u> | <u>-</u> | <u>1,407</u> |
| At 30 June 2014 | 5,265 | 3,389 | 2 | 8,656 |

31. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Note available in the annual report only.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows an analysis of financial instruments recorded at fair value, between those for which the fair value is based on quoted market prices and those for which the fair value is based on valuation techniques as at 30 June 2014 and 31 December 2013:

| (CZKm) | 30 June 2014 | | | Total |
|--|--------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | |
| Financial assets | | | | |
| Financial assets held for trading | | | | |
| Loans and advances | - | 13,740 | - | 13,740 |
| Debt instruments | 20,684 | 13,860 | 5,007 | 39,551 |
| Derivative contracts | - | 13,101 | - | 13,101 |
| Financial assets designated at fair value through profit or loss | | | | |
| Debt instruments | 1,396 | 4,180 | 1,045 | 6,621 |
| Available-for-sale financial assets | | | | |
| Debt securities | 61,036 | 20,035 | 2,347 | 83,418 |
| Equity securities | - | - | 709 | 709 |
| Fair value adjustments of the hedged items in portfolio hedge | - | 1,833 | - | 1,833 |
| Derivatives used for hedging | - | 12,435 | - | 12,435 |
| Financial liabilities | | | | |
| Financial liabilities held for trading | | | | |
| Short positions | 7,516 | - | - | 7,516 |
| Derivative contracts | - | 16,913 | - | 16,913 |
| Term deposits | - | 55,671 | - | 55,671 |
| Repo transactions | - | 18,421 | - | 18,421 |
| Promissory notes | - | 475 | - | 475 |
| Bonds issued | - | 5,966 | - | 5,966 |
| Fair value adjustments of the hedged items in portfolio hedge | - | 3,134 | - | 3,134 |
| Derivatives used for hedging | - | 12,553 | - | 12,553 |

31 December 2013

| (CZKm) | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|---------|
| Financial assets | | | | |
| Financial assets held for trading | | | | |
| Loans and advances | - | 159,431 | - | 159,431 |
| Debt instruments | 21,513 | 5,587 | 6,306 | 33,405 |
| Derivative contracts | - | 11,893 | - | 11,893 |
| Financial assets designated at fair value through profit or loss | | | | |
| Debt instruments | 2,258 | 3,626 | 1,583 | 7,467 |
| Available-for-sale financial assets | | | | |
| Debt securities | 51,119 | 16,352 | 7,663 | 75,134 |
| Equity securities | - | - | 709 | 709 |
| Fair value adjustments of the hedged items in portfolio hedge | - | 927 | - | 927 |
| Derivatives used for hedging | - | 9,285 | - | 9,285 |
| Financial liabilities | | | | |
| Financial liabilities held for trading | | | | |
| Short positions | 5,546 | - | - | 5,546 |
| Derivative contracts | - | 14,404 | - | 14,404 |
| Term deposits | - | 59,617 | - | 59,617 |
| Repo transactions | - | 102,297 | - | 102,297 |
| Promissory notes | - | 80 | - | 80 |
| Bonds issued | - | 4,976 | - | 4,976 |
| Fair value adjustments of the hedged items in portfolio hedge | - | (57) | - | (57) |
| Derivatives used for hedging | - | 9,507 | - | 9,507 |

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of financial assets which are recorded at fair value using valuation techniques based on non-market observable inputs:

| (CZKm) | Financial assets held for trading | Financial assets designated at fair value | Available-for-sale financial assets | | Total |
|--|-----------------------------------|---|-------------------------------------|-------------------|---------------|
| | Debt securities | Debt securities | Debt securities | Equity securities | |
| At 1 January 2013 | 6,810 | 1,530 | 7,580 | 437 | 16,357 |
| Total gains / (losses) recorded in profit or loss | 170 | 18 | 83 | - | 271 |
| Total gains / (losses) recorded in other comprehensive income | - | - | 60 | 11 | 71 |
| Purchases | 2,606 | 20 | 521 | - | 3,147 |
| Settlement | (480) | - | - | - | (480) |
| Sales | (940) | - | (524) | - | (1,464) |
| At 30 June 2013 | 8,166 | 1,568 | 7,720 | 448 | 17,902 |
| Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period | 170 | 18 | 69 | - | 257 |
| At 1 January 2014 | 6,306 | 1,583 | 7,663 | 709 | 16,261 |
| Total gains / (losses) recorded in profit or loss | 206 | (7) | 9 | - | 208 |
| Total gains / (losses) recorded in other comprehensive income | - | - | 28 | - | 28 |
| Purchases | 37 | 14 | 28 | - | 79 |
| Settlement | (448) | - | - | - | (448) |
| Sales | (243) | - | (1,372) | - | (1,615) |
| Transfers out of level 3 | (851) | (545) | (4,009) | - | (5,405) |
| At 30 June 2014 | 5,007 | 1,045 | 2,347 | 709 | 9,108 |
| Total gains or (losses) recorded in profit or loss related to assets held at the end of the reporting period | 205 | (4) | - | - | 201 |

Management considers as key assumption not derived from market observable inputs and influencing Level 3 financial instruments fair value the value of credit spread included in the discount factor applied on mortgage bonds estimated future cash flows in periods after fifth year.

As at 30 June 2014, the increase / (decrease) of a credit spread by 50 basis points would (decrease) / increase the fair value of the mortgage bonds included in level 3 by CZK 10 m. Such a change of the credit spread is based on the variability of mortgage bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other market non-observable inputs in the valuation models used would not have a material impact on the estimated fair values.

Transfers between Level 1 and 2 of the fair value hierarchy for financial instruments

There were no transfers between a group of financial instruments with market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs in the first six months of 2014 and 2013.

More information is available in the 2013 annual report.

33. ADDITIONAL CASH FLOW INFORMATION

Note available in the annual report only.

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Note available in the annual report only.

35. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Information available in the annual report only.

Contingent liabilities and commitments

The contingent liabilities and commitments at 30 June 2014 and 31 December 2013 are as follows:

| (CZKm) | 30-06-2014 | 31-12-2013 |
|---|----------------|----------------|
| Loan commitments – irrevocable | 84,899 | 87,826 |
| Loan commitments – revocable | 33,673 | 31,119 |
| Financial guarantees | 26,105 | 28,048 |
| Other commitments | 2,705 | 2,418 |
| | 147,382 | 149,411 |
| Provisions for loan commitments and guarantees (Note: 29) | 254 | 325 |

The contractual amounts described above represent the maximum credit risk that would arise if the contracts were fully drawn, the customers defaulted and the value of any existing collateral became worthless. Many of the commitments are collateralised and most are expected to expire without being drawn upon; therefore, the total commitment contractual amounts do not necessarily represent the risk of loss or future cash requirements.

Litigation

Information available in the annual report only.

Taxation

Information available in the annual report only.

Operating lease commitments (Group is the lessee)

Information available in the annual report only.

Operating lease receivables (Group is the lessor)

Information available in the annual report only.

36. REPURCHASE AGREEMENTS AND COLLATERAL

Note available in the annual report only.

37. RELATED PARTY DISCLOSURES

There was no significant change in related parties transactions in 1H 2014 compared to 2013.

More information on related party transaction is available in the 2013 annual report.

38. EVENTS AFTER THE REPORTING PERIOD

To reflect its conservative investment policy and investment limits the Transformed fund modified its Statutes. Based on these changes, ČSOB ceases to control the entity and therefore the Transformed fund will be excluded from the consolidation scope. ČSOB PS will continue to be responsible for the management of the fund.

39. RISK MANAGEMENT

Note available in the annual report only.

40. CAPITAL

Note available in the annual report only.

Annex No. 2 to 1H 2014 ČSOB Activity Report
Companies of the ČSOB group (as at 30 June 2014)

| Legal Entity | | | | Share of ČSOB in: | | | | Indirect Share of ČSOB via |
|-----------------------------|---|--|--------------------|--------------------|--------|----------|---------------|--|
| ID No. | Business Name of Legal Entity | Registered Office | Registered Capital | Registered Capital | | | Voting Rights | |
| | Business Activities | | | Total | Direct | Indirect | | |
| | | | | % | % | % | | |
| | | | CZK | % | % | % | % | |
| Controlled Companies | | | | | | | | |
| 63987686 | Bankovní informační technologie, s.r.o. Automated data processing and software development; creation of a network of payment card reading terminals | Praha 5, Radlická 333/150 | 30,000,000 | 100.00 | 100.00 | none | 100.00 | none |
| 26760401 | Centrum Radlická a.s. Real estate activity; rent of flats and non-residential spaces | Praha 5, Radlická 333/150 | 500,000,000 | 100.00 | 100.00 | none | 100.00 | none |
| 27081907 | ČSOB Advisory, a.s. Activity of entrepreneurial, financial, economic and organisation advisors | Praha 5, Radlická 333/150 | 2,000,000,000 | 100.00 | 100.00 | none | 100.00 | none |
| 45794278 | ČSOB Factoring, a.s. Factoring | Praha 10, Benešovská 2538/40 | 70,800,000 | 100.00 | 100.00 | none | 100.00 | none |
| 63998980 | ČSOB Leasing, a.s. ² Leasing | Praha 4, Na Pankráci 310/60 | 3,050,000,000 | 100.00 | 100.00 | none | 50.82 | none |
| 27151221 | ČSOB Leasing pojišťovací makléř, s.r.o. Insurance broker | Praha 4, Na Pankráci 60/310 | 2,000,000 | 100.00 | none | 100.00 | 100.00 | ČSOB Leasing |
| 61859265 | ČSOB Penzijní společnost, a. s., a member of the ČSOB group Pension insurance | Praha 5, Radlická 333/150 | 300,000,000 | 100.00 | 100.00 | none | 100.00 | none |
| 27924068 | ČSOB Property fund, closed-ended investment fund, a.s., a member of the ČSOB group ³ Collective investment | Praha 5, Radlická 333/150 | 878,000,000 | 61.61 | 59.79 | 1.82 | 95.67 | ČSOB Asset Management, ČSOB Pojišťovna |
| 61251950 | Eurincasso, s.r.o. Activity of economic and organisation advisors; recovery of receivables | Praha 10, Benešovská 2538/40 | 1,000,000 | 100.00 | none | 100.00 | 100.00 | ČSOB Factoring |
| 13584324 | Hypoteční banka, a.s. Mortgage banking | Praha 5, Radlická 333/150 | 5,076,335,000 | 100.00 | 100.00 | none | 100.00 | none |
| 25617184 | Merrion Properties s.r.o. Real estate activity; rent of flats and non-residential spaces | Praha 5, Radlická 333/150 | 6,570,000 | 61.61 | none | 61.61 | 100.00 | ČSOB Property fund |
| 00000949 | MOTOKOV a.s. in liquidation Wholesale of machines and technical equipment | Praha 8, Thámova 181/20 | 62,000,000 | 70.09 | 0.50 | 69.59 | 70.09 | ČSOB Advisory |
| 36859541 | Property Skalica, s.r.o. Real estate activity; rent of flats and non-residential spaces | Bratislava, Medená 22/98, Slovak Republic | 51,166,800 | 61.61 | none | 61.61 | 100.00 | ČSOB Property fund |
| 02451221 | Radlice Rozvojová, a.s. Real estate activity; rent of flats and non-residential spaces | Praha 5, Radlická 333/150 | 186,000,000 | 100.00 | 100.00 | none | 100.00 | none |
| 99999999 ¹ | TEE SQUARE LIMITED, Ltd. Advisory services for investment funds in the Caribbean area | British Virgin Islands, Tortola, Road Town, Third Floor, The Geneva Place, P.O.Box 986 | 8,243,090 | 100.00 | 100.00 | none | 100.00 | none |
| Joint Venture | | | | | | | | |
| 49241397 | Českomoravská stavební spořitelna, a.s. Building savings bank | Praha 10, Vínohradská 3218/169 | 1,500,000,000 | 55.00 | 55.00 | none | 55.00 | none |

| Legal Entity | | | | Share of ČSOB in: | | | | Indirect Share of ČSOB via |
|--------------|-------------------------------|-------------------|--------------------|--------------------|--------|----------|---------------|----------------------------|
| ID No. | Business Name of Legal Entity | Registered Office | Registered Capital | Registered Capital | | | Voting Rights | |
| | Business Activities | | | Total | Direct | Indirect | | |
| | | | CZK | % | % | % | % | |

| Others | | | | | | | | |
|---|---|--|----------------|-------|-------|-------|-------|-----------------------------------|
| 26199696 | CBCB - Czech Banking Credit Bureau, a.s. Software development, IT advisory, data processing, network administration databank services | Praha 4, Na Vítězné pláni 1719/4 | 1,200,000 | 20.00 | 20.00 | none | 20.00 | none |
| 26760401 | COFELY REN s.r.o. Production and sale of electricity from the solar irradiation | Praha 4, Lhotecká 793/3 | 186,834,000 | 42.82 | 42.82 | none | 42.82 | none |
| 25677888 | ČSOB Asset Management, a.s., investment company ⁴ Collective investment and asset management | Praha 5, Radlická 333/150 | 499,000,000 | 40.08 | 40.08 | none | 40.08 | none |
| 45534306 | ČSOB Pojišťovna, a. s. a member of the ČSOB holding ⁵ Insurance company | Pardubice, Zelené předměstí, Masarykovo náměstí 1458 | 2,796,248,000 | 0.24 | 0.24 | none | 40.00 | none |
| 27479714 | ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding Insurance brokerage | Pardubice, Zelené předměstí, Masarykovo náměstí 1458 | 400,000 | 0.24 | none | 0.24 | 40.00 | ČSOB Pojišťovna |
| 45316619 | IP Exit, a.s. ⁶ – in bankruptcy No activity | Praha 1, Senovážné náměstí 32 | 13,382,866,400 | 85.63 | 71.29 | 14.34 | 85.63 | ČSOB Advisory, ČSOB Pojišťovna |
| 63078104 | Premiéra TV, a.s. No activity | Praha 8, Pod Hájkem 1 | 29,000,000 | 29.00 | 29.00 | none | 29.00 | none |
| 26439395 | První certifikační autorita, a.s. Certification services and administration | Praha 9-Libeň, Podvinný mlýn 2178/6 | 20,000,000 | 23.25 | 23.25 | none | 23.25 | none |
| Other companies where ČSOB has a share in registered capital / voting rights under 10%. | | | | | | | | |

¹ ID No. 99999999 – a foreign entity.

² Shares in voting rights: ČSOB 50.82%, KBC Lease Holding 49.18%.

³ Shares in registered capital: ČSOB 59.79%, ČSOB Asset Management 4.33%, ČSOB Pojišťovna 35.88%;
shares in voting rights: ČSOB 95.67%, ČSOB Asset Management 4.33%.

⁴ Shares in registered capital: ČSOB 40.08%, KBC Participations Renta C 59.92%;
shares in voting rights: ČSOB 40.08%, KBC Participations Renta C 59.92%.

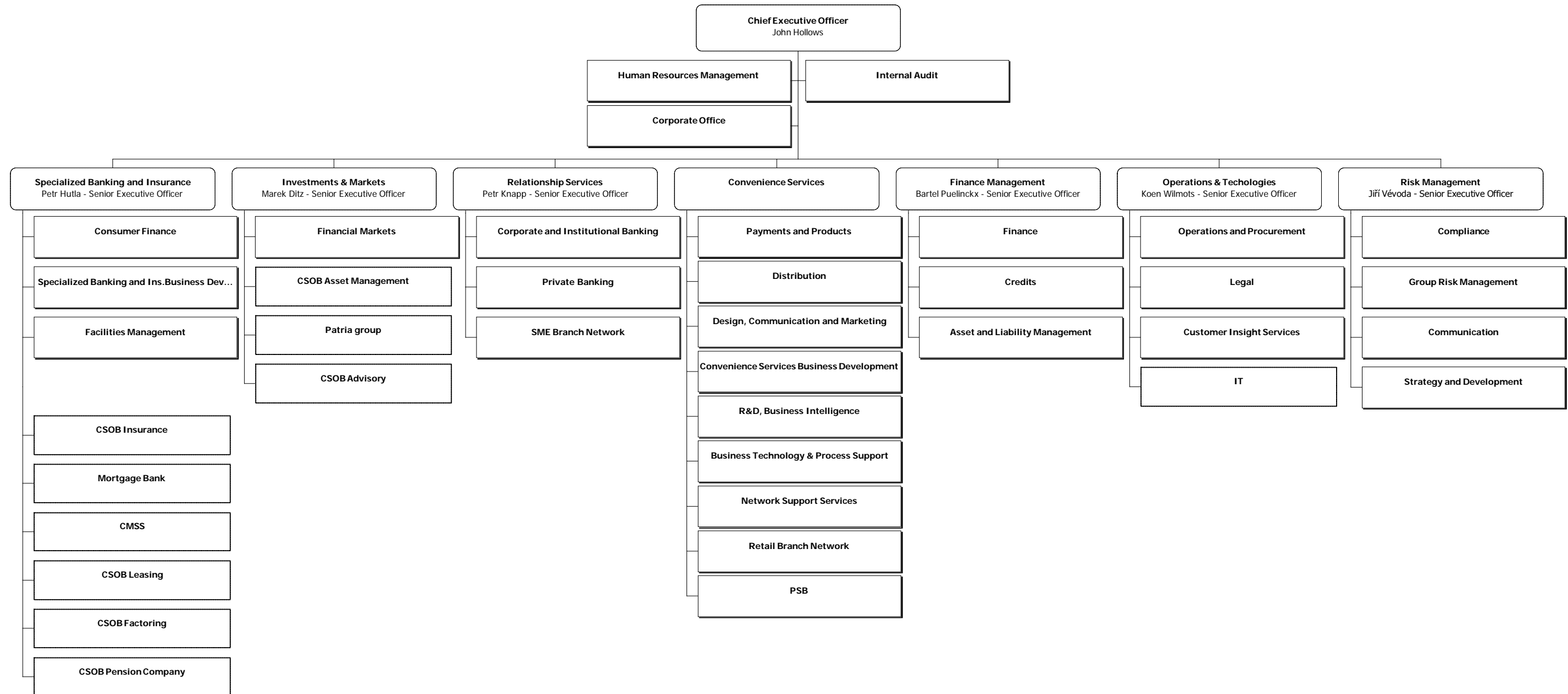
⁵ Shares in registered capital: ČSOB 0.24%, KBC Insurance 99.76%;
shares in voting rights: ČSOB 40%, KBC Insurance 60%.

⁶ Shares in registered capital: ČSOB 71.29%, ČSOB Advisory 14.34%, ČSOB Pojišťovna 0.11%;
shares in voting rights: ČSOB 71.29%, ČSOB Advisory 14.34%.

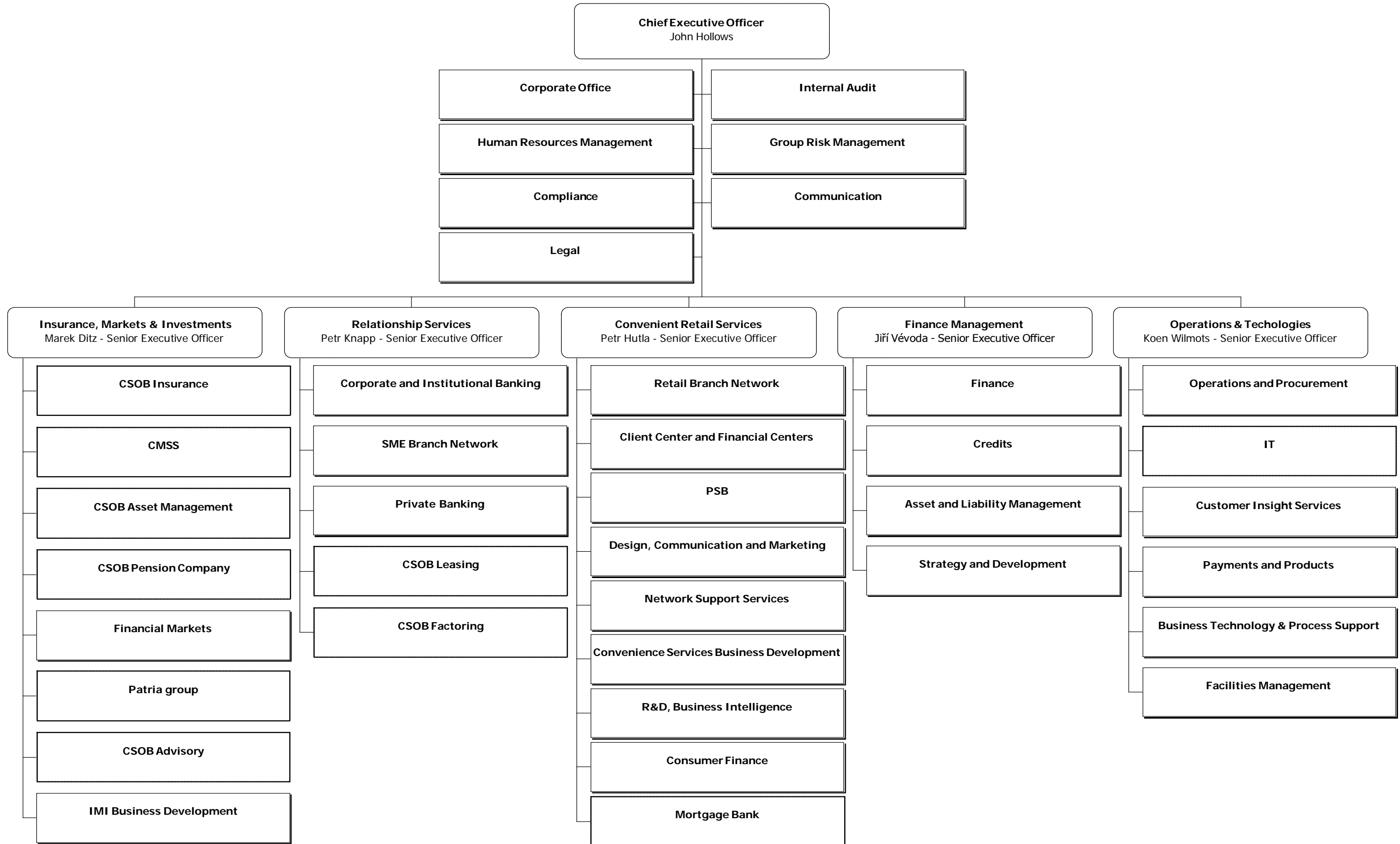
Prudential consolidation

Property LM, s.r.o. in liquidation (SK; ID No.: 36859516; indirect share of ČSOB via ČSOB Property fund)
– erased of an entry in the Register of Companies on 30 April 2014.

ČSOB Organisation Chart as at 30 June 2014



CSOB Organisation Chart as at 1 July 2014



Note: Corporate Office department was canceled since 1 August 2014.