

Ceska Sporitelna consolidated net profit decreased by almost 6% year-on-year despite above average business growth

In the first half of 2015, Ceska sporitelna reported an unaudited consolidated net profit of CZK 7.3 bn, according to International Financial Reporting Standards (IFRS). In the same period last year, profit amounted to CZK 7.8 bn. In a year-on-year comparison, this is a drop of 5.9%. Net profit was in the first half of 2015 negatively influenced by creation of provision for expected annual contribution to Resolution Fund in 2015 (CZK 444 mil). Ceska sporitelna has done well in its business: in H1 2015, the volume of new consumer loans was up by 10%, to CZK 13.6 bn. Also the volume of new mortgages was up, to CZK 23.3 bn, which represents a year-on-year increase by 33%. In the second quarter of 2015, the volume of new private mortgages expanded even by 47% compared to the first quarter 2015; CS became market leader in new private mortgages.

“The economy and its banking sector are going through a very successful and dynamic period. Even though we are facing very low prices – interest rates and fees, and extreme stress of European bank regulation, our business results are making us happy – primarily the growth of consumer loans and mortgages,” said Pavel Kysilka, Chairman of the Board of Directors of Ceska sporitelna.

Ceska sporitelna is looking carefully into all trends, which may influence the banking sector in the future. A dramatic change will be brought to the financial world by new technologies that offer great opportunities both to clients and financial service providers. “By the end of the decade, a digital revolution will turn our lives and the entire banking business upside down. Everything in the banking world will be about digital innovations for smart mobiles that offer comfort, speed, flexibility, entertainment, as well as active client cooperation. Over all of that, there will be smart and responsible mobile advisory services that will enable people as well as companies to plan soundly and to improve their lives,” explains Pavel Kysilka.

Ceska sporitelna and Erste are making massive investments into digital innovations. In addition to the traditionally most extensive branch network and Internet banking, clients today appreciate applications in their smart mobiles. With the My Balance application, they can get an overview of their account balance any time; with the Mobile Bank, they can also send money and pay bills, and find an ATM near them. Very useful for clients is the Ceska sporitelna Ticket machine mobile application through which they can arrange a meeting with an advisor or get a queuing ticket in advance. The bank will soon launch an application with which clients will be able to contribute a financial amount to a non-profit organisation.

HIGHLIGHTS OF THE RESULTS OF THE FIRST HALF OF 2015

Consolidated, preliminary, unaudited figures, as of 30th June 2015, according to International Financial Reporting Standards (IFRS). Comparisons are made with the results as of 30th June 2014, unless otherwise specified:

- **Net profit** contracted by **5.9%** to **CZK 7.3 bn** from CZK 7.8 bn
- **Operating result** decreased by **5.3%** to **CZK 10.9 bn** from CZK 11.5 bn
- **Net interest income** declined by **2.8%** to **CZK 12.9 bn** from CZK 13.3 bn
- **Net fee and commission income** decreased by **7.9%** to **CZK 5.1 bn** from CZK 5.6 bn
- **Operating expenses** unchanged at **CZK 9.1 bn** from CZK 9.0 bn
- **Total assets** increased by **2.6%** to **CZK 923.5 bn** from CZK 900.3 bn
- **Gross loans and receivables to customers** went up by **4.0%** to **CZK 528.5 bn** from CZK 508.1 bn
- **Deposits from customers** increased by **2.5%** to **CZK 690.5 bn** from CZK 673.6 bn
- **Net interest margin** related to average interest-bearing assets decreased to **3.34%** from 3.55%, but slightly increased vis-à-vis Q1 2015
- **Return on equity (ROE)** decreased to **13.3%** from 15.0%
- **Return on assets (ROA)** slightly declined to **1.6%** from 1.7%
- **Cost/income ratio** increased to **45.5%** from 44.1%
- **Loan to deposit ratio** grew to **74.0%** from 72.7%
- **Group CET 1 ratio** as of 30th June 2015 reached strong **19.2%**, up by 60 bps compared to 18.6% as of 30th June 2014

MAIN INDICATORS

Operating result declined year-on-year, as even the increasing volume of lending could not offset negative impact of low interest rate environment. **Operating income** decreased but operating expenses remained flat compared to H1 2014 reflecting strict cost control. **Cost/Income ratio** slightly increased year-to-year to **45.5%** from 44.1%.

Record-low interest rates and competitive pressure are causing a further drop of interest margins. The **net interest margin related to interest-bearing assets** decreased year-on-year to **3.34%** from 3.55% (but slightly increased vis-à-vis Q1 2015). This was mirrored in a reduction of **net interest income** by 2.8% year-on-year to **CZK 12.9 bn**. Growth of loans did not compensate for continuously maturing higher yielding assets and changes in balance sheet.

Net fee and commission income noted a reduction by 7.9% year-on-year, to **CZK 5.1 bn**. Overall decline was mainly caused by the fact that clients increasingly use cheaper forms of service and advantageous products, including special-price programmes and products. Net fee and commission income was also negatively influenced by approaching new EU regulation of card fees. On the other hand the overall decline was partly mitigated by increasing

fees from investment products and securities transactions which have been increasing (in H1 2015 by 23%) due to a shift of clients' interest away from deposits to higher-yielding products, in particular, popular mutual funds offered by Investicni spolecnost CS.

Net trading and fair value result was up in a year-on-year comparison, by 20.1%, to **CZK 1.4 bn**. Primarily income from derivative transactions was up sharply, supported by one-off gain from the change of the derivative valuation methodology adopted in Q1 2015.

In a year-on-year comparison, **total operating expenses** remained flat (+0.4%) at **CZK 9.1 bn** reflecting new cost optimization initiatives. Operating expenses also include the contribution to the Deposit Insurance Fund, of CZK 486 mil, which was up by 3.7% as compared to the first half of 2014, in connection with the increase in the volume of insured deposits.

Net gains from financial assets and liabilities not measured at fair value through profit or loss were up by 5.1% year-on-year to CZK 143 mil, primarily due to the higher profit from bonds in the portfolio of financial assets available for sale.

Net impairment loss on financial assets not measured at fair value through profit or loss (i.e., creation of on balance risk provisions for loans and advances) amounted to **CZK 1.4 bn**, which means an improvement by 27.5% as compared to the same period of 2014, thanks to on-going improvements of the quality of the loan portfolio and several successful recoveries in corporate area.

A number of factors contribute to **other operating result**, such as profit and loss from the revaluation and sale of investment properties, allocation and release of other provisions, depreciation of tangible assets, etc. A new item is a provision for the estimated mandatory annual contribution to the Resolution Fund (single fund for addressing banking crises), of CZK 444 mil booked in Q1 2015. The contribution is mandated by a European Union regulation.

Total assets amounted to **CZK 923.5 bn**, which is year-on-year growth of 2.6%. In a year-on-year comparison, there was also a change in the structure of assets, with the volume of loans to customers, bonds in the portfolio of financial assets available for sale, and assets held to maturity being up. The volume of loans to credit institutions and the portfolio of financial assets held for trading were down. On the liability side of the balance sheet, deposits from customers and the volume of equity were up. The amount of financial liabilities at fair value and the volume of debt securities issued were down.

Equity attributable to owners of the parent amounted to **CZK 103.1 bn**, which means an increase by 3.3% year-on-year. The volume of equity was up primarily due to an increase of retained profit. **CET 1 capital adequacy** for the Group amounted to **19.2%** as at 30 June 2015.

BUSINESS ACTIVITIES

Thanks to the growing economy and active credit policy, Ceska sporitelna is successfully increasing lending to households and corporations. The gross volume of the **group client loan portfolio** was up by 4.0% year on year, to **CZK 528.5 bn**, due to a further increase of mortgages, commercial real estate loans and loans to large corporate clients.

The gross retail loans portfolio (bank only) amounted to **CZK 290.8 bn**, which represents an increase by 4.4% year-on-year. The volume of **private mortgage loans** was up significantly, by 9.7%, to **CZK 175.8 bn**. This growth is due primarily to Ceska sporitelna's attractive offering, very low interest rates, and low real estate prices. **Loans to corporate clients (bank only)** were up by 4.1%, amounting to **CZK 202.7 bn** with growth stemming from large corporate clients and commercial real estate.

Deposits from customers amounted to **CZK 690.5 bn**, having increased by 2.5% compared to the same period last year. **Retail deposits** were up by 3.4%, to **CZK 522.0 bn**. Deposits in Personal Accounts are growing, and savings products are also popular, such as CS Savings and the Premier Savings Account. Building savings deposits are, however, dropping due to the termination of over-saved contracts. **Corporate deposits** were up by 2.3%, to **CZK 106.1 bn**.

As at 30 June 2015, the **number of active direct-banking clients using SERVIS 24 and BUSINESS 24** amounted to **1.63 million**. The **overall number of active payment cards** issued reached **3.14 million**, of which **credit cards represent 0.28 million**. The **volume of card transactions** executed at retail outlets with Ceska sporitelna's cards since the beginning of the year was up by 8.6% compared to the same period of 2014, to **CZK 58.0 bn**. The number of Ceska sporitelna **ATMs and transaction terminals** increased by 1.2%, to **1,565 units**.

MAJOR EVENTS IN Q2 2015

RETAIL CLIENTS AND PRODUCTS:

- **In June, at 19 of its branches, Ceska sporitelna launched its unique My Healthy Finance (MHF) service, in which it sees the future of banking advisory services.** With the MHF service, the bank is returning to its original mission – helping clients to save. With the MHF service, it helps clients better manage their finance and, uniquely on the banking market, truly reduce their regular monthly expenditures (e.g., on utilities or telephone).
- **Ceska sporitelna keeps improving its mortgage offering.** In addition to attractive low interest rates, it is newly presenting the possibility of mortgage refinancing without any paperwork. Clients can reserve the advantageous interest rate for up to one year free of charge. With paperwork-free refinancing, clients can

obtain not only more advantageous conditions than they have with their present bank, but also an easier processing of mortgage refinancing.

- **In May, Investicni spolecnost Ceske sporitelny won the Best Investment Company in Central and Eastern Europe award for 2015 granted by The European magazine. Both its conservative and dynamic funds delivered interesting appreciation.** For example, Konzervativni Mix, a mixed fund that involves the least risk, brought clients an appreciation of 2.73% per annum in a three-year investment timeframe (as at 9 July 2015). The five-year performance of the Top Stocks stock equity fund was 17.89% per annum (as at 9 July 2015). Money invested into CS nemovitostni fond appreciated by 3.15% per annum in a five-year timeframe.
- **Since the beginning of the year, Ceska sporitelna's clients have invested more than CZK 27.8 bn into retail investment products.** Very popular are not only mutual funds (more than CZK 18.5 bn), but also conservative bonds and debt securities (over CZK 4.7 bn). For example, with the new three-year Premium Debt Security SPEKTRUM 1, the funds invested can appreciate by up to 28%, with a return of 95% of the nominal value of the security. The PDCP SPEKTRUM 1 is comprised of 21 stock titles of reputable companies traded in the US, Europe, and Asia.
- **Ceska sporitelna's clients increasingly use ATMs for cashless transactions: since January 2015, they have entered nearly 1.8 million payments which represents 12% year on year growth** and amounting to CZK 8.7 bn (26% year on year increase). After cash withdrawals and balance enquiries, payment orders are the third most frequently used service. Thanks to ATMs, clients do not need to visit a branch even when they want to **arrange or increase an overdraft facility, take out travel insurance, or boost their credit card limit.** Since 2010, when Ceska sporitelna began offering credit products via its ATMs, clients have arranged nearly 200,000 of them, amounting to more than CZK 2.6 bn in total. This makes Ceska sporitelna number one on the market in sales via ATMs.
- **In May and June, Ceska sporitelna offered students over the age of 18 unlimited free withdrawals from CS ATMs and outgoing payments for two years, with every newly opened FRESH account.**

CORPORATE TRANSACTIONS AND CLIENTS:

- **Ceska sporitelna provided short-term multicurrency working capital financing facility in the amount of CZK 500 mil to T-Mobile Czech Republic a.s.** The new financing followed listing of Erste Group as a relationship bank of Deutsche Telekom Group.
- **Skoda Transportation successfully issued its maiden bond issue in the amount of CZK 2.31 bn,** bearing a fixed coupon of 3% with a maturity of 5 years. The orderbook saw a demand exceeding CZK 2.8 bn.

Mainly domestic institutional investors were attracted by the bond issue. Ceska sporitelna acted as a Joint Lead Manager and Paying Agent.

- Ceska sporitelna **provided a loan in total amount of CZK 1 bn** for general corporate purposes with exceptionally favourable conditions to one of the largest electricity suppliers in the Czech Republic, **Prazska energetika, a.s.**
- **Ceska sporitelna was the lead arranger and agent of a syndicated loan, which provided working capital financing to Prazska plynarenska, a.s.**, one of the most significant companies in energy supply. Total client loan limit reached CZK 4 bn.
- **Ceska sporitelna as a mandated lead arranger participated in the long-term club credit facility in the total amount of EUR 250 mil for the financing of a strategic investment of Duslo, a.s.** into Ammonia 4 construction. The investment is focused on long-term sustainable corporate competitiveness and strengthening of Duslo's significant position on the European fertilizer market. The financing is one of the largest transactions closed on the Slovak market in 2015.
- **Ceska sporitelna provided financing in the amount of EUR 17.5 mil in form of purchase of receivables to the company SKODA ELECTRIC a.s.**, where the final customer was the transport company of Riga City Municipality, Rigas Satiksme, Latvia. Ceska sporitelna finances receivables regarding delivery of 2nd lot of 25pieces of trolley-busses under 5-year frame export contract for the total of 125 pieces of trolley-busses, whereby the 1st lot was also financed by Ceska sporitelna. The transaction was insured by Exportni garancni a pojistovaci spolecnost a.s.
- **Erste Group Bank was a Sole Lead Arranger of the private placements in the form of bearer bonds under German law issued by Ceske drahy, a.s. Total issue size was EUR 115.2 mil**, out of which amount of EUR 77.5 mil was represented by 20-year tranche with a coupon of 3% p.a. and EUR 37.7 mil by 7-year tranche with a coupon of 1.89% p.a. The issuer took advantage of the low interest rate environment and favourable market conditions. With 20yr tranche, Ceske drahy issued its longest-dated debt issue ever.

GOOD THINGS MATTER (CSR):

- **Ceska sporitelna won the Zlata koruna (Golden Crown) award for Corporate Social Responsibility, newly granted this year. The winner was determined on the basis of an exclusive survey that Zlata koruna commissioned from Ipsos.**
- **The oldest socially responsible project supported by Ceska sporitelna is the Palata Home, a facility providing care to visually impaired people.** The bank was one of its founders 120 years ago, and it stands by its side to this day. In April and May, Ceska sporitelna's clients had the opportunity to help Palata in the

Your Card Too Can Help project. For each payment with a Ceska sporitelna card, the bank made a contribution to the home for the purchase of special positioning care beds. This year, the contribution amounted to **CZK 1,017,655**; in the previous year it also exceeded CZK 1 mil.

- **The Ceska sporitelna Foundation distributed CZK 1 mil among 15 successful non-profit projects.** In the third annual Grant Programme of the Ceska sporitelna Foundation, our clients could obtain up to CZK 70,000 for a non-profit organisation with which they cooperate, which is CZK 20,000 more than last year. The bank also distributed a million crowns in its grant programme for employees, who applied for finance for the non-profits in which they volunteer. The Ceska sporitelna Foundation **granted its Floccus award to organisations and individuals helping people who are on the fringe of society.**
- **The country's oldest university, Charles University, and the country's oldest bank, Ceska sporitelna, have decided to join forces in enhancing education and science in the Czech Republic.** The two institutions signed a Memorandum of Partnership and Cooperation in which they expressed their interest in cooperating in the **Elixir for Schools project** managed by the Depositum Bonum Foundation. Ceska sporitelna is also the General Partner of University of Economics in Prague, the University of Hradec Kralove and Palacky University in Olomouc.

OTHER EVENTS:

- **At the regular general meeting held on 24 April 2015, Ceska sporitelna's shareholders approved the distribution of the 2014 profit and payment of a gross dividend of CZK 75 per priority and equity share.** Overall, CZK 11.4 bn were paid out in dividends.

Ceska sporitelna

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Consolidated Profit and Loss Statement of Ceska sporitelna according to IFRS, preliminary, unaudited (CZK mil)	1-6 2015	1-6 2014	Y/Y Change
Net interest income	12,933	13,305	-2.8%
Net fee and commission income	5,115	5,555	-7.9%
Dividend income	57	46	23.9%
Net trading and fair value result	1,435	1,195	20.1%
Rental income from investment properties & other operating leases	401	412	-2.7%
Personnel expenses	-4,368	-4,311	1.3%
Other administrative expenses	-3,645	-3,582	1.8%
Depreciation and amortisation	-1,071	-1,152	-7.0%
Gains/Losses from financial assets and liabilities not measured at fair value through profit or loss, net	143	136	5.1%
Net impairment loss on financial assets not measured at fair value through profit or loss	-1,390	-1,917	-27.5%
Other operating result	-577	10	-
Pre-tax result from continuing operations	9,033	9,697	-6.8%
Taxes on income	-1,713	-1,898	-9.7%
Post-tax result from continuing operations	7,320	7,799	-6.1%
Net result for the period			
Net result attributable to non-controlling interests	-1	17	-
Net result attributable to owners of the parent	7,321	7,782	-5.9%
Operating income	19,941	20,513	-2.8%
Operating expenses	-9,084	-9,045	0.4%
Operating result	10,857	11,468	-5.3%

Consolidated statement of financial position of Ceska sporitelna according to IFRS, preliminary, unaudited (CZK mil)	30 Jun 2015	31 Dec 2014	YTD Change	30 Jun 2014	Y/Y Change
Assets					
Cash and cash balances	70,975	54,489	30.3%	66,954	6.0%
Financial assets - held for trading	17,890	23,231	-23.0%	29,433	-39.2%
Derivatives	14,596	18,740	-22.1%	16,575	-11.9%
Other trading assets	3,294	4,491	-26.7%	12,858	-74.4%
Financial assets - designated at fair value through profit or loss	925	1,272	-27.3%	2,967	-68.8%
Financial assets - available for sale	94,087	99,289	-5.2%	81,298	15.7%
Financial assets - held to maturity	161,158	151,513	6.4%	144,013	11.9%
Loans and receivables to credit institutions	34,942	38,533	-9.3%	49,311	-29.1%
Loans and receivables to customers	510,765	500,039	2.1%	489,483	4.3%
Derivatives - hedge accounting	823	878	-6.3%	1,088	-24.4%
Property and equipment	13,081	13,431	-2.6%	13,719	-4.7%
Investment properties	5,894	7,342	-19.7%	8,208	-28.2%
Intangible assets	3,413	3,593	-5.0%	3,140	8.7%
Current tax assets	969	543	78.5%	378	>100.0%
Deferred tax assets	144	159	-9.4%	147	-2.0%
Assets held for sale	1,634	0	-	0	-
Other assets	6,799	8,277	-17.9%	10,193	-33.9%
Total assets	923,499	902,589	2.3%	900,332	2.6%

Consolidated statement of financial position of Ceska sporitelna according to IFRS, preliminary, unaudited (CZK mil)	30 Jun 2015	31 Dec 2014	YTD Change	30 Jun 2014	Y/Y Change
Liabilities & Equity					
Financial liabilities - held for trading	24,985	23,431	6.6%	18,426	35.6%
Derivatives	16,013	20,654	-22.5%	18,409	-13.0%
Other trading liabilities	8,972	2,777	>100.0%	17	-
Financial liabilities designated at fair value through profit or loss	6,467	9,664	-33.1%	13,586	-52.4%
Deposits from customers	6,467	8,874	-27.1%	11,950	-45.9%
Debt securities issued	0	790	-100.0%	1,636	-100.0%
Financial liabilities measured at amortised cost	774,850	751,959	3.0%	749,761	3.3%
Deposits from banks	65,124	54,570	19.3%	61,971	5.1%
Deposits from customers	683,988	671,565	1.8%	661,608	3.4%
Debt securities issued	22,811	23,043	-1.0%	26,182	-12.9%
Other financial liabilities	2,927	2,781	5.2%	0	-
Derivatives - hedge accounting	267	169	58.0%	486	-45.1%
Provisions	2,885	2,418	19.3%	2,455	17.5%
Current tax liabilities	104	45	>100.0%	110	-5.5%
Deferred tax liabilities	310	474	-34.6%	321	-3.4%
Liabilities associated with assets held for sale	904	0	-	0	-
Other liabilities	9,636	6,646	45.0%	15,119	-36.3%
Total equity	103,091	107,783	-4.4%	100,068	3.0%
Equity attributable to non-controlling interests	-27	-26	3.8%	219	-
Equity attributable to owners of the parent	103,118	107,809	-4.4%	99,849	3.3%
Total liabilities and equity	923,499	902,589	2.3%	900,332	2.6%

Selected Consolidated Ratios	30 Jun 2015	30 Jun 2014
ROE	13.3%	15.0%
ROA	1.6%	1.7%
Cost/income	45.5%	44.1%
Net interest margin related to Interest-bearing assets	3.34%	3.55%
Loan to deposit ratio	74.0%	72.7%
Group CET 1 capital adequacy	19.2%	18.6%

Selected Business Activity Figures	30 Jun 2015	30 Jun 2014	Y/Y Change
Headcount of Ceska sporitelna Financial Group (EOP)	10,545	10,474	0.7%
Total number of clients	4,982,584	5,091,138	-2.1%
Number of SERVIS 24 and BUSINESS 24 Direct Banking Clients	1,633,851	1,668,303	-2.1%
Number of cards	3,136,494	3,146,490	-0.3%
of which credit cards	281,069	300,699	-6.5%
Number of ATMs	1,565	1,546	1.2%
Number of Ceska Sporitelna branches	633	644	-1.7%

Net After-tax Profit of Selected Ceska sporitelna Subsidiaries, according to IFRS, preliminary, unaudited (CZK mil)	1-6 2015	1-6 2014	Y/Y Change
Stavebni sporitelna Ceske sporitelny	352	324	8.6%
S Autoleasing	57	50	14.0%
Erste Leasing	37	28	32.1%
CS Penzijni spolecnost	9	-11	-
Factoring Ceske sporitelny	1	30	-96.7%