

Ceska Sporitelna's Consolidated Net Profit (IFRS) Remained Stable Compared to Last Year, Reaching CZK 11.1 bn in the First Three Quarters of 2015

As of 30 September 2015, Ceska sporitelna reported an unaudited consolidated net profit of CZK 11.1 bn, according to International Financial Reporting Standards (IFRS). In the same period last year, profit amounted to CZK 11.2 bn. This means stable year-on-year development. The decline of operating income, which mirrored historically low market interest rates, was balanced by lower creation of credit risk provisions, reflecting strong growth of the Czech economy, employment, increasing real wages and, consequently, significant improvement in loan portfolio quality. The bank's results were supported, above all, by the year-on-year growth of loans to customers, by 6.2% to CZK 541.6 bn (gross). New private mortgages in particular did well, growing by 53% in the third quarter of 2015 (year-on-year) to CZK 13.5 bn, and reached a market share of 28%. Ceska sporitelna confirmed its leading market position in new private mortgage generation.

"This has been a very pleasing year for us so far, especially given the tough price competition and the extremely cumbersome European banking regulation. Our business results confirm our clients' great interest in our services, as well as the tremendous commitment of our employees. Our mortgage sales were up significantly, and loans to corporate clients and municipalities, and the financing of real estate business, also fared well," said Pavel Kysilka, Chairman of Ceska sporitelna's Board of Directors.

Client accounts also performed well. In the loyalty programme "Za duveru", the bank is offering account maintenance free of charge or with a discount, if the client receives at least CZK 7,000 in his account in the given month and actively uses another of our products.

HIGHLIGHTS OF THE RESULTS OF THE FIRST THREE QUARTERS 2015

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

- **Net profit** only mildly diminished by **0.8%** to **CZK 11.1 bn** from CZK 11.2 bn

- **Operating result** decreased by **4.6%** to **CZK 16.2 bn** from CZK 17.0 bn
- **Net interest income** declined by **2.6%** to **CZK 19.4 bn** from CZK 19.9 bn
- **Net fee and commission income** decreased by **8.8%** to **CZK 7.5 bn** from CZK 8.3 bn
- **Operating expenses** unchanged at **CZK 13.6 bn**
- **Total assets** increased by **6.9%** to **CZK 959.3 bn** from CZK 897.3 bn
- **Gross loans and receivables to customers** went up by **6.2%** to **CZK 541.6 bn** from CZK 510.0 bn
- **Deposits from customers** increased by **6.2%** to **CZK 706.1 bn** from CZK 664.7 bn
- **Net interest margin** related to average interest-bearing assets decreased to **3.33%** from 3.55%, but remained stable since Q1 2015
- **Return on equity (ROE)** decreased to **13.7%** from 14.5%
- **Return on assets (ROA)** slightly declined to **1.6%** from 1.7%
- **Cost/income ratio** increased to **45.7%** from 44.5%
- **Loan to deposit ratio** grew to **74.2%** from 73.9%
- **CS Group CET 1 ratio** as of 30 September 2015 reached strong **18.8%**, up by 70 bps compared to 18.1% as of 30 September 2014

MAIN INDICATORS

Ceska sporitelna managed to retain an almost stable **net profit** in spite of the decline of its operating income. The decline of **operating income** is due to the development of net interest income, where not even growing loan volumes were sufficient to off-set the adverse impact of the low interest rate environment. Another reason was the drop of net fee and commission income. On the other hand, **operating expenses** were kept stable due to effective cost management. The drop in operating income resulted in an increase of the **Cost/Income Ratio**, to **45.7%** from 44.5%.

Thanks to the growth of the Czech economy and an active lending policy, Ceska sporitelna is managing to increase lending to households and corporations. But persisting record-low interest rates, maturing higher-yield assets, and competitive pressure are causing a sustained drop in interest rate margins. **Net interest margin** related to interest-bearing assets decreased to **3.33%** from 3.55%. This was manifested in a reduction of **net interest income** by 2.6% to **CZK 19.4 bn**.

Net fee and commission income noted a reduction by 8.8%, to **CZK 7.5 bn**. The overall decline was caused by the approaching EU regulation of card fees and by the fact that clients increasingly use cheaper forms of service and advantageous products, including special-price programmes and packages. Net fee and commission income was also negatively influenced by fee holidays in retail loans. On the other hand, the overall decline was partly mitigated by increasing fees from investment products and securities transactions, which are growing thanks to the

shift of clients' interest away from deposits to higher-yield products, in particular popular mutual funds, managed by Investicni spolecnost CS and distributed through all of Ceska sporitelna's distribution channels.

Net trading and fair value result was up in a year-on-year comparison, by 30.0% to **CZK 2.2 bn**, affected by the change in the derivative valuation methodology adopted in Q1 2015, and supported by higher income from customer derivative transactions.

In a year-on-year comparison, total **operating expenses** remained flat at **CZK 13.6 bn**, reflecting continued cost optimization initiatives. Expenses for projects connected to regulatory compliance were up, whereas costs for material consumption and tangible asset depreciation were successfully reduced. Operating expenses also include the contribution to the Deposit Insurance Fund, of CZK 735 m, which was up by 4.6% as compared to the same period of 2014, in connection with the persistent 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 to **CZK 322 m**, i.e., more than twofold in a year-on-year comparison. This was primarily due to the higher profit from the disposal of 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 1.9 bn**, which means an improvement by 35.1% as compared to the same period of 2014, thanks to the growing Czech economy, on-going improvements of the quality of the loan portfolio, and several successful cases of the restructuring of receivables in the 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 959.3 bn**, which is year-on-year growth of 6.9%. In a year-on-year comparison, there was also a change in the structure of assets, with the volume of loans to customers, deposits with the central bank, and assets held to maturity being up. The volume of the portfolio of financial assets held for trading was down. On the liability side of the balance sheet, deposits from customers, interbank deposits, and the volume of equity were up. The amount of financial liabilities at fair value was down.

Equity attributable to shareholders amounted to **CZK 107.7 bn**, which means an increase by 3.9%. The volume of equity was up primarily due to an increase of retained profit. CET 1 capital adequacy for the Ceska sporitelna Group amounted to 18.8% as of 30 September 2015.

BUSINESS ACTIVITIES

Ceska sporitelna recorded the fastest year-on-year growth of customer loans since September 2009. The gross volume of the **Group's client loan portfolio** increased by 6.2%, to **CZK 541.6 bn**, due to robust growth of private mortgages, accompanied by increasing loans to large corporate clients and commercial real estate financing.

The **gross retail loan portfolio (bank only)** amounted to **CZK 296.9 bn**, which represents an increase of 5.5% year-on-year. The volume of **private mortgages** was up significantly, by 10.7%, to **CZK 181.4 bn**, supported by the historically lowest interest rates and growing real wages. **Loans to corporate clients (bank only)** were up by 6.2% year-on-year, amounting to **CZK 205.7 bn** with growth stemming mainly from large corporate clients and commercial real estate financing.

Deposits from customers amounted to **CZK 706.1 bn**, and grew by 6.2% compared to the same period last year. **Retail deposits** were up by 6.4%, to **CZK 525.5 bn**. Deposits in Personal Accounts are growing, and savings products are also popular, such as the CS Savings and Premier Savings Account. **Building savings deposits** are dropping, however, due to the termination of over-saved contracts. **Corporate deposits** were up by 3.2%, to **CZK 117.0 bn**. **Public sector deposits** amounted to **CZK 63.6 bn**, which is an increase by 2.7%. Greater clients' interest in investment products is mirrored in growing assets in the pension funds of CSPS (up by 12.7% y/y) and in domestic and foreign mutual funds (up by 26.4% y/y). Assets under discretionary management were up by 11.0% y/y.

As at 30 September 2015, the number of activated **direct-banking clients using SERVIS 24 and BUSINESS 24** amounted to **1.64 m**. The overall number of **active payment cards** issued reached **3.14 m**, of which credit cards represent 0.28 m. The volume of **card transactions** executed at retail outlets with Ceska sporitelna's cards since the beginning of the year was up by 8.8% compared to the same period of 2014, to **CZK 89.5 bn**. The number of **Ceska sporitelna ATMs and transaction terminals** increased by 11, to **1,567 units**.

MAJOR EVENTS IN Q3 2015

RETAIL CLIENTS AND PRODUCTS:

- **Ceska sporitelna innovated its offer of housing loans, with the addition of the Svobodna hypoteka (free mortgage). With this loan, clients are free to set up the drawing as well as the repayment of their loan, whose interest rates start at 1.85% p.a.** Further advantages of the Svobodna hypoteka (free mortgage): no processing and loan management fees, a free on-line valuation of a flat, free maintenance of a personal account, a financial bonus for loyalty, and a guaranteed interest rate for up to one year in advance, when re-financing from other banks. In Q3 2015, Ceska sporitelna granted more than 7,000

mortgages, amounting to CZK 13.5 bn, which is a 53% increase in volume over the same period last year, with a market share of 28%.

- **In late summer and early autumn, Ceska sporitelna introduced a special-purpose loan – loan for fun, with a guaranteed rate of 9.6% p.a. and a repayment term of up to 120 months.** With this special-purpose loan, clients can buy a new car, motorbike, or bicycle, household furnishings and equipment (e.g., appliances, furniture, bathrooms, etc.), and items for the garden (equipment, revitalisation, swimming pool, garden projects, etc.). More than 2,000 clients have taken advantage of the offer so far, taking loans amounting to nearly CZK 300 m.
- **Stavebni sporitelna CS has also made it easy to obtain funds for purchasing real estate or undertaking an extensive renovation.** The “Burinka” building society is now offering mortgages for as little as 1.95% p.a., with a 3 or 6-year fixed interest rate and a free property valuation. The building society also offers unsecured loans with a 3-year fixed rate, from as little as 4.95% p.a., on loans starting at CZK 400,000. Proof of just how attractive these offers are is the very dynamic growth of the overall loan production of SSCS, which has noted a 60% increase, as compared to the same quarter of 2014. This is the best quarterly result since the financial crisis, i.e., since 2008.
- **Ceska sporitelna’s loyalty programme “Za duveru“ offers account maintenance free of charge or with a discount,** if a client receives at least CZK 7,000 in his account in the given month and actively uses another product from CS.
- **In September 2015, Ceska sporitelna expanded its investment offer by adding the OPTIMUM mutual fund, which will provide the option of investing as little as CZK 300 per month in the Get Your Savings Moving campaign.** By investing small amounts, clients will not burden their family budgets, their money is easily and quickly available, and if they invest regularly, they can obtain a discount from the fee for arranging the purchase of unit certificates. The least risky mixed fund, Konzervativni Mix, brought clients appreciation of 1.64% per annum in a three-year investment time-frame (as at 30 September 2015). Five-year performance of the stock mutual fund Top Stocks achieved 15.36% per annum (as at 30 September 2015).
- **Ceska sporitelna is the most active financial institution in social networks.** More than 50,000 Facebook fans is strong evidence of that. The page has had sustained growth since 2009, when we set it up. Our Facebook page enables us to be in contact with our clients as well as others, by offering us a forum where we can discuss various topics (finance, education, and lifestyle) with them. We try to resolve inquiries, of which there are more than 500 per month, on average within 20 minutes. We are actively using other social networks aside from Facebook, such as Twitter and LinkedIn
- **On 1 November 2015, Ceska sporitelna launched its new “CS Investment Broker” service,** which is designed primarily for less active investors who have thus far been trading via Brokerjet. For active

investors, Brokerjet offers to transfer their securities portfolios to the modern BrokerjetGo platform managed by Saxo Bank.

CORPORATE TRANSACTIONS AND CLIENTS:

- **Ceska sporitelna initiated refinancing and recapitalization of the Florentinum project**, a prestigious administrative building in the heart of Prague, as well as the largest administrative space under a single roof in the Czech Republic, owned by Penta Investments. Total financing amounted to EUR 150 m, where Ceska sporitelna has underwritten 50%. The transaction was successfully completed at the end of September 2015.
- **Ceska sporitelna participated as the Mandated Lead Arranger in the long-term club credit facility in the total amount of CZK 1 bn, for the financing of a strategic investment of Lovochemie, a.s. into construction of a Universal granulation line.** The investment is focused on long-term sustainable corporate competitiveness and the strengthening of Lovochemie's significant position on the European fertilizer market.
- **Ceska sporitelna was selected by Abengoa S.A., Spain, to provide a USD 15 m export buyer's credit covered by EGAP.** Abengoa group is one of the largest manufacturers of thermal solar plants in the world. For the project to build and operate a concentrating solar thermal power plant of 110 MW in Chile, in the Antofagasta region of the Atacama Desert, Doosan Skoda Power s.r.o. will deliver the proven MTD50 turbine. This longstanding client is a leading global manufacturer of steam turbines of its own design, with outputs from 10 to 1200 MW. Financing of the supply opens the door to a very interesting export area and to a unique perspective branch for us and for Doosan Skoda Power.
- **Ceska sporitelna participated with the amount of EUR 50 m in a EUR 458.9 m EGAP-supported Export Credit Facility for Azerbaijan Railways.** The purpose was the refinancing of project costs related to reconstruction and upgrade of 600 km of the Azerbaijani section of the Baku-Tbilisi-Kars railroad. The exporter under the project is a Czech company and our client, Moravia Steel a.s. (Finitrading Group).
- **Ceska sporitelna acted as Arranger and Lender in syndicated term loan facilities in the amount of CZK 32.2 bn provided to Ceska telekomunikacni infrastruktura a.s.,** which was established as a result of the spin-off of the telecommunication infrastructure from O2 Czech Republic a.s.
- **Erste Group acted as M&A and debt advisor for Infracapital,** the infrastructure investment arm of Prudential, in the acquisition of the Slovak utility group GGE a.s. ("GGE") from the conglomerate Grafobal Group. Erste's support enabled Infracapital to approach GGE's shareholders and complete the transaction bilaterally on an exclusivity basis.

MAKING GOOD THINGS HAPPEN:

- **Ceska sporitelna was chosen as the first-ever recipient of the Green Bank Award in the GEEN Zelena banka survey, organised by the servers www.vstricnabanka.cz and www.bankovnipoplatky.com.** The first evaluation of the GEEN Zelena banka project assessed the scope and effectiveness of environmental activities, as presented by the banks themselves. Ceska sporitelna's products focused on reducing energy consumption include preferential financing with a **Green Energy** global loan, the **financing of energy savings in residential buildings, and projects introducing alternative sources of energy.**
- **Ceska sporitelna has launched the first barrier-free website at www.bankabezbarier.cz.** The website features all services that we offer to our handicapped clients. The contents are divided into sections for people who are physically disabled, hearing impaired, or visually impaired. All services are easy to find with the search function, in a list, or directly on a map. **The entire website is adapted for electronic readers, and information for the hearing-impaired is translated into sign language.**
- **Ceska sporitelna is seeking out and approaching potential investors and operators who would rejuvenate and restore the beauty of unique buildings in the centre of the town of Opocno.** The revitalisation and the follow-up project that would help rejuvenate the buildings can be implemented by the investors themselves, or with the town's financial assistance. Ceska sporitelna is organising the bidding for the town, by virtue of having won a tender announced by the Opocno Municipal Assembly in the spring of 2015.
- **Ceska sporitelna was again the General Partner of the multi-genre international music festival Colours of Ostrava,** which took place from 16 to 19 July 2015. Ceska sporitelna operated its entertaining and relaxing CS Blue Zone there, featuring the Palecek Café and the playful stand of the Depositum Bonum Foundation. As usual, visitors enjoyed the use of two mobile ATMs, from which they withdrew nearly CZK 8.7 m over the four days of the festival, which is 44% more than last year.
- **Ceska sporitelna introduced its new concept of the charitable Palecek Café,** which it operates at various cultural events in cooperation with partners of the Ceska sporitelna Foundation. The profit is always retained by the selected non-profit organisation. At the Street Festival of music in Ostrava, the café was run in association with Caritas Czech Republic, which thereby earned more than CZK 20,000. In the course of the celebration of the 190th anniversary of Ceska sporitelna at Prague's Rudolfinum, the social enterprise Bila vrana (White Crow) derived more than CZK 11,000 from the café.

OTHER EVENTS:

- **Pavel Kysilka has decided to leave Ceska sporitelna at the end of the year. He will be replaced by Tomas Salomon**, who is currently the member of Ceska sporitelna's Board of Directors responsible for retail banking.
- **On 5 September 2015, at the Rudolfinum, we celebrated Ceska sporitelna's 190th birthday and the commencement of its cooperation with the Czech Philharmonic Orchestra.** The guests enjoyed an exceptional concert by the Czech Philharmonic Orchestra, accompanied by a visual projection, known as videomapping. This was the first time this combination could be seen in Europe. In addition, hundreds of employees and visitors watched the concert broadcast live on one of the largest LED screens, in front of the Rudolfinum, where the concert culminated with a fireworks show.

Ceska sporitelna

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Consolidated Profit and Loss Statement of Ceska sporitelna according to IFRS, preliminary, unaudited (CZK m)	1-9 2015	1-9 2014	Y/Y Change
Net interest income	19,429	19,946	-2.6%
Net fee and commission income	7,529	8,252	-8.8%
Dividend income	67	50	34.0%
Net trading and fair value result	2,239	1,722	30.0%
Rental income from investment properties & other operating leases	581	620	-6.3%
Personnel expenses	-6,502	-6,483	0.3%
Other administrative expenses	-5,532	-5,400	2.4%
Depreciation and amortisation	-1,601	-1,715	-6.6%
Gains/Losses from financial assets and liabilities not measured at fair value through profit or loss, net	322	138	>100.0 %
Net impairment loss on financial assets not measured at fair value through profit or loss	-1,883	-2,900	-35.1%
Other operating result	-880	-285	>100.0 %
Pre-tax result from continuing operations	13,769	13,945	-1.3%
Taxes on income	-2,634	-2,699	-2.4%
Post-tax result from continuing operations	11,135	11,246	-1.0%
Net result for the period			
Net result attributable to non-controlling interests	0	21	-100.0%
Net result attributable to owners of the parent	11,135	11,225	-0.8%
Operating income	29,845	30,590	-2.4%
Operating expenses	-13,635	-13,598	0.3%
Operating result	16,210	16,992	-4.6%

Consolidated Statement of Financial Position according to IFRS, preliminary, unaudited (CZK m)	30 Sep 2015	31 Dec 2014	YTD Change	30 Sep 2014	Y/Y Change
Assets					
Cash and cash balances	105,495	54,489	93.6%	65,638	60.7%
Financial assets - held for trading	19,049	23,231	-18.0%	26,867	-29.1%
Derivatives	14,913	18,740	-20.4%	17,587	-15.2%
Other trading assets	4,136	4,491	-7.9%	9,280	-55.4%
Financial assets - designated at fair value through profit or loss	923	1,272	-27.4%	2,846	-67.6%
Financial assets - available for sale	84,492	99,289	-14.9%	90,885	-7.0%
Financial assets - held to maturity	159,640	151,513	5.4%	145,976	9.4%
Loans and receivables to credit institutions (net)	36,845	38,533	-4.4%	41,066	-10.3%
Loans and receivables to customers (net)	524,082	500,039	4.8%	491,289	6.7%
Derivatives - hedge accounting	1,063	878	21.1%	1,114	-4.6%
Property and equipment	12,921	13,431	-3.8%	13,402	-3.6%
Investment properties	5,039	7,342	-31.4%	7,950	-36.6%
Intangible assets	3,456	3,593	-3.8%	3,147	9.8%
Current tax assets	1,013	543	86.6%	479	>100.0 %
Deferred tax assets	143	159	-10.1%	146	-2.1%
Assets held for sale	1,666	0	-	125	>100.0 %
Other assets	3,429	8,277	-58.6%	6,345	-46.0%
Total assets	959,256	902,589	6.3%	897,275	6.9%

Consolidated Statement of Financial Position according to IFRS, preliminary, unaudited (CZK m)	30 Sep 2015	31 Dec 2014	YTD Change	30 Sep 2014	Y/Y Change
Liabilities & Equity					
Financial liabilities - held for trading	23,908	23,431	2.0%	29,645	-19.4%
Derivatives	16,414	20,654	-20.5%	19,401	-15.4%
Other trading liabilities	7,494	2,777	>100.0%	10,244	-26.8%
Financial liabilities designated at fair value through profit or loss	5,355	9,664	-44.6%	11,625	-53.9%
Deposits from customers	5,355	8,874	-39.7%	9,993	-46.4%
Debt securities issued	0	790	-100.0%	1,632	-100.0%
Financial liabilities measured at amortised cost	808,856	751,959	7.6%	740,968	9.2%
Deposits from banks	83,734	54,570	53.4%	58,131	44.0%
Deposits from customers	700,769	671,565	4.3%	654,753	7.0%
Debt securities issued	21,859	23,043	-5.1%	24,876	-12.1%
Other financial liabilities	2,494	2,781	-10.3%	3,208	-22.3%
Derivatives - hedge accounting	76	169	-55.0%	502	-84.9%
Provisions	2,955	2,418	22.2%	2,446	20.8%
Current tax liabilities	130	45	>100.0%	104	25.0%
Deferred tax liabilities	485	474	2.3%	329	47.4%
Liabilities associated with assets held for sale	897	0	-	0	-
Other liabilities	8,954	6,646	34.7%	7,819	14.5%
Total equity	107,640	107,783	-0.1%	103,837	3.7%
Equity attributable to non-controlling interests	-26	-26	0.0%	212	-
Equity attributable to owners of the parent	107,666	107,809	-0.1%	103,625	3.9%
Total liabilities and equity	959,256	902,589	6.3%	897,275	6.9%

Selected Consolidated Ratios	30 Sep 2015	30 Sep 2014
ROE	13.7%	14.5%
ROA	1.6%	1.7%
Cost/income	45.7%	44.5%
Net interest margin related to Interest-bearing assets	3.33%	3.55%
Loan to deposit ratio	74.2%	73.9%
Capital adequacy – CET 1 ratio	18.8%	18.1%

Selected Business Activity Figures	30 Sep 2015	30 Sep 2014	Y/Y Change
Headcount of Ceska sporitelna Financial Group (EOP)	10,522	10,443	0.8%
Total number of clients	4,811,208	4,954,770	-2.9%
Number of activated SERVIS 24 and BUSINESS 24 Direct Banking Clients	1,642,565	1,578,000	4.1%
Number of cards	3,137,229	3,147,445	-0.3%
of which credit cards	276,610	289,230	-4.4%
Number of ATMs	1,567	1,556	0.7%
Number of Ceska Sporitelna branches	626	645	-2.9%

Net After-tax Profit of Selected Ceska sporitelna Subsidiaries, according to IFRS, preliminary, unaudited (CZK m)	30 Sep 2015	30 Sep 2014	Y/Y Change
Ceska sporitelna - penzijni spolecnost (pension company)	7	-10	-
Erste Leasing	44	41	7.3%
Factoring Ceske sporitelny	6	45	-86.7%
S Autoleasing	86	84	2.4%
Stavebni sporitelna Ceske sporitelny	569	426	33.6%