



# Half-year Report 2011

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# Macroeconomic Development of the Czech Republic

## in the First Half of 2011

The key drivers of the Czech economy in the first half of 2011 were industry in terms of supply and exports and related fixed investments in terms of demand. This trend stems from the structure of the Czech economy where the industrial sector accounts for one third. The bulk of Czech industrial production is exported to Germany and is re-exported from there. The German economy has become very robust after the crisis; it is the fastest growing economy in the developed countries. The booming recovery in Germany is fueled by the country's exposure to the emerging markets that are currently the engine of global growth.

Czech household consumption remained weak, having been undermined by the slight improvement of the labor market. The unemployment rate dipped 0.4% year-on-year to 8.9% in the first half of 2011, but still remained too high. High foodstuffs and oil prices and slow growth in nominal wages that even declined in the public sector due to fiscal consolidation also had an impact on weak consumption. It is hardly surprising then that whereas exports rose 15.6% year-on-year in Q1 2011, household consumption fell 0.5% in real figures and, with the exception of Q4 2010, this decline has continued without interruption since mid-2009. As government expenditures are being cut within the government program of public budget consolidation, they also failed to boost the end demand which dropped more than 1% in Q1 2011.

The inflation trend reflected the economic development of the Czech Republic. The demand component that the Czech National Bank (ČNB) can most influence by setting the repo rate stayed negative as it has every month since the summer of 2009, and it has been inching toward 0% very slowly. The overall average inflation rate reached 1.8%, stemming from prices of foodstuffs and oil and from deregulations, all constituting the only factors increasing inflation. In other words, the Czech economy itself does not generate any demand pressures and the current inflation rate is the outcome of solely external factors.

There was an interesting development of interest rates in the markets. In early 2011, the market was overly optimistic in anticipation of the trend in ČNB rates, expecting the rates to be raised up to four times through the end of the year. Česká spořitelna warned, however, that such marked increases could not be expected on the part of the ČNB with regard to low demand inflation and the strong crown. As it became manifest that inflation would stay low, while the ČNB did not indicate any immediate move in respect of increasing the rates, the market modified its predictions. Even when the European Central Bank began to increase rates, it did not put any pressure on the crown that would make the ČNB take action. As a result, the interest rate retained its alltime low of 0.75% for the entire first half of 2011. It is not expected to begin to grow until the second half of the year, albeit very slightly.

The Czech crown was not affected by political turbulence or issues arising from the indebted periphery either: the rescue package for Portugal, the escalation of Greece's problems due to its failure to adhere to the austerity plan, pressure on Italy's revenue in July, etc. As the only currency in the region, the crown has not weakened below the pre-crisis value due to solid macroeconomic results and the government's success in consolidation endeavors; in the first half of the year, most of the time the crown was somewhat stronger than expected and than was fundamentally justifiable. At one point, the crown strengthened to just a little below CZK 24/EUR, but mostly it hovered between 24.1 and 24.5/EUR. In the second half of the year, the Bank anticipates strengthening of the crown to CZK 24/EUR, and in Q4 2011 possibly even slightly below this mark.

# Česká spořitelna's Consolidated Results of Operations

for the Six Months Ended 30 June 2011

## Income Statement

**For the six months ended 30 June 2011, Česká spořitelna ("the Bank") reported an unaudited consolidated profit under IFRS, net of non-controlling interests, of CZK 7.2 billion,** which represents a year-on-year increase of 24%, compared to the net consolidated profit of CZK 5.8 billion for the same period of 2010<sup>1</sup>. **The Return on Equity ratio (ROE) increased to 19.7%;** as at 30 June 2010, ROE was 17.9%. The Return on Assets ratio (ROA) increased from 1.3% to 1.6%.

The excellent results of operations that the Bank achieved in the first half of 2011 are mainly due to lower levels of credit risk allowances, higher operating income and lower operating expenses. **The operating profit,** calculated as the difference between the operating income and expenses and reflecting the results of the Bank's primary activities, **increased year-on-year by 5% to CZK 13.5 billion.** Owing to good operating results, the Cost/Income Ratio improved from 42.3% to 40.8%.

The total operating income, including net interest income, net fee and commission income and net trading profit, totaled CZK 22.8 billion in the first half of 2010, which is a year-on-year increase of 2%, predominantly due to the increase in net interest income and net fee and commission income. The proportion of non-interest income to operating income decreased slightly to 32.5%.

**In the continuing environment of historically low interest rates, net interest income rose 3% to CZK 15.4 billion.** Česká spořitelna particularly managed to increase interest income from bonds in the held-to-maturity portfolio, which was due to their higher volumes as a result of asset relocation. Net interest income from client transactions also increased slightly. Low interest rates reflected in the level of net interest margin on interest earning assets which stayed around 3.83%; the margin was 3.84% in the same period of 2010.

Another significant element of operating income, net fees and commission income amounted to CZK 6.1 billion, which is a year-on-year increase of 1%. **Particularly Fee and commission income from payment transactions and card transactions saw a particularly positive development,** which was due to

their growing numbers and volumes. For example, the number of transactions performed through the SERVIS 24 and BUSINESS 24 direct banking services in the first half of 2011 rose 13.2% year-on-year to exceed 51 million. Moreover, the volume of card transactions affected in the network of Česká spořitelna increased by 20%. Income from securities transactions also went up, especially owing to the recovering financial markets and growing investment volumes. On the other hand, net income from construction savings and insurance products decreased.

Net trading profit decreased year-on-year by 3% to CZK 1.4 billion; while income from foreign currency transactions saw a rather significant decrease, income from derivative transactions, particularly from interest-rate derivatives, increased in Q1 2011, and so did income from securities transactions, which was due to higher trading volumes, particularly higher trading in treasury bills.

Owing to the effective management of expenses, general administrative expenses (comprising staff costs, other administrative expenses and the depreciation/amortization of fixed assets) decreased by 1% year-on-year, to CZK 9.3 billion. Other **administrative expenses went down by 2% to CZK 3.9 billion, especially in the area of IT costs.** Staff costs increased by 1% to CZK 4.2 billion as a result of severance paid in connection with downsizing. The average headcount of the Česká spořitelna financial group rose 4% year-on-year, to 10,311. The depreciation/amortization of fixed assets decreased by 6% to CZK 1.2 billion due to lower amortization charges of licenses and software.

**The Bank reported a negative balance of CZK 3.6 billion related to charges for, and use of, provisions and allowances against loans and receivables, which represents a significant year-on-year decrease of 32%, compared to the six months ended 30 June 2010.** The year-on-year decrease is mainly due to lower allowance charges in the corporate and retail banking segments.

The level of other operating expenses deteriorated significantly to a negative balance of CZK 0.9 billion. This was due to a number of factors, the most important of them being **significantly higher contributions to the Deposit Insurance Fund** as a result of the amendment of the Banking Act with effect from H2 2010 and a conservative approach to the valuation of real estate fund investments. Other operating expenses also include gains and losses on the revaluation and disposal of financial assets in the at fair value through profit or loss, available for sale, and held to maturity portfolios. These showed a year-on-year improvement, reflecting positive developments in the financial markets, particularly in Q1 2011.

<sup>1</sup> Česká spořitelna changed the accounting policy for reporting the results of investment properties included in its group from fair value measurement to cost measurement. Accordingly, the comparatives for the six months ended 30 June 2010 have been restated to conform to the new policy. Originally reported net consolidated profit for the six months ended 30 June 2010 was CZK 5.9 billion.

## Statement of financial position

The Bank's total assets amounted to CZK 907.3 billion, which represents a year-on-year decrease of 2% from CZK 926.5 billion; however, the total assets are up by 3% compared to 31 December 2010. On the asset side, held to maturity securities increased while interbank receivable decreased. On the liability side, amounts owed to customers and subordinated debt increased while the level of liabilities classified as at fair value through profit or loss and equity increased. **The structural changes in the assets and liabilities side of the statement of financial position reflect a more effective approach to interest income and expense management** in the environment of continuously low interest rates.

The aggregate portfolio of client loans saw a moderate increase by CZK 0.6 billion year-on-year, to CZK 464.1 billion. **Compared to 31 December 2010, client loans increased by CZK 4.1 billion, which is due to a higher volume of corporate and mortgage loans provided**, and also to the acquisition of S Morava leasing.

The portfolio of retail loans granted by the financial group amounted to CZK 262.5 billion which is a year-on-year decrease of 1%. However, different types of retail loans show differing trends: while mortgage loans have been growing for several consecutive months, consumer loans continue to decline.

The portfolio of mortgage loans to individuals increased year-on-year by 4% to CZK 124.8 billion; **however, new mortgage loans went up more than two times** (by 135%) to CZK 14.0 billion, their number totaling 9,300. The average non-business mortgage loan amounts to CZK 1.6 million with an average repayment period of 23.0 years. The important indicator of the average amount of the loan in proportion to the value of the real estate is 63.5% throughout the portfolio of mortgage loans granted to individuals.

Consumer loans decreased year-on-year by 4% to CZK 80.1 billion; their declining level is caused by low demand due to continuing high unemployment. However, credit card loans and overdraft facilities, which are part of consumer loans, continued to rise. Construction savings scheme loans fell year-on-year by 5% to CZK 43.3 billion.

**Loans to corporate entities increased** year-on-year by 2% to **CZK 182.7 billion**, and are up by 3% compared to 31 December 2010. This result is mainly attributable to loans granted to small and medium-sized enterprises (SME) and to the inclusion of loans granted by s Morava leasing. Loans to the public sector saw a moderate, 2% decrease to CZK 18.9 billion.

Total mortgage loans grew year-on-year by 3%, i.e. by CZK 179.6 billion, reaching the highest level ever in Česká spořitelna's history. **The renewed growth of the mortgage loan portfolio can be attributed to the Bank's active loan policy**, including regular low interest offers, and **also to low interest rates and real estate prices**.

**The indicator of the proportion of client loans to client deposits** (including deposits measured at fair value) represents 67.3%, compared to 65.7% reported as at 30 June 2010. The quality of Česká spořitelna's loan portfolio is confirmed by the proportion of client loans in default to the aggregate amount of client loans. This indicator was 6.4% and 6.2% as at 30 June 2011 and 2010, respectively.

Compared to the first half of 2010, loans and advances to financial institutions decreased by one third to CZK 143.7 billion; this was mainly due to a significant reduction of repo transactions with the CNB and other banks, which, as a result of financial asset re-allocation, fell from CZK 137.7 billion to the current CZK 87.5 billion.

The aggregate balance of securities portfolios, classified as at fair value through profit or loss, available for sale securities and securities held to maturity, totalled CZK 230.1 billion at 30 June 2011, which represents an increase of 35% compared to 30 June 2010. Securities held to maturity saw the most significant increase, as a result of the above re-allocation of financial assets in order to stabilize interest income. Of the aggregate portfolio balance, fixed-yield securities, including treasury bills totalled CZK 227.0 billion. **As at 30 June 2011, Česká spořitelna held no Italian, Spanish, Irish, Portuguese or Greek treasury bonds.** The Bank's exposure to Italian, Spanish, Irish and Portuguese debtors is CZK 0.3 billion, CZK 2.5 billion, CZK 0.7 billion and CZK 0.2 billion, respectively. The exposure arises from loans and advances to customers or financial institutions rather than to states. The Bank has no loans and advances to Greek entities.

Compared to the balance as at 30 June 2010, the aggregate balance of tangible and intangible fixed assets increased year-on-year by 1% to CZK 18.4 billion; of this, tangible and intangible assets totalled CZK 15.5 billion and CZK 2.9 billion, respectively.

Amounts due to customers fell by 3% over the last 12 months to CZK 677.1 billion (including deposits measured at fair value, which totalled CZK 689.8 billion). **Customer deposits including deposits measured at fair value increased by 3% to CZK 526.2 billion.** Principal additions were specifically related to term and savings deposits, of which the "Šikovné spoření" saving program and "Premium deposits" are particularly popular. Additional pension insurance deposits also continue to rise; their balance totalled CZK 36.6 billion as at 30 June 2011, a 9% increase year-on-year. Sporo giro account deposits and construction saving scheme deposits also saw a slight increase. On the other hand, amounts due to corporate clients fell by 24% to CZK 85.5 billion, which applies both to current accounts and term deposits, including deposits denominated in foreign currencies. Public sector clients' deposits decreased by 5% to CZK 78.1 billion.

Amounts due to financial institutions increased by 11% to CZK 56.5 billion; this development was predominantly attributable to the increase in interbank repo transactions from CZK 9.1 billion in mid 2010 to CZK 11.7 billion in mid-2011.

Payables from debt securities reported in the consolidated statement of financial position decreased by 9% to CZK 45.7 billion, predominantly due to the decrease in promissory notes issued by the Bank. On the other hand, the volume of mortgage bonds saw an increase.

The equity attributable to the Bank's shareholders totaled CZK 73.5 billion. **Compared to the same period a year earlier, this represents an increase of 14%** owing to the increase in undistributed profit. To strengthen its capital base, Česká spořitelna issued subordinated bonds in the total amount of CZK 4.6 billion as at 30 June 2011. Capital adequacy under the BASEL II rules was 15.2% as at 30 June 2011 as compared to mid-2010 when it amounted to 13.5%. Total capital under BASEL II used in calculating the capital adequacy ratio was CZK 67.1 billion and the total capital requirements amounted to CZK 35.3 billion. As at 30 June 2010, these figures amounted to CZK 62.1 billion and CZK 36.8 billion, respectively.

# Significant Events and Business Activities

## in the First Half of 2011

### Corporate account and loans for entrepreneurs and small enterprises

As a result of the success of Česká spořitelna's Corporate Account, introduced in September 2010, Česká spořitelna has increased its share in the SME segment. In addition, as of January 2011 **Česká spořitelna has offered with its Corporate Account a new ČS Corporate Loan and a ČS Corporate Overdraft**. This step helped the Bank significantly improve the accessibility of its services by the small business community in the segment of unsecured corporate loans and overdraft. More than 32 thousand clients signed up for the ČS Corporate Account alone in the first half of 2011; in total, the Bank has maintained almost 84 thousand of these accounts. The ČS Corporate Account allows clients to select products and services that meet their requirements and to pay only for the services they actually use. The selection of services can be quickly changed with no fee charged. Furthermore, the account offers favorable terms for making payments; the more active the client, the more advantageous the executed transactions.

### New mortgage loans

Česká spořitelna introduced new mortgage products in April. **The Bank's Nová Hypotéka (New Mortgage) offers clients, in addition to favorable interest rates, variable repayment, i.e. it offers an option of suspending repayment and postponing or altering installments.** In the course of mortgage loan repayment, clients may determine the amount of installments by themselves. In addition, ČS maintains their Private Accounts free of charge for the duration of the first fixation. The service was introduced in response to a customer survey conducted for the Bank by TNS AISA in January 2011. The success of the new mortgage loans has been reaffirmed by the provision of 9,321 new mortgage loans in the amount of CZK 14.0 billion in the first six months of this year, double the volume compared to the first half-year of 2010. **The Bank's market share in mortgage lending rose from 15% to an excellent 25% over the same period.**

### Support for small and medium-sized enterprises

Česká spořitelna received EUR 150 million from the European Investment Bank (EIB) for funding of the Czech economy. The loan is earmarked primarily for projects of small and medium-sized enterprises, but it may be utilized by the public sector as well. Since 2002 the Bank has obtained a total of EUR 850 million for businesses and the public sector, thus being EIB's most important banking partner in the Czech Republic.

As the first bank in the Czech market, Česká spořitelna has launched a specialized program TOP INOVACE. **The TOP INOVACE program is aimed to support companies investing in their expansion through innovation of their products, services, processes and technologies.** The program is primarily intended for the small and medium business segment, specifically for businesses operating in the energy sector, engineering, chemical and processing industries. It comprises capital and operations funding, benefits for innovative businesses (such as lower interest rates from the European Investment Bank's sources, low-interest loans from Českomoravská záruční a rozvojová banka), guarantees of the International Finance Corporation for projects pertaining to the energy sector, arrangements ensuring energy prices, and advisory in the field of technologies provided by the program partner, the Academy of Sciences of the Czech Republic.

### Česká spořitelna private account (osobní účet)

Česká spořitelna's flexible and variable products and services provide clients with the freedom to select only the services they really need. The cornerstone of these offerings is the Private Account (Osobní účet) of Česká spořitelna. The Private Account allows variable settings as it comes complete with a broad array of products and services. Each client may personalize the account either by using a configurator, a tool available on the web site [www.csas.cz](http://www.csas.cz), or with the help of the Bank's staff that will recommend selecting only the services and products that will be useful for the particular client. **As at 30 June 2011, the number of active users of Česká spořitelna's Private Account exceeded 2.2 million, representing an increase of nearly 300 thousand clients, or 15%, year-on-year. The volume of deposits jumped by 24% to CZK 135.3 billion.**

More variations of the Private Account are being created such as the Student Private Account designed for students enrolled in regular daytime classes. The Bank has opened in excess of 170,000 Student Private Accounts to date. The Junior Private Account is intended for young clients aged 8 to 14; the number of these accounts has reached some six thousand. High-income or high-asset clients serviced within the ČS Premier branch network may use the Premier Private Account.

In mid-May 2011, Česká spořitelna launched a **new Absolvent Private Account designed for clients starting their first job** after graduating from all types of schools, from vocational organizations to secondary schools to universities. The Absolvent Private Account is maintained free of charge and comes complete with six supplementary services. The Bank offers the account to



meet higher requirements of school graduates and provide them with significant benefits. In addition, Česká spořitelna is launching a new website for the youth ([www.csas.cz/mladi](http://www.csas.cz/mladi)) comprising useful information for both graduates and secondary school and university students.

## Pension solution

**The Bank offers its clients the Pension Solution of Česká spořitelna, allowing them to sustain an adequate standard of living during retirement** by way of distributing deposits of regular savings schemes into pension products of Supplementary Pension Insurance of ČS Pension Fund (Penzijní připojištění Penzijního fondu ČS), Fond Plus and Life Cycle 2030 Fund (Fond životního cyklu 2030) of ČS Investment Company (Investiční společnost ČS), and ČS Private Account. Clients save to ensure that their real income at retirement age meets their expectations and needs so that they are not fully dependent on state pensions. The ČS Pension Solution takes into account potential changes in the client's financial situation in the course of the savings scheme and can accommodate them. Penzijní fond České spořitelny was awarded Stříbrná crown in the supplementary pension insurance category, i.e. the second place in the Zlatá crown 2011 competition. In the past 12 months, the number of clients rose by some 50 thousand to more than 921 thousand.

## Financial partnership with the capital

Having been a long-standing financial partner of the City of Prague, in April 2011 **Česká spořitelna assisted the capital in preparations for one of the largest domestic bond transactions of recent years** as the chief manager and bookrunner of the local bond issue with a fixed coupon and 10-year maturity in the total volume of CZK 5.0 billion. The bonds were placed with institutional investors (primarily banks, insurance companies, pension and investment funds and asset management companies) in the Czech Republic, Austria, Germany and Hungary. In the past, the Bank has often participated in arranging a number of funding projects, including the City of Prague's bond issues. Assisting in such a high-volume and successful bond issue reaffirmed Česká spořitelna's leading position in debt financing in the Czech Republic.

## Institutional client asset management

In the first half of 2011, Česká spořitelna reaffirmed its strong position in the asset management of institutional clients by managing almost CZK 80.0 billion worth of assets. This success largely stems from increased activity in investment banking. **Česká spořitelna currently manages more than 50% of investment assets** of domestic pension funds, including Penzijní fond ČS, life insurance and health insurance companies, and other assets of

institutional clients, such as corporate clients, the public sector and foundations.

## SERVIS 24 and BUSINESS 24

As at 30 June 2011, the number of active SERVIS 24 and BUSINESS 24 direct banking customers amounted to 1.36 million, accounting for a 6.5% increase over the last 12 months. The number of executed transactions climbed 13.2% to more than 51 million. In the autumn of 2010, Česká spořitelna launched a new service PLATBA 24 (PAYMENT 24) that automatically allows clients to make online payments for Internet purchases through SERVIS 24 Internetbanking. **Almost 36 thousand transactions have been executed via the PLATBA 24 service since the start of 2011.** The number of transactions continues its robust growth; in June alone, more than 10 thousand payments were carried out.

## Card programme

The aggregate number of issued active payment cards was 3.2 million (down 1%), of which credit cards accounted for 0.4 million. The volume of loans provided through credit cards amounted to CZK 5.4 billion as at 30 June 2011, an increase of 5% compared to the previous year. **In the Zlatá crown 2011 competition, Česká spořitelna's Chytrá karta (Smart Card) placed second in the payment card category for the third consecutive time.**

In the period from January to June 2011, **cardholders completed in excess of 50 million transactions in at aggregate amount of CZK 46.9 billion through the business network of more than 17 thousand partners of Česká spořitelna.** This figure represents a 20% rise year-on-year.

The number of ATMs (bankomats and platbomats, the latter standing for automated transaction terminals) has risen by another 110 to 1,374 units. Over the past 12 months, the number of deposit ATMs increased by 9 to a total of 23 deposit ATMs available to clients at the end of June. Since the beginning of the year, cardholders have carried out 45.3 million ATM transactions in the total amount of CZK 150.8 billion. Of the overall number of bankomats, platbomats account for 80 units; their number has doubled since the beginning of 2011. Platbomats, formerly also known as automated transaction terminals, are similar to bankomats, but do not dispense any cash. They allow clients to execute payment orders in a swift and inexpensive manner. Platbomats are cheaper than collection boxes. Using a platbomat is enabled by holding a Česká spořitelna card.

**In collaboration with the VISA Europe Card Association, Česká spořitelna has scheduled for the autumn of 2011 the introduction of a new card payment method: non-contact payment technology,** ensuring a higher level of customer comfort when paying for small purchases of up to CZK 500. This tech-



nology allows for skipping the keying in of the PIN during payment. Česká spořitelna's VISA cards will be dual, i.e. will permit using both contact and non-contact payment methods.

## Mobile branch

In January 2011 Česká spořitelna introduced to the public its first mobile branch in the Czech Republic, specifically in Brandýs nad Labem. **The mobile branch serves clients during modernizations or reconstructions of the established branches and can be also used for staging exhibitions and organizing fairs.** The mobile branch is currently parked in Újezd nad lesy, before it was available for clients in Moravský Krumlov. The Bank provides standard customer service and products in the mobile branch through six consulting counters, a waiting zone with a collection box and an outside ATM available 24 hours a day.

## Awards received

**Česká spořitelna** has received the Euromoney Private Banking 2011 award as the **bank offering the best private banking services in the Czech Republic.** The award is granted annually by Euromoney magazine, an industry monthly specialized in banking and capital markets. The evaluation is based on a quantitative and qualitative survey and provides an overview of the services and product offerings in private banking. Česká spořitelna offers the services of Erste Private Banking to clients with assets in excess of CZK 5 million and, through its experienced private bankers, offers

both model solutions and customized, tailor-made solutions. All solutions are presented with regard to the client's position in terms of risk-taking, investment horizon, expected yield and selected investment strategy.

Česká spořitelna has received the Innovation Award from Nextira One for its innovative approach to the development of its Client Center services. **The Bank was presented the award for the development and implementation of technologies enabling a personalized approach to calling customers,** which improves the Bank's ability to recommend what customers expect and to process client e-mails more efficiently. Česká spořitelna has built upon a similar success achieved in 2009, reaffirming its ability to use cutting-edge technologies to improve client services.

**Česká spořitelna was also named the Corporate Bank of the Year for Central Europe** in ACQ Global Awards 2011 organized by the UK's ACQ Finance Magazine. Financial institutions are nominated by readers and the winners are chosen by journalists and economic experts who recognized Česká spořitelna as the best corporate bank in the Czech Republic and the entire Central European region.

**In addition, Česká spořitelna has received the "Family Friendly Company" award for a flexible approach to its employees with children.** The judging panel recognized the Bank's unwavering equal opportunity policy, offering flexible and part-time jobs and promoting social responsibility. The competition has been organized by the Network of Maternity Centers (Síť mateřských center) for eight years.

# Česká spořitelna's Anticipated Development in the Second Half of 2011

Česká spořitelna entered 2011 with a good starting position and with a well-proven business model, which is a guarantee of its stable and sustainable development in the future.

Since the beginning of the year, Česká spořitelna has sought to implement its newly established strategy, the principal aims of which are defined as follows:

- In the financial area, continue in carefully managing risks and improving operating expense efficiency, while at the same time striving to maximize the growth of operating results;
- With respect to customers, focus on further improvement of service quality and scope and support strengthened customer loyalty;
- In relation to processes, focus on their standardization and improving their efficiency, including the completion of IT transformations; started and
- In relation to employees, maintain the status of “first choice employer” including further development of company culture.

In the second half of 2011, Česká spořitelna expects stable development based on a reliably functioning business model, continuing economic recovery and high customer loyalty.

With respect to the principle asset and liability components of the statement of financial position, the Bank only anticipates a slight increase in the volume of loans provided to clients in the second half of 2011. At the same time, the Bank anticipates the stagnation of primary deposits. This development will result in a slight increase in the existing ratio between loans and deposits.

In the latter half of the year, the Bank anticipates similar development in the principal items of the income statement as in the first half of the year. Net interest income will be predominantly impacted by the expected interest rate movements and additions to loans provided. Net income from fees will be positively affected by the Bank's increasing loan activities and new service and product offerings. In addition to decreasing levels of allowances against credit risks, a significant role in the achievement of the anticipated profit will be played by the benefits of the implementation of selected Group and local projects.

# Selected Financial Indicators

## Important Ratios

	30 June 2011	30 June 2010
Return on equity (ROE)	19.7%	17.9%
Return on assets (ROA)	1.6%	1.3%
Cost/income	40.8%	42.3%
Net interest margin in relation to interest-earning assets	3.83%	3.84%
Non-interest income / operating income	32.6%	33.2%
Loans and advances to customers / amounts owed to customers	67.3%	65.7%
Individual capital adequacy (BASEL II)	14.5%	13.4%
Consolidated capital adequacy (BASEL II)	15.2%	13.5%

## Selected Operational Figures

	30 June 2011	30 June 2010
Average number of employees of the Česká spořitelna Financial Group	10,311	10,742
Total number of clients	5,229,909	5,270,665
Sporogiro accounts	2,785,729	2,815,512
of which Private Accounts	2,225,768	1,934,259
Number of SERVIS 24 and BUSINESS 24 active clients	1,360,878	1,277,783
Number of cards	3,191,104	3,232,750
of which credit cards	408,092	459,153
Number of ATMs	1,374	1,264
Number of Česká spořitelna branches	653	664

## Net Profit After Taxes of Selected Subsidiaries of Česká spořitelna

under International Financial Reporting Standards (Unaudited)

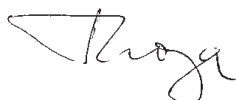
CZK million	30 June 2011	30 June 2010
brokerjet České spořitelny	4	1
Factoring České spořitelny	34	7
Penzijní fond České spořitelny	371	342
s Autoleasing	22	(6)
Stavební spořitelna České spořitelny	587	683

## Affidavit

The signatories of this document represent that according to their best knowledge, the consolidated interim report provides a true and fair view of the financial position, business and results of operations of Česká spořitelna and its group for the six months just ended and on the future prospects of its financial position, business and results of operations.



Dušan Baran  
Vice-Chairman of the Board  
1<sup>st</sup> Deputy General Director



Jiří Škorvaga  
Board Member and  
Deputy General Director

# Consolidated Interim Financial Statements

for the Period Ended 30 June 2011

Prepared in Conformance with the International Accounting Standard  
IAS 34: Interim Financial Reporting (Unaudited)

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# Interim Consolidated Statement of Financial Position

as at 30 June 2011, 31 December 2010 and 30 June 2010 (unaudited)

MCZK	30 June 2011	31 December 2010	30 June 2010 updated
<b>Assets</b>			
1. Cash and balances with the CNB	29,023	25,767	31,282
2. Loans and advances to financial institutions	143,713	174,947	211,574
3. Loans and advances to customers	464,102	459,975	463,472
4. Provisions for losses on loans and advances	(21,540)	(19,225)	(18,886)
<b>Loans and advances to customers, net</b>	<b>442,562</b>	<b>440,750</b>	<b>444,586</b>
5. Securities at fair value through profit or loss	40,756	28,075	21,158
(a) Securities held for trading	27,312	18,488	13,916
(b) Securities designated upon initial recognition as at fair value through profit or loss	13,444	9,587	7,242
6. Positive fair value of derivative transactions	14,805	16,021	18,720
7. Securities available for sale	22,454	20,029	25,515
8. Securities held to maturity	166,868	128,977	123,391
9. Investments in associates and joint ventures	87	84	220
10. Investment property	11,485	11,733	12,170
11. Property under construction	2,989	3,632	4,513
12. Property and equipment	15,509	16,015	15,346
13. Intangible assets	2,897	3,117	2,853
14. Deferred tax assets	755	688	678
15. Income tax receivable	851	578	336
16. Other assets	12,586	11,216	14,184
<b>Total assets</b>	<b>907,340</b>	<b>881,629</b>	<b>926,526</b>
<b>Liabilities and shareholders' equity</b>			
1. Amounts due to financial institutions	56,546	52,214	51,040
2. Amounts due to customers	677,072	661,074	699,751
3. Liabilities at fair value	15,918	12,058	8,592
4. Negative fair value of derivative transactions	13,384	14,674	19,032
5. Bonds in issue	45,711	46,058	50,302
6. Provisions	2,129	2,145	2,026
7. Deferred tax liability	311	197	222
8. Income tax liability	123	23	176
9. Other liabilities	17,932	11,203	19,955
10. Subordinated debt	4,616	11,036	10,737
<b>Total liabilities</b>	<b>833,742</b>	<b>810,682</b>	<b>861,833</b>
11. Shareholders' equity	73,598	70,947	64,693
(a) Equity attributable to the Bank's shareholders	73,479	70,780	64,537
(b) Non-controlling interests	119	167	156
<b>Total liabilities and shareholders' equity</b>	<b>907,340</b>	<b>881,629</b>	<b>926,526</b>

These consolidated financial statements were prepared by the Bank and approved by the Board of Directors on 16 August 2011.



Pavel Kysilka  
Chairman of the Board and  
Chief Executive Officer



Dušan Baran  
Vice Chairman of the Board and  
1<sup>st</sup> Deputy Chief Executive Officer

# Interim Consolidated Income Statement

for the Periods Ended 30 June 2011 and 30 June 2010 (unaudited)

MCZK	30 June 2011	30 June 2010 updated
<b>Continuing operations</b>		
1. Interest income and similar income	19,401	19,358
2. Interest expense and similar expense	(3,976)	(4,386)
<b>Net interest income</b>	<b>15,425</b>	<b>14,972</b>
3. Provisions for credit risks	(3,642)	(5,327)
<b>Net interest income after provisions for credit risks</b>	<b>11,783</b>	<b>9,645</b>
4. Fee and commission income	7,549	7,162
5. Fee and commission expense	(1,484)	(1,174)
<b>Net fee and commission income</b>	<b>6,065</b>	<b>5,988</b>
6. Net trading income	1,358	1,397
7. Staff costs	(4,163)	(4,115)
8. Other administrative expenses	(3,943)	(4,038)
9. Depreciation and amortization	(1,222)	(1,304)
<b>Total general administrative expenses</b>	<b>(9,328)</b>	<b>(9,457)</b>
10. Other operating expenses, net	(948)	(380)
<b>Profit before taxes</b>	<b>8,930</b>	<b>7,193</b>
11. Income tax expense	(1,719)	(1,370)
<b>Profit after taxes</b>	<b>7,211</b>	<b>5,823</b>
<b>Net profit for the year attributable to</b>		
12. Bank's shareholders	7,212	5,831
13. Non-controlling interests	(1)	(8)
	<b>7,211</b>	<b>5,823</b>



# Interim Consolidated Statement of Comprehensive Income

for the Periods Ended 30 June 2011 and 30 June 2010 (unaudited)

MCZK	30 June 2011	30 June 2010 updated
<b>1. Net profit for the year</b>	<b>7,211</b>	<b>5,823</b>
<b>Other comprehensive gains and losses</b>		
Hedges of net investments in foreign operations	72	93
Deferred tax	(14)	(17)
<b>2. Hedges of net investments in foreign operations, net</b>	<b>58</b>	<b>76</b>
<b>3. Translation reserve</b>	<b>(58)</b>	<b>(166)</b>
Gains and losses on revaluation of financial assets available for sale	72	77
Deferred tax	(4)	(10)
<b>4. Gains and losses on revaluation of financial assets available for sale, net</b>	<b>68</b>	<b>67</b>
Cash flow hedges	–	(10)
Deferred tax	–	–
<b>5. Cash flow hedges, net</b>	<b>–</b>	<b>(10)</b>
<b>Total other comprehensive gains and losses after taxes</b>	<b>68</b>	<b>(33)</b>
<b>Comprehensive income for the year after taxes</b>	<b>7,279</b>	<b>5,790</b>
<b>Of that attributable to</b>		
Bank's shareholders	7,270	5,826
Non-controlling interests	9	(36)
	<b>7,279</b>	<b>5,790</b>

# Interim Consolidated Statement of Changes in Shareholders' Equity

for the Periods Ended 30 June 2011 and 30 June 2010 (unaudited)

MCZK	Equity attributable to the Bank's shareholders →				
	Retained earnings	Revaluation of available for sale securities	Revaluation of hedging derivatives	Trans-lation reserve	Statutory reserve fund
<b>At 1/ 1/ 2011</b>	<b>52,114</b>	<b>(78)</b>	<b>97</b>	<b>(431)</b>	<b>3,867</b>
Net profit for the year	7,212	–	–	–	–
Other comprehensive gains and losses after taxes	–	68	58	(68)	–
<b>Comprehensive income for the year after taxes</b>	<b>7,212</b>	<b>68</b>	<b>58</b>	<b>(68)</b>	<b>–</b>
Dividends	(4,560)	–	–	–	–
Capital increase	–	–	–	–	–
Sale of subsidiaries	(12)	–	–	–	3
Transfer to reserve funds	(251)	–	–	–	251
Use of funds	–	–	–	–	(2)
<b>At 30 June 2011</b>	<b>54,503</b>	<b>(10)</b>	<b>155</b>	<b>(499)</b>	<b>4,119</b>

MCZK	→			Non-controlling interests	Total equity
	Share premium	Share capital	Total		
<b>At 1/ 1/ 2011</b>	<b>11</b>	<b>15,200</b>	<b>70,780</b>	<b>167</b>	<b>70,947</b>
Net profit for the year	–	–	7,212	(1)	7,211
Other comprehensive gains and losses after taxes	–	–	58	10	68
<b>Comprehensive income for the year after taxes</b>	<b>–</b>	<b>–</b>	<b>7,270</b>	<b>9</b>	<b>7,279</b>
Dividends	–	–	(4,560)	(61)	(4,621)
Capital increase	–	–	–	4	4
Sale of subsidiaries	–	–	(9)	–	(9)
Transfer to reserve funds	–	–	–	–	–
Use of funds	–	–	(2)	–	(2)
<b>At 30 June 2011</b>	<b>11</b>	<b>15,200</b>	<b>73,479</b>	<b>119</b>	<b>73,598</b>

MCZK	Equity attributable to the Bank's shareholders →				
	Retained earnings	Revaluation of available for sale securities	Revaluation of hedging derivatives	Trans-lation reserve	Statutory reserve fund
<b>At 1/ 1/ 2010 updated</b>	<b>44,756</b>	<b>(280)</b>	<b>(29)</b>	<b>(112)</b>	<b>3,733</b>
Net profit for the year	5,831	–	–	–	–
Other comprehensive gains and losses after taxes	–	69	65	(139)	–
<b>Comprehensive income for the year after taxes</b>	<b>5,831</b>	<b>69</b>	<b>65</b>	<b>(139)</b>	<b>–</b>
Dividends	(4,560)	–	–	–	–
Sale of subsidiaries	–	–	–	–	(7)
Transfer to reserve funds	(150)	–	–	–	150
Use of funds	–	–	–	–	(1)
<b>At 30 June 2010 updated</b>	<b>45,877</b>	<b>(211)</b>	<b>36</b>	<b>(251)</b>	<b>3,875</b>

MCZK	→				Total equity
	Share premium	Share capital	Total	Non-controlling interests	
<b>At 1/ 1/ 2010 updated</b>	<b>11</b>	<b>15,200</b>	<b>63,279</b>	<b>267</b>	<b>63,546</b>
Net profit for the year	–	–	5,831	(8)	5,823
Other comprehensive gains and losses after taxes	–	–	(5)	(28)	(33)
<b>Comprehensive income for the year after taxes</b>	<b>–</b>	<b>–</b>	<b>5,826</b>	<b>(36)</b>	<b>5,790</b>
Dividends	–	–	(4,560)	(75)	(4,635)
Sale of subsidiaries	–	–	(7)	–	(7)
Transfer to reserve funds	–	–	–	–	–
Use of funds	–	–	(1)	–	(1)
<b>At 30 June 2010 updated</b>	<b>11</b>	<b>15,200</b>	<b>64,537</b>	<b>156</b>	<b>64,693</b>

# Interim Consolidated Statement of Cash Flows

for the Periods Ended 30 June 2011 and 30 June 2010 (unaudited)

<b>MCZK</b>	<b>30 June 2011</b>	<b>30 June 2010 updated</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>18,211</b>	<b>25,816</b>
Net cash flow from operating activities	51,613	10,987
Net cash flow from investing activities	(26,820)	(11,811)
Net cash flow from financing activities	(14,142)	(105)
<b>Cash and cash equivalents at end of the period ended 30 June</b>	<b>28,862</b>	<b>24,887</b>

# Notes to the Interim Consolidated Financial Statements

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union for the Period Ended 30 June 2011

## 1. Introduction

Česká spořitelna, a.s. (henceforth the “Bank”), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal savings bank offering retail, corporate and investment banking services within the Czech Republic.

The Bank’s majority shareholder is EGB Ceps Holding GmbH, which is a 100 percent subsidiary of EGB Ceps Beteiligungen GmbH, a wholly-owned subsidiary of Erste Group Bank AG (“Erste Group Bank”). The change in ownership structure was adopted as part of the technical optimisation of the Erste Group Bank shareholders’ structure; the optimisation took place in 2009 and was duly approved by the Czech National Bank (“CNB”).

The principal activities of the Bank are as follows:

- Acceptance of deposits from the general public;
- Extension of credit;
- Investing in securities on its own account;
- Payments and clearing;
- Issuance of payment facilities, e.g. payment cards, traveller’s cheques;
- Issuance of guarantees;
- Opening of letters of credit;
- Collection services;
- Proprietary or client-oriented trading with foreign currency assets, forward and option contracts, including foreign currency and interest rate transactions, and transferable securities;
- Management of clients’ securities on clients’ accounts and provision of advisory services;
- Participation in the issuance of shares and provision of related services;
- Safe-keeping and administration of securities or other assets;
- Rental of safety deposit boxes;
- Provision of business advisory services;
- Issuance of mortgage bonds under special legislation;
- Financial brokerage;
- Depositary activities;
- Foreign exchange services (foreign currency purchases and sales);
- Provision of banking information; and
- Maintenance of a separate part of the Securities Centre’s records.

The Bank provides the following additional services through its subsidiaries (together the “Group”):

- Funds management;
- Building society savings and loans;
- Pension insurance;
- Finance leasing;
- Factoring;
- Consulting services;
- Provision of investment services;
- Real estate activities;
- Lease of information technology, installation and repair of electronic equipment;
- Provision of software and advisory services in relation to hardware and software; and
- Corporate management and finance.

The Group is subject to the regulatory requirements of the CNB. These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, interest rate risk, foreign currency positions and operating risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement and collective investment.

## 2. Basis of preparation

These interim consolidated financial statements comprise the accounts of the Bank and its subsidiaries and have been prepared in accordance with International Accounting Standard IAS 34: Interim Financial Reporting

All figures are in millions of Czech crowns (“MCZK”), unless stated otherwise.

These interim consolidated financial statements have been prepared under the historical cost convention as modified by the re-measurement to fair value of available for sale securities, financial assets and liabilities at fair value through profit or loss, all derivatives, issued debt securities which are hedged against interest rate risk. Assets held for sale are measured at fair value less cost to sell if this value is lower than their carrying amount (i.e., cost less accumulated depreciation and cumulative impairment losses).

The accounting policies have been consistently applied by the entities in the Group.

Comparative figures are restated data as at 30 June 2010; in the interim financial statements for the period ended 30 June 2010, investment property was recorded at its fair value per IAS 40, following the change in accounting policy during 2010, investment property is now reported at cost less accumulated depreciation and impairment.

The presentation of interim consolidated financial statements in conformity with IAS 34 requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the reporting date and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

These interim financial statements include information significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. A user of the interim financial statements should also consider the information in connection with the most recent annual financial statements.

Compared to the annual financial statements as of 31 December 2010, the following changes occurred in some chapters on risk management, specifically in the chapters Liquidity Risk, Operational Risk and Capital Management.

### Liquidity risk

Mid and long term liquidity is monitored and stress tested in line with the recommendations of the BIS on a monthly basis through balance sheet ratios and simulation models TLS and SPA, which take into account the anticipated possibility of renewal, preliminary repayment or sale of the Group's individual positions. The results are presented and discussed at the Operating Liquidity Committee (OLC) and the Assets and Liabilities Committee (ALCO), which decide on the need to take measures with respect to the liquidity risk exposure.

The so called liquidity cushion (buffer) is a key concept for all 3 mentioned tools of the mid and long term liquidity, which serves for the balancing of any differences between outflows and inflows (if positive). It would therefore be the cash and high-quality securities that can be sold in the market or pledged within the repos

with the central bank during the crisis. The Group has defined this „buffer“ for its two main currencies as follows:

#### CZK:

- 1) Cash on deposit, clearing and endowment account with the CNB
- 2) Bonds which the CNB accepts as collateral
- 3) Other CZK bonds that have a rating higher than BBB

#### EUR:

- 1) Cash on deposit
- 2) Bonds which ECB accepts as collateral
- 3) Other EUR bonds that have a rating higher than BBB

The securities under 3) must not constitute more than 10% of the buffer.

### Operational risk

Other tools include operational risk management and risk indicators KRI and risk scenarios for events with low frequency but significant impact. Both are based on the Erste Group methodology.

Česká spořitelna has been successfully validated by the regulator on advanced approaches to operational risk (AMA). The capital requirement calculated under the AMA can not fall below 75% of the capital requirement calculated by TSA standardized method.

### Capital management

Liquidity risk and macroeconomic risk are covered by stress scenarios.

Results of ICAAP of the Group are presented to the Board of Directors quarterly. The Board is the decision authority for the Group's capital management within the ICAAP.

## 3. Significant accounting policies

The same accounting policies were applied in the preparation of the interim consolidated financial statements as were used for the annual consolidated financial statements at 31 December 2010. During the interim period, i.e. from 1 January 2011 to 30 June 2011, the following standards have been amended:

- IFRIC 14: Advances in the minimum funding requirements (effective from 1 January 2011)
- IAS 24: Related Party Disclosures (effective from 1 January 2011)



#### 4. Companies included in consolidation

As at 25 January 2011, the Bank acquired a 100% ownership interest in S Morava leasing, a. s. for the price of CZK 148 million.

On 5 February 2011 a spin-off of CEE Property Development Portfolio B.V. was registered with the Dutch Commercial Court to create a new entity, CEE Property Development Portfolio 2 B.V. This

was done in order to house the existing company CPP Lux S.‘ar. l. and its wholly owned subsidiary in the original entity, while the remainder of the current subsidiaries were transferred to the new structure. The ownership structure of CEE Property Development Portfolio B.V. and CEE Property Development Portfolio 2 B.V. remains unchanged, i.e. the Bank’s participation in the registered equity of both entities amounts to 20%.

#### 5. Liabilities at fair value (unaudited)

MCZK	30 June 2011	30 June 2010
Customer deposits	12,746	6,091
Liabilities arising from issued securities	2,547	1,343
Payables arising from short sales – debt securities	539	1,141
Payables arising from short sales – shares	86	17
<b>Total</b>	<b>15,918</b>	<b>8,592</b>

The Group issued the following bonds which are presented within “Liabilities arising from issued securities”:

(unaudited)

	ISIN	Date of issue	Maturity	Interest rate	30 June 2011	30 June 2010
					MCZK	MCZK
Bonds	CZ0003701237	February 2007	April 2011	x)	–	290
Bonds	CZ0003701351	September 2007	September 2011	x)	285	284
Bonds	CZ0003701518	April 2008	May 2011	x)	–	293
Bonds	CZ0003701690	July 2008	January 2012	x)	214	226
Bonds	CZ0003701955	May 2009	June 2012	xxx)	57	54
Bonds	CZ0003701963	May 2009	June 2012	xxx)	41	50
Bonds	CZ0003702284	February 2010	February 2014	x)	151	146
Bonds	CZ0003702474	October 2010	November 2014	xxx)	910	–
Bonds	CZ0003702516	December 2010	January 2015	x)	889	–
<b>Total</b>					<b>2,547</b>	<b>1,343</b>

x) Bonds bear no interest, the yield of bonds increases on a one-off basis as at the final maturity date.

xx) The yield depends on the development of the EUR/PLN spot exchange rate.

xxx) Bonds bear no interest, yield is determined as the difference between the rate of issue and the bond value payable at its final maturity date.

## 6. Bonds in issue (unaudited)

	ISIN	Date of issue	Maturity	Interest rate	30 June 2011	30 June 2010
					MCZK	MCZK
Mortgage bonds	CZ0002000623	October 2005	October 2015	4.75%	4,994	5,005
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	4,545	4,563
Mortgage bonds	CZ0002000896	October 2006	October 2011	floating	1,104	1,121
Mortgage bonds	CZ0002000904	October 2006	October 2014	3.65%	1,022	1,012
Mortgage bonds	CZ0002000920	October 2006	October 2011	3.00%	799	793
Mortgage bonds	CZ0002000995	May 2007	May 2012	5.90%	1,016	1,034
Mortgage bonds	CZ0002001068	June 2007	October 2015	4.50%	757	758
Mortgage bonds	CZ0002001084	July 2007	July 2014	floating	1,559	1,585
Mortgage bonds	CZ0002001126	August 2007	August 2012	3.70%	1,493	1,500
Mortgage bonds	CZ0002001274	November 2007	November 2014	floating	572	578
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,037	2,059
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	453	457
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,221	5,284
Mortgage bonds	CZ0002001639	December 2007	December 2012	3.70%	2,470	2,516
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	1,010	619
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	1,417	1,209
Mortgage bonds	CZ0002002132	October 2009	October 2012	3.20%	859	761
Mortgage bonds	CZ0002002157	November 2009	May 2011	0.25%	–	655
Mortgage bonds	CZ0002002165	November 2009	November 2014	3.55%	655	335
Mortgage bonds	CZ0002002173	November 2009	May 2013	3.20%	1,447	1,226
Mortgage bonds	CZ0002002215	April 2010	October 2013	0.25%	2,545	78
Bonds	CZ0003700767	February 2004	February 2014	floating	–	1,252
Bonds	CZ0003701047	July 2005	July 2012	3.55%	553	556
Bonds	CZ0003701054	September 2005	September 2017	x)	239	231
Bonds	CZ0003701062	October 2005	October 2013	x)	280	271
Bonds	CZ0003701286	March 2007	March 2012	3.49%	926	921
Bonds	CZ0003701781	December 2008	December 2010	0.50%	–	988
Bonds	CZ0003701948	April 2009	October 2010	xx)	–	496
Bonds	CZ0003702011	July 2009	January 2014	xxx)	551	525
Bonds	CZ0003702037	October 2009	October 2016	xxx)	457	435
Bonds	CZ0003702078	November 2009	November 2016	xxx)	504	483
Bonds	CZ0003702268	December 2009	December 2012	3.50%	1,776	2,039
Bonds	CZ0003702359	April 2010	April 2013	3.00%	619	606
Bonds	CZ0003702367	April 2010	April 2013	floating	1,278	1,259
Mortgage bonds	CZ0002002264	January 2011	January 2013	0,20%	318	–
Mortgage bonds	CZ0002002306	April 2011	April 2015	0,30%	110	–
Mortgage bonds	CZ0002002330	June 2011	June 2016	0,30%	9	–
Bonds	CZ0003501504	February 2007	February 2012	2,08%	700	–
Depository bills of exchange					354	5,856
Cumulative change in carrying amount due to fair value hedging					1,062	1,236
<b>Total</b>					<b>45,711</b>	<b>50,302</b>

x) Bonds were issued with a combined yield.

xx) Bonds bear no interest, yield is determined as the difference between the rate of issue and the bond's nominal value.

xxx) Bonds bear no interest, yield is determined as the difference between the rate of issue and the bond value payable at its final maturity date.

## 7. Subordinated debt (unaudited)

ISIN	Date of issue	Maturity of the issue	Interest rate	Nominal value in MCZK	Carrying amount at 30 June 2011 in MCZK	Carrying amount at 30 June 2010 in MCZK
CZ0003701187	2 October 2006	2 October 2016	6M PRIBOR+0.45%	3,000	2,207	2,213
CZ0003701906	12 March 2009	12 March 2019	5% p.a.	2,000	1,967	1,968
CZ0003701930	23 April 2009	23 April 2019	6M PRIBOR+1.50%	6,500	–	6,500
CZ0003702342	24 March 2010	24 March 2020	6M PRIBOR+0.40%	1,000	442	56
<b>Total</b>					<b>4,616</b>	<b>10,737</b>

## 8. Income tax expense

### (a) Income statement (unaudited)

MCZK	30 June 2011	30 June 2010 updated
Current tax expense from continuing operations	(1,720)	(1,409)
Deferred tax income from continuing operations	1	39
<b>Total</b>	<b>(1,719)</b>	<b>(1,370)</b>

### (b) Other comprehensive income statement (unaudited)

MCZK	30 June 2011	30 June 2010
Expense as a result of deferred tax on items charged into equity	–	–
Hedge of net investment in foreign currency equity investments	(14)	(17)
Losses on revaluation of available-for-sale financial assets	(4)	(10)
<b>Total</b>	<b>(18)</b>	<b>(27)</b>

## 9. Contingent assets and liabilities (unaudited)

MCZK	30 June 2011	30 June 2010
Guarantees and letters of credit	18,920	16,268
Undrawn loan commitments	68,624	77,175

## 10. Cash and cash equivalents

Cash and cash equivalents at the end of the year as shown in the interim consolidated statement of cash flows is composed of the following balances:

(unaudited)

MCZK	30 June 2011	30 June 2010
Cash	17,567	17,236
Nostro accounts with the CNB	1,424	1,852
Treasury bills and government bonds with a maturity of less than three months	12,944	6,706
Nostro accounts with financial institutions	991	1,275
Loro accounts with financial institutions	(4,065)	(2,182)
<b>Total cash and cash equivalents</b>	<b>28,862</b>	<b>24,887</b>

## 11. Segment reporting according to industry segments

For management purposes, the Group is organised into the following major operating divisions:

- Retail banking (accepting deposits from the public, providing loans to retail clients, services related to credit and debit cards);
- Commercial banking (providing loans to corporate clients and municipalities, issuance of guarantees, opening of letters of credit);
- Investment banking (securities investments, proprietary trading and trading on behalf of the client with securities, foreign exchange assets, entering into futures and options including foreign currency and interest rate transactions, financial brokerage, custodial services, participation in issuance of stock, management, safe keeping and administration of securities or other assets);
- Other operations (leasing, management of investment and mutual funds, investment construction and advisory services). These operations are aggregated in one segment “Other activities” as they are less material than the remaining activities.

(unaudited)

30 June 2011 MCZK	Retail	Commercial	Banking Investment	Other activities	Elimination	Total
<b>Revenue</b>						
External income	15,116	2,898	859	4,440	(1,546)	21,767
of that: net interest income	10,234	2,448	350	4,043	(1,650)	15,425
Income from other segments	817	256	575	112	–	1,760
<b>Segment revenue</b>	<b>15,993</b>	<b>3,154</b>	<b>1,434</b>	<b>4,552</b>	<b>(1,546)</b>	<b>23,527</b>
<b>Profit</b>						
<b>Segment profit</b>	<b>6,258</b>	<b>1,341</b>	<b>856</b>	<b>2,060</b>	<b>(1,585)</b>	<b>8,930</b>
Profit before tax						8,930
Income tax						(1,719)
Non-controlling interests						1
<b>Total profit</b>						<b>7,212</b>
<b>Statement of financial position</b>						
<b>Assets</b>						
Segment assets	338,780	154,580	335,390	148,781	(71,385)	906,146
Equity investments in associates						87
Unallocated assets						1,107
<b>Total consolidated assets</b>						<b>907,340</b>
<b>Liabilities</b>						
Segment liabilities	478,939	78,077	217,494	117,882	(68,275)	824,117
Unallocated liabilities						9,625
<b>Total consolidated liabilities</b>						<b>833,742</b>

Segment income is composed of ‘Net interest income’, ‘Net fee and commission income’, ‘Net trading result’, ‘Total other operating income’, ‘Income/(expense) from the revaluation/sale of securities’, and ‘Gains/(losses) on the sale of equity investments’.

(unaudited)

30 June 2010 updated MCZK	Banking			Other	Elimination	Total
	Retail	Commercial	Investment	activities		
<b>Revenue</b>						
External income	16,896	3,205	622	2,491	(1,596)	21,618
of that: net interest income	11,451	2,757	512	1,583	(1,364)	14,939
Income from other segments	524	304	809	24	–	1,661
<b>Segment revenue</b>	<b>17,420</b>	<b>3,509</b>	<b>1,431</b>	<b>2,515</b>	<b>(1,596)</b>	<b>23,279</b>
<b>Profit</b>						
<b>Segment profit</b>	<b>6,984</b>	<b>721</b>	<b>986</b>	<b>304</b>	<b>(1,802)</b>	<b>7,193</b>
Profit before tax						7,193
Income tax						(1,370)
Non-controlling interests						8
<b>Total profit</b>						<b>5,831</b>
<b>Statement of financial position</b>						
<b>Assets</b>						
Segment assets	377,704	151,920	353,146	104,067	(61,510)	925,327
Equity investments in associates						220
Unallocated assets						979
<b>Total consolidated assets</b>						<b>926,526</b>
<b>Liabilities</b>						
Segment liabilities	509,989	104,219	225,521	79,247	(66,248)	852,728
Unallocated liabilities						9,105
<b>Total consolidated liabilities</b>						<b>861,833</b>

Segment income is composed of 'Net interest income', 'Net fee and commission income', 'Net trading result' and 'Total other operating income', 'Income/(expense) from the revaluation/sale of securities', and 'Gains/(losses) on the sale of equity investments'.

## 12. Related party transactions

Related parties involve connected entities or parties that have a special relationship to the Group.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Erste Group Bank. The remaining investment is held by minority shareholders and institutional investors via freely traded shares on the stock exchanges in Vienna, Prague and Bucharest.

The parties that have a special relationship with the Group are considered to be members of the Group's statutory and supervisory bodies and management, legal entities exercising control over the Group (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Group's statutory and supervisory bodies, management and entities exercising control over the Group, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Group and any other legal entity under their control, members of the CNB's Banking Board and legal entities which the Group controls.

Pursuant to the definitions outlined above, the category of the Group's related parties principally comprises members of its Board of Directors and Supervisory Board and other entities, namely Erste Group Bank, its subsidiary and associated undertakings.

The Group has the following amounts due from/to Erste Group Bank and other related parties:

(unaudited)

MCZK	30 June 2011		30 June 2010	
	Erste Group Bank	Other	Erste Group Bank	Other
<b>Assets</b>				
Loans and advances to financial institutions	28,708	19,280	36,759	2,719
Loans and advances to customers	–	311	–	1,555
Securities at fair value through profit or loss	–	97	–	181
Securities available for sale	197	–	–	308
Securities held to maturity	–	–	–	300
Positive fair value of financial derivative transactions	5,717	–	6,901	82
Other assets	161	11	124	14
<b>Total assets of the Group</b>	<b>34,783</b>	<b>19,699</b>	<b>43,784</b>	<b>5,159</b>
<b>Liabilities</b>				
Amounts owed to financial institutions	2,897	954	6,790	1,061
Amounts owed to customers	–	752	–	349
Negative fair value of derivative transactions	5,719	–	8,934	4
Bonds in issue	837	–	181	–
Subordinated debt	–	299	6,530	299
Other liabilities	3	250	44	210
<b>Total liabilities of the Group</b>	<b>9,456</b>	<b>2,255</b>	<b>22,479</b>	<b>1,923</b>
<b>Off-balance sheet</b>				
Undrawn loans	–	30	–	15
Issued guarantees	175	59	–	43
Received guarantees	–	4	–	5
Positive nominal value of derivatives	313,288	896	326,581	1,540
Negative nominal value of financial derivatives	(312,557)	(806)	(327,517)	(1,466)
<b>Income</b>				
Interest income	299	105	239	23
Fee and commission income	15	238	16	273
Net trading gains/(losses)	1,401	(12)	(907)	31
Other operating income	16	25	76	8
<b>Total income</b>	<b>1,731</b>	<b>356</b>	<b>(576)</b>	<b>335</b>
<b>Expenses</b>				
Interest expense	133	38	143	43
Fee and commission expense	7	47	–	41
General administrative expenses	(122)	675	9	592
Other operating expenses	–	–	–	–
<b>Total expenses</b>	<b>18</b>	<b>760</b>	<b>152</b>	<b>676</b>

The column 'Other' includes other companies that are included in the Erste Group (sister companies). Information on associates is not material.



## 13. Dividends

Shareholders, who attended the Annual General Meeting on 20 April 2011, approved the declaration of dividends in respect of the profit for the year ended 31 December 2010 in the amount of CZK 4 560 million, which represents CZK 30 per both ordinary and preference share (2009: CZK 4 560 million, that is, CZK 30 per both ordinary and preference share). Dividends were payable as at 1 June 2011. Dividends paid to shareholders are subject to a withholding tax of 15 percent or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an EU member country and whose interest in a subsidiary's share capital is no less than 10 percent and that hold the entity's shares for at least one year are not subject to a withholding tax.

## 14. Subsequent events

On 1 January 2011, the company s IT Solutions CZ, s.r.o. merged with Informatika České spořitelny, a.s. S IT Solutions CZ, s.r.o. was established as the successor company. Due to the legal terms of the merger, Informatika České spořitelny, a.s. was wound up, which was preceded by its dissolution without liquidation. In accordance with the project proposal, the transaction date of the merger was 1 January 2011. The effective date of the merger occurs on the date of registration by the Company Register – the scheduled date is 1 July 2011.

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